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Doctor of Philosophy
Abstract

This empirical study attempts to contribute to existing knowledge on policy choice and employs historical and case study approaches in addressing Tanzania’s liberalisation and privatisation policy choice. The thesis focuses on four specific questions: why Tanzania’s liberalisation and privatisation policy was chosen; what considerations were taken into account; the theory that explains the choice; and lessons to be drawn from Tanzania’s experience.

In liberalising and privatising its economic sectors, Tanzania was influenced by three main factors: compliance with the IMF and the World Bank conditionality for accessing loans from the two international financial institutions; lobbying and manipulation by a coalition of external institutions interested in controlling and exploiting the Tanzanian economy; and political corruption whereby state officials saw in liberalisation and privatisation an opportunity to benefit financially and enrich themselves.

This research has also revealed that, contrary to the belief by the IMF and World Bank, the private sector is in fact not more efficient than the public sector, there is also rent seeking behaviour in the private sector, and ‘off-the-shelf’ policies do not work in all situations. The thesis concludes that in order for policy to achieve desired outcomes, government should adopt appropriate measures including matching policy objectives with the prevailing needs and circumstances in the country; and applying good governance in terms of transparency, accountability and civil society participation in policy making.
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<tr>
<td>ASP</td>
<td>Afro-Shirazi Party.</td>
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<td>BOT</td>
<td>Bank of Tanzania.</td>
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<td>CCM</td>
<td>Chama Cha Mapinduzi.</td>
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<td>CHADEMA</td>
<td>Chama Cha Demokrasia na Maendeleo</td>
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<tr>
<td>CIDA</td>
<td>Canadian International Development Agency.</td>
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<tr>
<td>CRDB</td>
<td>Co-operative and Rural Development Bank.</td>
</tr>
<tr>
<td>DANIDA</td>
<td>Danish International Development Agency</td>
</tr>
<tr>
<td>EACCD</td>
<td>East African Centre for Constitutional Development.</td>
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<tr>
<td>ESRF</td>
<td>Economic and Social Research Foundation.</td>
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<tr>
<td>IFM</td>
<td>Institute of Finance Management.</td>
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<td>IMF</td>
<td>International Monetary Fund.</td>
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<td>ITU</td>
<td>International Telecommunication Union.</td>
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<td>NBC</td>
<td>National Bank of Commerce.</td>
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<td>MCT</td>
<td>Ministry of Communications and Transport.</td>
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<td>MOF</td>
<td>Ministry of Finance.</td>
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<td>MU</td>
<td>Mzumbe University.</td>
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<td>NEC</td>
<td>National Executive Committee.</td>
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<td>NMB</td>
<td>National Microfinance Bank.</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development.</td>
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<td>PSRC</td>
<td>Parastatal Sector Reform Commission.</td>
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<tr>
<td>SIDA</td>
<td>Swedish International Development Agency.</td>
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<td>TANESCO</td>
<td>Tanzania Electric Supply Company.</td>
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<td>TANU</td>
<td>Tanganyika African National Union.</td>
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<td>TLP</td>
<td>Tanzania Labour Party.</td>
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<td>TTCL</td>
<td>Tanzania Telecommunications Company Limited.</td>
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<tr>
<td>TZS</td>
<td>Tanzania Shilling.</td>
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<tr>
<td>UDSM</td>
<td>University of Dar es Salaam.</td>
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<tr>
<td>UN</td>
<td>United Nations.</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development.</td>
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<td>UNECA</td>
<td>United Nations Economic Commission for Africa.</td>
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<td>UNPAN</td>
<td>United Nations Public Administration Network.</td>
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<td>URT</td>
<td>United Republic of Tanzania.</td>
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<td>USAID</td>
<td>United States Agency for International Development.</td>
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<td>WTO</td>
<td>World Trade Organization.</td>
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My wife Tabitha and daughters Bhole, Ghati, Rhobi and Deborah were always with me in spirit. Their patience and love during my four years of absence will always be treasured.

To everyone, GOD BLESS YOU.
Declaration of Originality

This is my original work and to the best of my knowledge and belief, except where due reference is acknowledged in the thesis itself, it does not contain material previously written, published or submitted to any university for a degree or diploma.

Emmanuel James Matiku.
CHAPTER ONE

Overview and context of the study

Introduction

‘(Why) are most decisions made? ... Given that a number of methods can be used to arrive at a decision, how can we determine which one to use at a particular time?’ (Moody, 1983:1). Moody’s two-pronged concern provides the major focus of this study of Tanzania’s policy reform decision. To determine why the country’s reform strategy was chosen and how it ought to have been chosen, the study collected and analysed data on three cases, the National Bank of Commerce (NBC), Tanzania Telecommunications Company Limited (TTCL) and Tanzania Electric Supply Company (TANESCO). The choice of the three cases was influenced by three major reasons. First, they constituted the major and leading industry sectors in the country. Second, they played a major role in the country’s socio-economic development. Third, the three cases became the initial targets for the IMF and the World Bank sponsored reforms in Tanzania. To facilitate the attainment of its aims, the study employed the historical and case study methods as they both address the ‘why’ and ‘how’ questions, which were the focus of this research (see Chapter Two).

Tanzania’s on-going reforms can be understood from a historical context involving three phases of reform that characterise the country’s development direction since independence. Soon after attaining political independence from Britain in 1961, the country adopted a pro-market economy emphasising the role of the private sector
with a view to create resources to fight poverty, ignorance and disease. The negative results of the pro-market policy influenced the government to announce in 1967 its policy of socialism and self-reliance through the banner of the Arusha Declaration, making a radical shift from the market economy model. The main aim of the new policy, which emphasised the public sector, was the ‘restructuring of the national economy to achieve a more balanced structure of production and use’ (Green, 1979:20). This policy remained in place until 1985. Due to its failure to deliver anticipated results, the government began a series of negotiations with the International Monetary Fund with a view to secure loans from the Fund to revive the ailing economy. To qualify for loans and access the Fund’s credit facilities, the government was required to undertake a series of reform measures including liberalisation and privatisation of state-owned enterprises hereinafter referred to as parastatals (see Chapter Four).

In 1986 the government of Tanzania agreed to implement the IMF and World Bank sponsored programme of structural adjustment and introduced measures towards a full-fledged market economy. To pave the way for the implementation of the reforms the National Executive Committee (NEC) of the ruling party issued in 1991 a new declaration, the Zanzibar Declaration, which made sweeping changes to the Arusha Declaration. These changes virtually buried the country’s policy of socialism and self-reliance and involved major reforms in the country’s economy.

**Research Problem**

Since 1992 the country’s adjustment programme has focused on liberalisation and privatisation of its economic sectors. The basis of this focus has been the view of
the IMF and World Bank that state intervention in the economy was the main factor behind poor performance of the sectors, especially the parastatals. When introducing liberalisation and privatisation, the government gave as reasons for its measures the need to do away with loss-making public firms; attract private capital, technology and skills, especially from foreign firms interested in investing in the country; improving the efficiency and performance of the enterprises; relieve the government of the financial burden of shouldering loss making enterprises; sell public shares to citizens to promote their participation in the ownership and management of business; widen the participation of the private sector in the economy; and contribute to the overall growth of the economy, leading to improvement of the quality of life of the people. To realise these objectives, the government started privatising public firms in 1993 and has hastily implemented privatisation to the extent that by December 2005 only 36 out of about 490 public enterprises remained in government hands and would be privatised by December 2007 (URT 2006).

However, although the structural reform programme is said to have promoted economic growth (see Chapter Four), the results from implementation of liberalisation and privatisation indicate that the government’s stated reasons for liberalising and privatising were not the real reasons. Many of the public enterprises involved in the initial wave of privatisation, such as Tanzania Breweries Limited and Tanzania Cigarette Company were in fact profitable; audit reports and statements of accounts of firms pronounced and sold as loss-making proved that the firms were in fact profitable; public firms privatised on the basis of their mismanagement and operational inefficiency performed more poorly after privatisation; shares of privatised firms have not been sold to the public; the
government continued to subsidise privatised firms such as Tanzania Telecommunications Company Limited (TTCL); and rather than attracting capital, technology and skills, many of the privatised firms were plundered by their private investors who dismantled their costly infrastructure and moved it out of the country.

Moreover, given the commercial and redistributive role of public enterprises PEs, a number of studies do not support privatisation, defined as the transfer of activities from the public sector to the private sector (De Alessi, 1987:24), as a suitable strategy for reforming a country’s public enterprises (see Lewin, 1982; Zeckhauser and Horn, 1989; Spicer, Manuel and Powell, 1996; Self, 2000; Stiglitz, 2000). Shirley and Nellis argue that reforms aimed at promoting efficiency in PEs can be attained by introducing competition without necessarily privatising the enterprises (Shirley and Nellis, 1991:7). In addition, Self (2000) contends that there is no clear-cut evidence to prove that private firms are necessarily efficient in a technical sense. Stiglitz (2000) pursues this point further, stating that governments which are privatising on grounds of efficiency should look at the steel mills established and run by the Korean and Taiwanese governments to realise that some of the most efficient and profitable enterprises in the world are in the public sector. What governments require for PEs to perform efficiently is the application of investment and operating strategies similar to those of private firms; isolation of PES from excessive interference and inappropriate supervision; provision of the necessary set of performance goals; and improvement of managerial capability (Nellis and Kikeli, 1989:664).
While it is claimed that privatisation promotes competition, Shirley and Nellis (1991) argue that competition does not necessarily depend on privatisation but rather on liberalisation. They state that liberalisation and privatisation are different mechanisms in the sense that the former can be realised without the latter. Through liberalisation, competition can be introduced to the domestic market by increased international trade (lowering import barriers and encouraging exports), and restructuring of the domestic market ‘by generally putting state and private sector firms on a more equal footing’ (Shirley and Nellis, 1991:8). Self (2000:113) elaborates on this point by observing that government ought to introduce regulations to protect small firms because liberalisation may reverse competition when conglomerates assume monopoly in the economy, putting smaller firms out of business. Selling off a PE does not necessarily promote competition, because what happens in reality is a transfer of ‘a public monopoly into a private monopoly’ (Feigenbaum and Henig, 1993:190). Rather than promoting competition geared towards serving the interest of the larger population, privatization divides society into the ‘haves’ and the ‘the have-nots’ by serving the narrow interests of a particular interest group that controls market forces (Pinte, 1990). Andersen (1997) supports this view, citing as a good example Estonia where a group of Russian private investors have become super rich in the midst of the poor majority. Moreover, privatisation has resulted in public loss as public assets have been disposed off at throw away prices (Steel and Heald, 1984).

Generally, Bishop and Wanna argue that, rather than associating privatisation with globalization and implementing the programme on the basis of its being a current global phenomenon, each country has to assess its own environment before deciding which reform measures are suitable or inevitable. They contend that the
nature and sensitivity of certain sectors of the economy mean that liberalisation may not at all be warranted (Bishop and Wanna, 2004:111-112).

Given these arguments against privatisation and the fact that the avowed reasons behind Tanzania’s liberalisation and privatisation programme appeared not to be the real reasons, this study sought to explain why the government chose liberalisation and privatization as its economic reform policy; and how the policy should have been chosen to achieve desired results.

In attempting to address the above questions, we were guided in our investigation by the following specific questions:

a) Why was liberalisation and privatisation policy chosen in Tanzania?

b) What specific considerations were taken into account before adopting liberalisation and privatization policy?

c) What theory helps to explain Tanzania’s choice of liberalisation and privatization as a strategy for restructuring its economic sectors?

d) What lessons for policy decision-making can be drawn from the Tanzanian experience?

In seeking theoretical explanations to the ‘why’ and ‘how’ questions, this study was guided by a number of theoretical frameworks which attempt to explain why policies are chosen and how they should be chosen to yield desired outcomes. These frameworks are presented and discussed in detail in Chapter Two. A detailed discussion on specific questions regarding why Tanzania adopted its liberalisation and privatisation policy, the considerations that were taken into account, the
theory that helps to explain Tanzania’s policy choice and lessons to be learned from the Tanzanian experience are covered in Chapter Ten.

**Significance of the Study**

Although there have been a substantial number of studies on policy formation since Simon (1957) attempted to deal with the problem, there remains a great deal to be done on the study of policy (Parsons, 1995). In this regard, this study is significant on four grounds:

a) It contributes to knowledge about policy making in poor developing countries;

b) It add to understanding about why specific policies adopted by poor developing countries fail to deliver desired results;

c) It tests the applicability of policy choice theories in poor developing countries and highlights their limitations;

d) It draws useful lessons not only to scholars but also to the general public and other stakeholders who may be interested to know why public polices are chosen and how they should be chosen to guarantee desirable results.

**Plan and Structure of the Thesis**

This thesis comprises of Ten Chapters. **Chapter One** begins with a brief introduction and outlines the purpose, general focus, scope and significance of the study. **Chapter Two** addresses the theoretical framework and review of literature
on policy choices. The chapter also provides a description of the research methodology and presents the study design and data collection methods.

Chapter Three focuses on Tanzania’s wider context in terms of geography, demography, economy and the constitutional and political system in which structural reforms have taken place. Chapter Four examines and provides a detailed historical context of structural reforms in Tanzania. Chapter Five outlines the machinery of policy formulation in Tanzania to uncover the strengths and weaknesses of the country’s system of policy making.

Chapter Six provides a general overview of the World Bank and the IMF and the impact of their sponsored structural policy reforms in poor countries.

Chapters Seven, Eight and Nine present case study results on why Tanzania adopted public enterprises reform policy and the considerations that were taken into account before the adoption was made. Chapter Ten sets out, examines and presents the lessons and conclusions to be drawn from the findings derived from the study.
CHAPTER TWO

Perspectives in Policy Choices: Theories, Concepts and Issues

Introduction

Why are public policies chosen and how are they chosen? How should policies be chosen to guarantee desired outcomes? This chapter looks at a number of theories that suggest answers to these questions. The Chapter consists of four main sections. The first section provides a definition of public policy and is followed by a discussion of selected models of policy choice. The third section presents the methodology employed by the study and the final section provides the conclusion.

Three major arguments are advanced by this study: that government chooses policy under pressure from external forces interested in promoting their own interests; government leaders choose polices that promote rent-seeking and self-gain; and for policy to bear desired outcomes, it should be chosen on the basis of specific considerations, including matching policy with the prevailing needs and circumstances (Considine, 1994; Harsch, 2000; Omamo and Farrington, 2004).

Definition of Public Policy

What is public policy? Davis et al dismiss policy definitions as unnecessary as they risk ‘separating the policy process from its context’ (Davies et al, 1993:4). But the same authors agree that ‘any broad theory must rest on some agreement about the unit of analysis’ (Davis, et al, 1993:10). Arguably, if we have to ‘agree’ on theories
about why policies are made and how policies ought to be made to guarantee successful outcomes, then we need a definition of policy as our ‘unit of analysis’.

Public policy is a term consisting of two distinct words ‘public’ and ‘policy’. The term ‘public’ consists of ‘all those who are affected by the...consequences of a transaction...’ (Dewey, 1927, quoted in Jones, 1983:119). Policy impacts have to affect a significant section of the population for it to be ‘public’ and hence ‘public policy’ (Block, 2004).

Policy is a problematic concept because it has no consensually accepted definition (Hill and Hupe, 2002). There are divergent views on policy because various authors have imposed their own meaning on the term, each author portraying his meaning of policy as being more superior to others (Miller, 2002). Heclo (1972: 84) disagrees with terminology being linked with the perception of authors. He argues that disagreement on what constitutes policy is traceable to the fact that policy has never been ‘a self evident term’ but rather a course of action or inaction on the part of government. However, Ham and Hill (1993) hold that different contextual situations influence the way scholars see and think of policy. A scholar who mainly focuses on policy content derives a different meaning of policy from the one who mainly focuses either on policy process, policy output, policy making, policy implementation or policy evaluation.

This study adopts Baguma’s definition of policy being ‘a deliberate and binding action given in terms of declarations, laws, Acts of parliament, Ordinances etc, by authoritative organs of the state, with the aim of influencing the behaviour of society or a substantial section thereof’ (Baguma, 1981:18). This definition not only
distinguishes between public and private policies, but also reveals that policies may be issued in different forms including acts of parliament. It also accommodates policies addressed by this study such as Tanzania’s Arusha Declaration (see chapter Four) and the country’s privatisation Acts of Parliament (see chapters 7, 8 and 9).

Jones (2002:269) acknowledges the ‘binding’ and ‘authoritative’ conception of policy. These terms indicate that government policy has to be implemented even if it is not widely accepted. Some policies may be unpopular to the extent that dissenting implementation machinery may deliberately deflect the intended policy goals (Herrin, 2002).

Baguma’s definition also addresses the ‘why’ of policy choice, revealing that policies are chosen to influence ‘the behaviour of society’ towards a desired direction. Somit and Peterson argue that policies are chosen that possess the capacity to directly ‘encourage, redirect, limit, or even prohibit a given type of social, political or economic behaviour’ (Somit and Peterson, 2003:3). Hajer (2003) pursues this point further by arguing that choice of policy should aim at politically mobilising citizens towards a desired direction. According to this author, citizens are ‘political activists on stand-by who often need to be ignited (by policy) to be politically active’ (Hajer, 2003:88).

Elaborating further, Dye (1976:1) states that policy reveals ‘what governments do’ and ‘why they do it’. The ‘why’ of the policy is echoes by Hogwood and Gunn (1984:14) who provide that ‘anything meriting the title of policy must contain some element of purposiveness’. Colebatch (1997:28) argues that for policy to be fruitful, it should not be ‘imposed from outside’, but should be ‘part of the action’ towards which it is formulated. In other words, if policy is to achieve its purpose, the action
for which it is formulated must be clearly defined and integrated into policy. In this regard, policy should focus on addressing a collectively felt need or matter of public concern (Morss, 2005). We need to emphasize the purposive aspect of public policy by pointing out that the ‘expectations’ and ‘aspirations’ inherent in policy pertain not only to internal policy actors but also to a number of external actors who might be instrumental in influencing its formulation.

Having given the definition of policy, there is need to state here that some policies have hidden intentions. Government may provide the reason for adopting a particular policy, but ‘the publicly avowed reason may not be the actual reason’ (Howlett and Ramesh, 1995:7). Policy analysis may determine why a particular alternative was adopted by the government and why some other ‘seemingly more attractive policy option’ was left out. Hogwood and Gunn (1984:15) argue that some policies may simply turn out to be the ‘means of achieving the larger ends’. Determining the ‘larger ends’ imply that policy goals and objectives should be decided in the context of prevailing development needs and priorities (Brewer and de Leon, 1983:32). This argument is echoed by a number of scholars who argue that policy should be chosen not only on the basis of sound objectives but also on the basis of ‘measures’ to guarantee policy delivers outcomes beneficial to society (Poh and Kong, 2002).

The above definition and elaboration of policy reveal that on a general level, governments choose policies towards achieving some objective. In the following section we examine various theoretical frameworks that explain why policies are chosen and how policy should be chosen to attain desired results.
Policy Choice Theories and Frameworks

A policy theory or model is a set of hypotheses about the nature of policy making, intended ‘to facilitate organizing, interpreting, understanding and explaining data concerning public decision making’ (Lane, 1990:2). Hogwood and Gun (1984:42), regard a model as ‘conceptual lenses’ through which the view of the world is sort and understood. A model, therefore, is a ‘created reality’ rather than the observed reality. In the view of Hogwood and Gun, theories or models of policy choice can be categorised into descriptive, prescriptive and ideal-types. While a descriptive model describes phenomenon in its real existence, a prescriptive model examines phenomenon in terms of what is should have been. Therefore descriptive models focus on ‘what is’ while prescriptive models focus on ‘what ought to be’ or what is desirable or to be emulated. Ideal-type models aim at exploring concepts with a view to developing mental constructs that deal ‘with entities that nowhere exist in the real world’ (Hogwood and Gun, 1984:43).

Turning now to the specific issue under study, there have been, since Easton (1953), several studies that attempted to explain why policies emerge. Hogwood and Gun (1984:68), for example, reveal six ways which allude to why policies are chosen:

a) **Crisis situation:** policy is chosen to address a crisis situation that cannot be ignored;

b) **Particularity:** policy is chosen as a response to an issue that affects a particular aspect of life (e.g. environment);

c) **Emotionality:** policy is chosen to address an issue raised by pressure groups and other interested parties;

d) **Wide impact:** policy is chosen to as a response to an issue that has a far reaching impact on society as a whole;

e) **Power and legitimacy:** The government initiates an issue then makes policy to address the same as a demonstration of power and legitimacy;
f) **Fashion:** policy is chosen because it appears to be the dominant societal fashion.

This framework succeeds only in providing knowledge on how issues for policy formulation come to the attention of government. However, it does not promote understanding on why a government prefers one policy option (for example to deal with a crisis) over other options or how policy should be chosen to guarantee successful results. Paul Moody, for example, poses the following pertinent questions whose answers cannot be provided by the above framework:

*How are most decisions made? Are they made by guessing, by taking a poll, by voting, by following a hunch, by experience, or by a systematic approach to determine the best way to solve a particular problem? Given that a number of methods can be used to arrive at a decision, how can we determine which one to use at a particular time?* (Moody, 1983:1).

Moody argues that the importance of the decision and its human impact influences the decision making process. Strategic decisions demand rigorous decision making processes. As different forms of policy making make sense in different situations, there may be no dominant policy discourse (Hajer and Wagenaar, 2003). In other words, the rigor of the decision process would depend not only on the magnitude of the problem to be addressed and the situation in which the problem has occurred but also on the driving forces influencing the decision (DiMagio and Powel, 1991:61-64). Alluding to states as organisations that experience and adopt change, DiMagio and Powel reveal three mechanisms which may give rise to policy choices as follows:

a) **Coercive mechanism:** A policy decision may be chosen on the basis of formal and informal pressures being exerted on the decision makers. In such cases, the decision makers may be forced to adopt the direction proposed by the sources of pressure for change. They may
not have ample time to take appropriate measures to choose an alternative that guarantees the attainment of desired results.

b) *Mimetic mechanism:* this occurs in a situation where conditions pertaining to the organization are such that a change is inevitable. But due to prevailing conditions of uncertainty, decision makers may resort to copying a policy that has born desirable results in other countries. In relation to this mechanism, this study identifies two forms of copying: *blind copying,* whereby a strategy is imitated and implemented as it is and without any modification, and *adaptable copying* whereby a ‘borrowed’ strategy is adapted to suit the needs and conditions of the recipient organization. It is this kind of copying that has benefited Japanese organizations as they copy strategies from the United States of America and adapt them to suit their own local conditions (Kagono, et al, 1985:12).

c) *Normative mechanism:* policy choice may be influenced by the desire by political leaders to ‘mould’ the country along some inevitable dominant global pattern. This would be achieved by examining why the pattern is relevant, what imperatives are essential in promoting development and how the change may be introduced to ensure success in the new pattern.

Regarding how policies should be chosen, Nagel (1998) contends that most policies provide the objectives to be pursued, but lack ‘a general hint’ on how they have been chosen to ensure they attain stated objectives. In his opinion, policy should contain built-in mechanisms to address specific variables that may not necessarily favour the implementation of the policy. Akindele and Olaopa, (2004) argue that
ignoring or overlooking the environment in which policy would be operationalised often compels implementing agents to reformulate policy objectives to fit them to reality. McNaught (2003) argues that for policy to attain its prescribed objectives, it should be tailored to the features of its implementation environment, taking into consideration prevailing needs and development aspirations. Since policy does not operate in a vacuum, policy choice should consider aspects such as organisation, participants, values, rules, resources, the level of technology and the ability and power of policy actors to achieve the intended policy objectives (Jenkins, 1978; Mulholland and Shakespeare, 2005). Morrisey (2002) contends that governments usually adopt sophisticated and ambitious policies based on elaborate systems of coordination as though the implementers consisted of an institution of infinite capacity and inflexibility. Omamo and Farrington state that when drawing up policy, policy makers need not only understand how the environment functions but also the implementation issues such as, ‘what constrains implementability; how constraints can be overcome or bypassed and what policy measures have greater or lesser prospects for implementation’ (Omamo and Farrington, 2004:1).

In addition to the above approaches, other general frameworks that explain how policy is chosen include rationality; incrementalism; public choice theory; pluralism; advocacy coalition framework; the Neo-Marxist approach; and the state interest model.

**The Rational Actor Approach**

The rational actor theory, dating back to Herbert Simon (Simon, 1957), assumes that individuals are rational and tend to calculate the likely costs and benefits of their actions before making decisions on how to carry out such actions (Scott,
Since policy may be regarded as consisting of individual aggregated preferences, a rational approach is applied in producing collective policy actions aimed at optimizing goal achievement as well as attaining organizational long-term advantage. Although the model focuses on maximizing individual preferences, it is applied to explain how collective decisions are made (Parsons, 2005). The ‘how’ of rational choice is given by Lindblom (1959) as consisting of five steps including defining and ranking governing values; specifying objectives compatible with those values; identifying all relevant options or means of achieving them; calculating all the consequences of these options and comparing them; and choosing the option which would maximise the values earlier identified.

Rationality models attempt to answer the question: ‘How should policies be made?’ (Hogwood and Gun, 1984:44). In the view of rationality model, the basis for making decisions is the maximization of utility which is achieved by calculating the costs and benefits of each of the available alternatives. This requires reflection on which course of action, if implemented, would yield the greatest expected level of utility. The best strategy is, therefore, chosen on the basis not only of its being result-oriented but also of its cost effectiveness. Morris et al (2004), conclude that rational choice is important in the study of political science as it offers answers to questions regarding what governments do and the conditions that foster effective governance.

Simon (1957) states that although all policy makers seek to be rational in their decisions to achieve the ‘best’ results, their efforts may be frustrated by psychological, value-based, organisational, situational and cost ‘bounds’ or limitations. Based on these limitations, the author proposes the application of ‘a
bounded rationality’. In this version of ‘rationality’, Simon recommends the identification and ‘testing’ of three or so alternatives to determine the alternative that is ‘good enough’ or ‘satisfying’ in terms of producing anticipated results. Jones (2002:270) applauds the ‘satisfying’ criterion as the best practical guide to making policy decisions and argues that bounded rationality, as opposed to comprehensive rationality, is superior as it links the procedures of human choice with the organisational and policy processes and predicts both organisational and policy outcomes.

Some scholars (e.g. Colebatch, 1993; Parsons, 1995; Boudon, 1998) question the practicability of applying the rational choice approach in making policy choices. Boudon (1998), for example, contends that the model is not valid in all circumstances and not all social phenomena could be explained by rationality. Generally, the argument against the approach is that policy-making environments do not accede to the kind of procedure espoused by the proponents of rational choice and that the attainment of rationality is faced with unforeseen constraints. Mitigating factors in making rational decisions include the human factor; consequences that cannot be known; availability of accurate and reliable information; the amount of theories involved and their contradictability; and the subjectivity of estimates and difficulties associated with getting a good indicator of the cost of each tested alternative. The ability to foresee what constraints and opportunities would impact on policy and to calculate their costs and benefits invokes some kind of omniscience (Todd and Gingerezer, 2003).

Arrow and Hurwicz (1972) and Braun and Muermann (2003) argue that policy makers can still make rational choices by applying what is regarded as ‘the
minimax regret rule’. In their view, if a particular course of action being considered can minimize ‘the maximum regret’ (i.e. the worst pain) that society should suffer as a consequence of the choice made, then that should be considered the best alternative. Arrow and Hurwicz (1972) suggest that rather than assessing the maximum regret of an alternative, it is imperative to assess the combination of the best possible and the worst possible consequences that may result from each alternative before the best alternative is chosen. The question is how this can be achieved without first subjecting the available alternatives to some cumbersome cost-benefit analysis. A criticism of the minimax regret view is that it has never demonstrated that differences in utility can provide a measurement of regret (Froyn, 2004).

There are also other outstanding questions regarding the applicability of rational choice. Suppose government was to identify and test alternatives from which to choose the ‘best’ alternative, would this alone guarantee attainment of desired results? Suppose in its implementation process such policy lacked the support of various actors, would it produce desired outcomes? There is also the degree of autonomy enjoyed by governments in carrying out the required steps and determining the course of action to be pursued. What, for example, if a government is under pressure from forces (internal or external) that wield stronger influence on it to adopt a particular course of action and has no choice other than compliance? What if, on the basis of such strong influence, the government is acting to meet set deadlines and does not have the time required to test the available alternatives from which to choose the ‘satisficing’ option? These questions raise issues that tend to support the argument by Hogwood and Gunn (1984) that rationality is simply an ideal-type model of policy choice and needs to be treated as such.
Incrementalism

Based on Machiavelli’s assertion that nothing is so difficult as to attempt to change or alter the existing order of things (Grindle, 2000:17), incrementalism regards policy making as a consensually negotiated gradualist approach characterised by small adjustments (Lindblom, 1959). Lindblom challenges rationality, arguing that problems are solved not in one stroke but ‘serially’ or in piece meal fashion, with policy makers coming back to redress bottlenecks identified in policy performance. In this regard, choice of policy begins with the existing policy, with incremental changes introduced to address identified shortfalls. In Lindblom’s view, this mode of policy making promotes acceptability, guarantees successful implementation and enables policy makers to avoid making unforeseeable, costly mistakes. Moreover, introducing a completely new policy to replace an existing one may lead to financial and political costs (Jones, 1999).

Etzioni (1967) castigates incrementalism as being conservative, working in favour of the powerful in society, and neglecting society’s innovative skills besides. While Etzioni recognises the need for serial steps in dealing with problems, he regards incrementalism as facilitating a state ‘leading in many directions ...at once but leading to nowhere’ (Etzioni, 1967:387). Dror (1968) shares this criticism, arguing that besides lacking ‘tools’ to deal with significant change, incrementalism lacks explanation on the process involved when government adopts a new policy that radically differs with the existing policy both in content and direction. In other words, incrementalism offers no explanation for economic and political reforms that have swept the world since 1980s. Eastern European countries have, for example, transformed from pursuing socialist policies to embracing the market economy upon realising that development process entailed problems that could not
be readily solved by a centrally planned economy. In this regard, incrementalism tends to view development as a smooth process in which political and economic shocks, that may compel government to seek for a completely new direction, are not expected. There is a need, however, to study reform measures undertaken by countries that have transformed their economies to examine the kind of costs that incrementalism claims are associated with radical policy changes.

### Public Choice Theory

Public choice theory, traced to the work of Gordon Tullock (1967) and William Niskanen (1971), is an aspect of neo-classical economic theory rooted in what is supposedly the efficiency of market forces in allocating scarce resources. Public choice provides that government is the problem; and once government is sidelined, markets would efficiently allocate resources (Pearl, 1994; Buchanan, 1999). Government should play a minimum role in the supply of goods and services because what is deemed as the public good is the sum total of individual choices. The approach is based on the assumption that politicians and bureaucrats are mainly interested in making decisions that use public resources to remain in power and to perpetuate their status quo (Brehm and Gates, 1999). In view of public choice theory, therefore, governments choose polices that reflect and promote the rent-seeking behaviour of politicians and bureaucrats.

As a solution to the self-interest of politicians and bureaucrats, public choice theorists advocate policies that promote the use of the market in resource allocation because, given the opportunity, market forces are capable of producing better outcomes than the public sector (Niskanen, 1971; Fischer, 1998). A further argument in support of the market is that the coercive tendency of the political
market undermines rather than responding to individual preferences governed by free choice. Presumably, the existing democratic political structure has failed to control the rent-seeking behaviour of politicians and bureaucrats, calling for greater use of the market in arresting the hidden motives of politicians and the self-interest of bureaucrats. This would result in decision making that leads to the efficient and optimal allocation of scarce resources.

Public choice theory regards the market as a better model for resource allocation because it provides consumers with a wider choice of services, stimulates competition, reduces the power of bureaucrats acting as ‘gatekeepers’ to control ‘the allocation of services in a paternalistic or authoritarian manner’ (Self, 1993:129), and reduces monopoly and promotes efficiency resulting from the desire by organizations to compete for and win clients (Drache and Sullivan, 1999).

In advocating policies that focus on the market as a resource allocator, public choice theory neither provides steps that may guarantee the chosen policy attains its objectives nor shows concern about the environment in which policy would be implemented. The approach assumes that once the bureaucrats have been sidelines, the market will not only optimize policy outcomes towards economic efficiency but will also render a conducive environment for implementation of those strategies. There also arise a number of other issues for investigation pertaining to public choice theory. For example, does the public sector consist of people who are purely interested in rent-seeking? Is there a possibility that the market (as represented by the private sector) could also have people who are utility maximisers as in the public sector? Assuming that the market takes over from the public sector, especially in developing countries where the majority of people are
poor, would it extend services to the poor given the market’s interest in profit maximazation? To what extent would the market venture into areas and investment opportunities that are considered less profitable? Furthermore, does it mean that desirable results would be automatically realised once the private sector takes over from the public sector? The assumption here is that the private sector experiences no performance constraints or limitations and is readily endowed with abundant resources and skills required to deliver successful policy outcomes.

The argument about the market being an efficient, competitive and utility maximizing mechanism has been contested by a number of scholars (e.g. Drache and Sullivan, 1999; Self, 2000; Lee, 2006). Self (2000), for example, argues that technically speaking there is no clear-cut evidence to prove that the economic market is necessarily efficient in resource allocation. He is also critical of the view that market forces promote competition. In his opinion, market competition is often reversed when conglomerates assume monopoly in the economy. Rather than promoting competition and the efficient allocation of resources, the economic market serves the narrow interests of a particular group that controls market forces, and market institutions aspire for higher growth and prosperity rather than being inclined to the needs of the common people. With regard to the political market, Stiglitz (2000) argues that if well organised and managed, it is capable of not only promoting competition and the efficient use of resources but also delivering wealth-maximization outcomes.

With regard to the claimed utility maximisation availed by the market, Self (1993) demarcates the difference between manifest utility and latent utility, arguing that a consumer who is looking for accommodation in an open market may be easily
satisfied with the type, size and location of a house. But utility maximization would pose a problem for a consumer wishing to choose between a public and private school because academics have the capacity to determine the content of education in both private and public schools (Self, 1993:129). The author also contends that the market exhibits situations where some groups cannot access certain goods and services due to racial, ethnic and religious discrimination.

The view that bureaucrats are purely utility maximizers interested only in increasing the sizes of their bureaus has been contested on ground that the individual bureaucrat has nothing to gain from his job apart from his salary and the status pertaining to the position held (Hogwood and Peters, 1985; Parsons, 1995; Olsen, 2005). An individual bureaucrat would not be interested in bureau expansionist programmes as doing so would generate additional managerial responsibilities and operational difficulties. Hogwood and Peters argue that most government ‘organizations are attempting to serve public interest (and)... many of their problems arise from the excessive zeal rather than the absence of the zeal in pursuing public interest’(Hogwood and Peters, 1985:40). Parsons contributes on this point by arguing that,

> Given that we know little about the utility and costs of those who work in profit-maximizing firms, it is somewhat arbitrary to say whether a bureau is “too large”. Empirical research on the question of budget maximization has not yielded the kind of evidence which would support ...(the) idea that bureaucratic decision making is motivated by self-interest... (Parsons, 1995:311).

**The Pluralist Framework**

The pluralist view of policy choice whose pioneers include Dahl (1961), Polsby (1963), Truman (1964), has recent manifestations including planning through debate; consensus-building approach; mutual gains approach; collaborative
planning approach; discursive democracy; deliberative governance approach; and collaborative policy dialogue approach (Innes and Booher 1999; Booher and Innes, 2001; Hajer, 2003; Hajer and Wagenaar, 2003).

Pluralism makes several assumptions including that society consists of strata represented by different domestic interest groups; political resources are distributed throughout society; the political system is open and responsive; individuals join groups that represent their interests; the strength and power of each interest group is based on its size, resource base, political savvy and negotiating skills; each group attempts to pursue its own objectives, but with none playing a dominant role; and interest groups conflict, conciliate and compromise to formulate public policy (Hill, 1997; Axelrod and Cohen, 1999; Johnson, 2001). Based on the pluralist viewpoint, policy making is a political process of bargaining between various domestic group interests ‘rather than being a rational process’ (Hill, 1997:7). In this regard, policies are chosen because they reflect the preferences of societal groups.

Innes and Booher (2003) argue that to arrive at policy that resolves group conflicts and promotes harmony in society, organised groups should freely engage in consensus-building dialogue, with the government keeping a watchful eye to ensure that such dialogue does not result in open confrontation. Once a consensus has been attained on how to resolve a particular issue, the government adopts this as policy. In the view of pluralism, this is the best way of making policy, especially on ‘volatile issues’ (Innes and Booher, 2003).
Pluralists argue that consensus-building should be the basis for adopting policy because it produces realistic policy that addresses socially volatile issues rather than those that turn out to be infeasible, premature or otherwise inappropriate; produces policy that is authentic rather than one that is rhetorical and ritualistic; produces policy based on collectively shared values, meaning and purpose; promotes democracy; minimises conflict and promotes co-operation among interest groups and between groups and the government. In addition it ensures good governance; enhances community participation and civic engagement in policy making; engages citizens in discourses that bring them into the very process of governance; promotes leadership for the common good; and promotes institutional capacity building and saves society from fragmentation (Innes and Booher, 2001; Dryzek and List, 2003; Torgerson, 2003;).

Pluralism is not concerned about the policy implementation environment or measures that should ensure the chosen policy attained desired results. The approach assumes that good policy results from group agreement, and groups are part and parcel of the implementing environment. Once a compromise has been attained on policy, it is assumed that the chosen policy will consist of agreed strategies and groups will support its implementation to the attainment of desired results. However, the approach raises a number of questions that require further investigation. For example, would group consensus alone automatically deliver policy desired outcomes? Furthermore, the proposition that power is shared among all strata in society tends to overlook or ignore the concept of ‘power elites’ in the realm of governance (Weir and Beetham, 1999). What if an elite group usurps power and does not accommodate views from other groups? Can a situation
arise whereby the avenue for consensus-building does not exist because
government is coerced to adopt a specific policy decided by external forces?

Although Spiller and Liao (2006) regard interest group participation in policy as an
unavoidable reality, a number of scholars (e.g. Lindblom, 1977; Connolly, 2005)
contest the prominence of interest groups in policy making. These scholars think
that providing such prominence to pressure groups and reducing the role of
government to that of an umpire tends to downplay and obscure the strength and
role of government in policy making. In their view, government is not just an arena
where competing interest groups meet to wield their bargaining power and
influence. In addition, portraying government as a respondent of group pressure is
tantamount to portraying government as lacking internal divisions. Within the
government itself, there may be different bureaucratic interests that not only
compete but also lead to conflicting interpretation of the existing problem for
which policy is contemplated.

Howlett and Ramesh argue that due to the prevailing international economic
interdependence, states find themselves increasingly subjected to international
pressures that make it difficult for them to formulate policies without reference to
international economic pressures placed upon the internal policy environment
(Howlett and Ramesh, 1995; 2003). Moreover, Artkinson and Coleman (1992)
contend that the applicability of the pluralist model in policy making in developing
countries is questionable because groups in these countries cannot easily position
themselves and co-ordinate their activities compared to their counterparts in
developed countries. Besides, the authors argue that the approach downplays the
strong influence exerted by politicians in the policy process.
Advocacy Coalition Framework

Jenkins-smith and Sabatier (1993) and Andersen and Eliassen, 2001, regard an advocacy coalition as consisting of either internal or external actors, sharing ‘a set of basic values and beliefs’, who manipulate government leaders into adopting policy measures that promote the coalition’s self-serving goals (Jenkins-smith and Sabatier, 1993:5; Sabatier, 1999). In the view of the advocacy coalition approach, therefore, policy is chosen because it reflects the interests of a dominant advocacy coalition. While in pluralism policy emerges out of ‘consensus-building’ among competing groups and, therefore, reflects various group preferences, in advocacy coalition framework policy emerges out of value priorities and perceptions held by an influential and dominant coalition which is able to lobby government into pursuing policy that serves the coalition’s interests (Howlett and Ramesh, 1995:127; 2003).

A number of scholars (e.g. Sutton, 1999; O’Neil, Balsiger and Vandeveer, 2004; Eccleston, 2004) maintain that material power is the coalition’s major factor in influencing government’s choice of the coalition’s desired policy. For example, a group of international donors or financiers may align itself into a dominant advocacy coalition and decide, as a lobbying strategy, to withhold or withdraw economic support from a country experiencing economic difficulties. Faced with no choice, government would yield to economic pressure by adopting policy measures proposed by the coalition, and which promote the coalition’s interests (Mazey and Richardson, 1999). In addition to economic aid, government officials may also adopt policy after being bribed or promised a bribe by ‘an interested group of lobbyists’ (Fredricksson and Svensson, 2003:1385). The size of the bribe would depend ‘on the attractiveness of the policy’ and the benefits anticipated by the
lobbysts. Solimano, et al (2000) contend that greed and desire for self-enrichment have influenced public officials to virtually ‘sell’ their countries to coalitions of interests in return for ‘handouts’ and ‘small rents’. Rothschild and Curry (1992) argue that for advocacy coalition-brokered policies to bear results desired by the coalition, policy measures include the necessary coalition-supported technical assistance to enhance institutional capacity-building, influence the mind-sets of bureaucrats, and ensure the machinery of government is attuned to the policy.

Howlett and Ramesh (1995:56) state that the focus of advocacy coalition on bureaucracy in the policy process can be understood in the light of bureaucrats’ permanent nature, discretion provided to them by law, accessibility to enormous amounts of resources, accessibility to classified information, and a wide range of skills and expertise. Based on these attributes, an advocacy coalition regards the bureaucracy as a necessary ingredient for successfully implementing government policy.

The advocacy coalition framework provides measures to be taken to guarantee the chosen policy achieves desired results. The approach is more concerned with the technical aspect of policy (including government institutional capacity-building) than with the wider policy implementation environment. No steps are taken to ensure that the adopted policy objectives address the prevailing conditions and circumstances of the existing environment. It is assumed that the dominant coalition would determine policy that would produce the results desired by the coalition, and the enhanced government machinery would produce an environment that would favour result-oriented implementation of the policy.
However, this approach generates a number of questions that require further study. For example, to what extent would an ‘off-the-shelf policy’ produced by an advocacy coalition deliver desired policy outcomes? What happens if a country’s people do not support a particular policy adopted by their government through manipulation? How does an advocacy coalition benefit from the implementation of a coalition-brokered policy?

**Neo-Marxist Approach**

Neo-Marxism is a modern approach to orthodox Marxist-Leninist philosophy, influenced by the existence of ‘some form of mixed economy and the growth of an extended welfare state in every capitalist society’ (Dunleavy and O’Leary, 1997:73). While classical Marxism regards the state as a predominant instrument of the ruling class dominated and controlled by this class from outside, Neo-Marxism perceives the modern state as a distinct entity interested in its own continuation. Rather than the state being used by the ruling class, there exists a dependent coexistence between the state and capital. While capitalists contribute to the existence of the state through taxes and other supportive measures, the latter perpetuates and guarantees the existence of capital through state interventions, including supporting domestic capital against foreign competition; restrictive controls on industrial relations; formulation of welfare and other social control programmes; managing potential crises that may threaten the survival of capital; and taking over activities not profitable to capital (Dunleavy and O’Leary, 1997:63; Lavalette, 2006:52). In Neo-Marxist thinking, state officials and capitalists enjoy a harmonious co-existence and are ‘unified into a single cohesive group’ by a common social origin, shared values and lifestyles and institutional networks. Therefore, policy promotes a symbiotic relationship between the state machinery
and capitalists and state intervention in policy choices is achieved through the legal, institutional and ideological machinery deliberately designed to promote the interests of capital (Grindle and Thomas, 1991:21). Policy, ‘hammered out through numerous networks and forums’ is an instrument to co-ordinate activities that promote a sustained relationship between the state and capital (Dunleavy and O’Leary, 1997).

Orthodox Marxists advocate for a revolution as the meaningful way of ensuring desirable policy results. A revolution, in Marxist thinking, would overthrow the ruling and dominant class and place the means of production in the control of the down-trodden masses. However, where such revolutions occurred, private capitalists were replaced by state capitalists to perpetuate the same exploitation they ostensibly aimed at eliminating (Offe, 1984). On the question of how policy should be chosen to guarantee desirable results, Neo-Marxists do not provide any hint. The model assumes that the state machinery would not undermine the symbiotic relationship it enjoys with capital and will, therefore, deliver policy outcomes commensurate with the interest of capital.

A number of questions arise regarding this mode. For example, what in ways do capitalists and state managers cooperate? What mechanisms are evolved by the state to guarantee the sustained interests of capital? In what specific ways does the modern state benefit from capital?

**State Interest model**

Grindle and Thomas (1991) argue that class analyses espoused by Marxists are inadequate when the state acts independently and makes policies and reforms that
appear to undermine even the interests of the dominant class. This position is supported by studies (e.g. Nordlinger, 1981; Krasner, 1988; Pellissery, 2005) which reveal that the state has its own interests pursued through its machinery and, therefore, acts independently to formulate policies that largely promote those interests. As such, the state viewed as a powerful independent actor, making policies to promote on its own survival and perpetuate and maintain its own hegemony rather than acting under the influence of capital, advocacy coalitions or any other particular group. Bennet and Sharpe (1985:44) and Sorensen (2004) point out that the institutional arrangement of the state enables it to diagnose problems and formulate strategies to deal with them to ensure the continuity of the state.

According to the ‘state interest approach’ policies emerge as the state establishes its own priorities and develops mechanisms to pursue them. Policies are, therefore, chosen because they reflect and promote the interests of the state. However, this approach is neither concerned with how polices should be chosen to guarantee delivery of desired outcomes nor with the policy implementation environment. It is assumed that the state will deliver policies that promote rather than threaten its own survival or undermine its hegemony. It is also assumed that the state will mould the environment it owns and governs to correspond with policy objectives. A number of questions, though, need to be addressed regarding assumptions this approach makes about the state. For example, would a situation arise whereby the state may be forced to adopt policies based on conditions that it wouldn’t accept under normal circumstances? Can the state be used as a tool by state managers to advance their own interests other than those of the state?
In the preceding section, we have provided various theoretical frameworks that address the three questions regarding *why* and *how* polices are chosen and *how they should be* chosen. While some frameworks have addressed both *descriptive* and *prescriptive* aspects of policy choice, revealing *how* policies are chosen and *how they should* be chosen to guarantee the attainment of desired results, some have only focused on descriptive aspect and remained silent on the prescriptive one.

### Research Design and Methodology

This section provides an outline of the methodology employed in this study. The policy choice frameworks presented above indicate that there are a variety of explanations on why policies are chosen and how they should be chosen. In its investigation of why Tanzania chose its socialist and privatisation policies this research involved two main studies. Part one (Chapters 3–5) employed a historical method while part two (Chapters 7–9) adopted both historical and case study methods.

The section begins by contrasting qualitative and quantitative research. It presents the reasons underlying the choice of a historical method and analyses the case study method, contrasting it with other methods such as quasi-experimentation and survey. Finally the section addresses validity and reliability of the overall approach in terms of study design, data collection and analysis of data.
**Quantitative and qualitative research**

Research is ‘the systematic process of collecting and analysing information/data in order to increase our understanding of phenomena about which we are interested’ and to communicate that understanding to other people (Leedy and Ormrod, 2001:4). Research may be qualitative or quantitative or both. This study employed qualitative research, also known as interpretative and constructive approach. This approach starts with a general question aimed at understanding phenomena while quantitative research starts with a hypothesis to be tested on the basis of isolating variables. In both approaches, however, review of related literature and data collection and analysis are undertaken (Leedy and Ormrod, 2001:101). Table 2:1 below contrasts qualitative and quantitative research.

**Table 2:1, Contrast between qualitative and quantitative research**

<table>
<thead>
<tr>
<th>Item</th>
<th>Qualitative Research</th>
<th>Quantitative Research</th>
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<tbody>
<tr>
<td><strong>Purpose of research</strong></td>
<td>• to describe and explain phenomena</td>
<td>• to explain and predict phenomena</td>
</tr>
<tr>
<td></td>
<td>• to explain and explore hypotheses</td>
<td>• to confirm and validate hypotheses</td>
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<td></td>
<td>• to build theory</td>
<td>• to test theory</td>
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<tr>
<td><strong>Nature of research</strong></td>
<td>• holistic</td>
<td>• focused</td>
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<tr>
<td>process</td>
<td>• variables are unknown</td>
<td>• variables are known</td>
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<td></td>
<td>• flexible guidelines</td>
<td>• established guidelines</td>
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<td></td>
<td>• emergent design</td>
<td>• static design</td>
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<td></td>
<td>• context-bound</td>
<td>• context-free</td>
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<tr>
<td><strong>Methods of data collection</strong></td>
<td>• small informative sample observations and interview</td>
<td>• large representative sample</td>
</tr>
<tr>
<td></td>
<td>• use of words</td>
<td>• use of standardised instruments</td>
</tr>
<tr>
<td><strong>Form of data analysis</strong></td>
<td>• inductive analysis</td>
<td>• deductive analysis</td>
</tr>
<tr>
<td><strong>Communication of findings</strong></td>
<td>• use of words use of narration and quotes</td>
<td>• use of numbers</td>
</tr>
<tr>
<td></td>
<td>• application of personal voice, literary style.</td>
<td>• use of statistics and aggregated data</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• application of formal voice, scientific style</td>
</tr>
</tbody>
</table>

Source: Adopted from Leedy and Ormrod (2001:102).
The choice of methodology

Leedy and Ormrod (2001:4) argue that a good research must be explicitly planned; logically designed; and must indicate how data addressing the initial problem would be obtained, assessed and processed. To achieve this purpose, it is important that an appropriate choice of methodology is made. Yin (2003:5) provides three conditions that determine the choice of methodology: the nature of the questions addressed by the study; the extent the researcher has control over events under study; and the degree of focus on contemporary as opposed to historical events.

As stated above, this research employed two methodologies namely the historical and case study methods. The historical methodology was applied in study one (i.e. chapters 3-5) to explore the evolution and development of economic reforms in Tanzania. The use of a historical methodology has several advantages including helping researchers to uncover and verify data from the distant or ‘dead’ past; understand the sources of contemporary problems, how they arose and how their characteristics unfolded through time; identify past factors that play a role in present situations; make use of primary and secondary documents and cultural and physical artefacts as the main source of evidence; and make a detailed qualitative analysis of complex issues surrounding human behaviour, its strength, weakness and unpredictability (Neustadt and May, 1986; Mason et al, 1997; Yin, 2003). The descriptive findings from historical analysis provide a general understanding of why Tanzania made its past reform policy choices and how past factors play a role in the country’s present reform measures.

Part two of the study focuses on Tanzania’s liberalization and privatisation of public enterprises. In this part, a case study approach, involving jointly examined
‘collective’ or ‘multiple’ case studies, is adopted to inquire into why and how Tanzania chose liberalization and privatisation for its public enterprises reform. Case study is a better choice for this research for a number of reasons including answering questions that focus on ‘why’ and ‘how’; dealing with issues pertaining to contemporary events with some real life context; being suitable for the study in which the investigator has little control over events; being suitable for studies involving groups, organisational and political issues (Yin, 2003:1); and attempting to illuminate decisions and why they were taken (Schramm, 1971). Case study is also relevant because it allows in-depth research, produces first hand information through observation and interviews, employs methods that encourage familiarity and close contacts with informants, and facilitates choice of cases for their suitability in the study (Sarantakos, 2005:216).

Hedrick et al (1993) reveal that historical and experimental methods can also be used in a study whose questions focus on ‘how’ and ‘why’. The historical method was, therefore, applied jointly with case study for part two of the study to generate supplementary information because a case study can make use of multiple strategies to investigate phenomena (Yin, 2003:9).

The experimental method was not employed by this study for reasons including being suitable for studies in which effective control of behavioural events is required; the researcher has control over the independent variable as well as other variables; the aim of research ‘is to determine the effects that a change in one variable has upon another’; and a rigorous testing of hypotheses is involved (Bouma, 2000:107).
The use of survey was also ruled out because it is suited for studies whose questions focus on ‘who’, ‘what’, ‘where’, ‘how much’ and ‘how many’ (Hedrick et al, 1993). Moreover, survey focuses on some large population represented by a sample that aims at producing a generalised characteristic, attitude or behaviour of the larger population (Babbie, 1990). Comparatively, the case study approach has advantage over surveys in that while the latter facilitates the collection of information that provides evidence of associations between variables, the former facilitates an in-depth examination of processes involved in those associations, leading to greater understanding of social phenomena (Cassell and Symon, 1994:112). Case study method is also preferred because its grounded theories facilitate the generating of a substantive theory that may explain why Tanzania chose its privatisation policy. (Glasser and Strauss, 1967).

Overall, case study is superior over other study strategies for the current context because it copes with technically distinctive situations characterised by many variables, relies on multiple sources of evidence such documentation, artefacts, interview and observation to generate data, and benefits from prior development of theoretical propositions to guide data collection and analysis (Yin, 2003:13-14).

There are, however, a number of limitations in the use of case study research (Kennedy, 1976; Feagin et al, 1991; Yin, 2003; Sarantakos, 2005). Firstly, the researcher may allow biased views and impressions to influence the direction of the findings and conclusions. This limitation can be dealt with through comparative case analysis (see below). Moreover, bias can also enter into experiments (Rosenthal, 1966); into survey, especially when developing questionnaire (Sudman and Bradburn, 1982); and in historical research (Gottschalk, 1968). Secondly, case
study research may lack objectivity, validity and reliability to provide for
generalisations. This limitation and how it is addressed are discussed below under
the relevant sub-headings. Thirdly, case study method may take too long and
generate massive unreadable documents. However, Yin (2003) suggests that this
problem can be overcome by avoiding lengthy narratives.

Research Design Quality

Research quality or validity in both qualitative and quantitative studies refers to
the accuracy, meaningfulness and credibility of the research as whole. Yin,
(2003:19) provides that when using case study methods, care should be taken to
satisfy or maximize research design quality conditions including internal validity;
external validity; and reliability. These design quality conditions are briefly
discussed below.

Internal validity

Internal validity refers to the extent which research design and generated data
enable the researcher to draw the right conclusions about cause and effect and
other relationships within the data. It mainly focuses on availability of sufficient
controls to minimise ‘threats’ and ensure the conclusions drawn are truly
warranted by the data (Cook and Campbell, 1979). In view of these authors,
‘threats’ to internal validity consist of factors that might have been overlooked by
the study but which have a direct influence on causal relationships. To address this
problem, this study employed suggestions provided by Pelz (1981); Leedy and
Ormrod (2001:104); Creswell (2003); Yin, (2003) that several months be spent for
data collection (five months were devoted by this study for field work),
triangulation involving use of multiple sources of data be applied, a ‘thick’
description of phenomena be used to allow readers draw their own conclusion on
the data presented, and ‘pattern-matching’, ‘explanation-building’ and ‘logic
models’ be applied to identify ‘rival explanations’ before conclusions are drawn
regarding causal relationships.

**External validity**

External validity deals with the problem of establishing whether or not study
findings can be generalised beyond the immediate case study (Leedy and Ormrod,
2001:105). External validity is a major limitation to case research in that one
argues that it is wrong to contrast case study with survey in which a selected
sample readily generalizes to a large universe. The difference between survey and
case study is that the former makes statistical generalisation while the later makes
analytical generalisation whereby the researcher attempts to generalise ‘a
particular set of results to some broad theory’ (Yin, 2003:37). In the Tanzanian
case, for example, a theory that explained the country’s policy choice is the same
theory that assisted in determining other cases to which the results could be
generalised (Flippen, 2001).

The study employed comparative case approach to help deal with the problem of
external validity (Yin, 2003). The comparative analysis, referred to as ‘replication
logic’, which is applicable in experiments can also be applied in case study
approach because each case is an experiment in itself (Hammersley, 1993). The
theory used in the first case study can be tested by replicating the findings of the
first case in the second and the third cases. Once ‘such direct replications have
been made, the result might be accepted as providing a strong support for the
Comparative case analysis has an additional advantage in that it also addresses the problem of researcher's bias which might influence the findings because both the internal and external validity of the study can be supported and maintained through checks and balances provided by the multiple cases.

To avoid the possibility of having results from a single case distorting reality to the extent of generating a less plausible generic model (Winter, 1990), this study employs three case studies of privatization namely the National Bank of Commerce (NBC); Tanzania Electric Supply Company (TANESCO) and the Tanzania Telecommunications Company Limited TTCL. In choosing the three cases, the study applies the observation given by Schwandt (1994:244) and Sarantakos (2005:213) that ‘suitability in the research topic’ and ‘variety of the cases’, rather than representativeness, are the main parameters to be considered when choosing case studies for qualitative research. The major reasons for choosing the three case studies employed by this research include their ‘suitability in the research topic in that they have mainly been targeted by the IMF and World Bank for privatisation (see Chapter Four); offering a ‘variety of cases’ in that they have been picked from various sectors of the economy; and playing a critical role in Tanzania’s development process.

Comparative analysis of the three cases enables the study to examine and determine the dynamics of the internal and external forces that interact to influence and affect the privatisation innovative processes (Pettigrew, 2003). Comparative analysis of the three cases provides a useful interpretation of data collected from the case units, through the examination of relevant documentation
and interviews. The analysis of the three case results, therefore, can lead to the generation of a theoretical perspective that explains Tanzania’s choice of a policy decision (Glasser and Strauss, 1967).

**Reliability**

Reliability focuses on the extent errors and biases can be minimised in a study so that findings can be replicated on the same case using the same procedures. To deal with the problem of reliability, Marshall and Rossman (1989) and Yin (2003) recommend clearly stipulated sources of evidence. According to Marshall and Rossman, sources of evidence may include documentation, archival records, interviews, direct observation or participant observation. This study employs primary and secondary documentation and interviews. Primary documentation includes government policy proposals; reports; Parliamentary records; letters and memoranda and minutes of cabinet meetings. Secondary documentation includes the government gazette; newspaper articles; and administrative documents.

Yin (2003:86) provides the advantages of documentation as including stability—documents can be repeatedly reviewed; unobstrusiveness—documents have not resulted from the case study; exactness—documents contain exact names, references and event details; and broad coverage in terms of long time span, many events and many settings. However, the author points out a number of limitations of documentation including low accessibility and retrievability; biased selectivity; and reporting bias.

Cheung (2000) argues that research on policy issues raises the immediate problem of reliability due to the fact that most data is deemed to be politically sensitive.
Additional factors exacerbating the problem of availability of accurate data, include poor record keeping and maintenance; the perception that data may reflect poor performance; the perception that data may expose malpractices; and certain data being treated as classified information.

This study applied Yin’s (2003) suggestion that documentation limitations can be dealt with through a thorough review of documents, including the examination of files, as well as reviewing documents that may have been ‘put into cold storage’. The study also made a thorough review of newspapers, as newspaper accounts are excellent sources of certain data which may not be available in official files (Yin, 2003:87).

The study also employed the interview method as one of the most important sources of information in case study research (Yin, 2003:89). Advantages of interview include that it is a fluid and guided conversation rather than being rigidly structured query; usually targeted, focusing directly on the case study topic; flexible, containing minimal restrictions; insightful, allowing respondents to express their opinions (Rubin and Rubin, 1995). In addition interview enables the researcher to control the process; avails the opportunity to observe non-verbal behaviour; facilitates the correction of misunderstanding or misinterpretation of questions; provides the opportunity to record spontaneous answers; and is recommended for qualitative studies (Sarantakos, 2005). The study adopted unstructured interview based on unstructured questionnaire consisting of open-ended questions. This approach enables the researcher to act freely on certain research points, reformulate the questions as required, and employ ‘neutral probing’ aimed at exploring the mind of the respondent (Sarantakos, 2005:268).
To select respondents, the study employed purposive sampling approach based on ‘judgement’ and ‘intuition’ (Bouma, 2000:121). This technique facilitates the choice of respondents who are relevant to the research topic and are able to help the researcher understand and explain the research question (Creswell, 2003:185; Sarantakos, 2005: 164;). Interviewees in the study included Members of Parliament; senior government officials from relevant ministries; officials of the PSRC; and Senior Managers from NBC, NMB; TANESCO, and TTCL; members of NBC privatisation Steering Committee; and informed persons (see below). Due to the sensitivity of information provided, many informants requested to remain anonymous and code numbers have been applied to conceal their identity. The codes include, for example, BPI.1 for Bank Privatisation Informant number 1; EPI.3 for Electricity Privatisation Informant number 3; and TPI.10 for Telecommunication Privatisation Informant number 10. This is in line with Berg (2007:80) who argues that researchers should employ any means to ensure that the subjects who have requested confidentiality and anonymity ‘remain nameless’. A list of informants in code numbers is provided under references.

Data generated through government sources, including documents and interviews, may contain potential biases characterized by ‘hidden beliefs and values’ of politicians and bureaucrats (Marshall and Rossman, 1989:14). To address this limitation, the study applied the suggestion by Yin (2003) and Sarantakos (2005) regarding the use of ‘peer debriefing’ from informed opinions and experts in the research area. The parties involved include selected academics; some former Board Members from the three case studies; and senior personnel of relevant Trade Unions and Workers Councils. These interviews enabled the researcher to
obtain opinions, comments, observations and feelings of interviewees on Tanzania’s liberalisation and privatisation policy.

However, the interview has a number of limitations (Yin, 2003; Sarantakos, 2005), including that it can be biased due to poorly constructed questions; lacks anonymity; is unsuitable when sensitive issues are involved; may suffer from response bias; may produce inaccurate data due to poor recollection or incomplete, faulty and illegible responses; may involve the interviewer’s selective hearing and vision; and may involve ‘reflexivity’ whereby the interviewee tends to provide what the interviewer wants to hear. To overcome potential interview shortcomings, this study employed Sarantakos’ (2005:273) approach including ensuring self control; recording accuracy and objectivity, avoiding personal bias or prejudice; creativity in asking probing questions to explore hidden responses; verbal ability and ability to listen; and carefulness, conscientiousness and concentration. In addition, the study made extensive use of documentary sources.

**Conclusion**

This study identifies policy as a consciously designed and a deliberate binding action given by authoritative organs of state in terms of declarations, laws, Acts of parliament, Ordinances and government directives. The aim of policy is to influence behaviour towards a purposeful end.

A variety of approaches provide explanations on why and how policies are chosen. Among these are rational actor theory, which regards policy as resulting from rationally adopted criteria for selecting result-oriented alternatives; public choice
theory, which sees policy as originating from the desire of public officials to promote self-motivated interests; and pluralism, which regards policy as resulting out of a compromise involving contending interest groups. Other approaches are advocacy coalitions framework, which regards policy as resulting from government manipulation by a coalition interested in serving its own interests; Marxist approach, which sees policy as a strategy that promotes the symbiotic relationship between the state and capital; and state interest approach, which regards policy as resulting from the state’s attempt to perpetuate its hegemony.

However, with the exception of rational actor theory, whose measures to guarantee desired policy outcomes include that ‘rational steps’ should be followed as closely as possible, the remaining approaches make assumptions about such measures. For example, public choice theory assumes that state officials would deliver policy that meets their interests; pluralism assumes that the state would deliver policy consensually agreed by interest groups to promote order and stability; and advocacy coalition framework assumes that the state would produce policy that addresses the interests of the dominant coalition. The state interest model assumes that the state would produce policy that in order to promote its own survival; and the Neo-Marxist approach assumes that the state will deliver policy that safeguards the relationship between itself and capital.

This chapter has reviewed a number of approaches that offer explanations on why policies are chosen. The chapter has also presented the design and methodology employed by the study in addressing its two main questions. Before applying the above theories and methodology to Tanzania’s choice of liberalisation and privatisation, there is need to address Tanzania’s wider context of policy reforms in
terms of the country’s geography, economy, demography and constitutional and political systems. This context is presented in the next chapter.
CHAPTER THREE

TANZANIA: The Wider Context

We must run while others walk...For while other people can aim at reaching the moon and while in future we might aim at reaching the moon, our present plans must be directed at reaching the villages.
[Julius K. Nyerere, President of Tanzania, 1962-1985]

Introduction

The on-going structural reform measures in Tanzania date back to the mid-1980s when the government signed an accord with the International Monetary Fund (IMF). This reform is the country’s latest instalment in its effort to foster development intended to address its socio-economic and political goals, and so Chapter Four will provide an overview of each main phase of reform since independence to help provide an understanding of the origins of the current phase of reform.

However, before introducing the reader to past and present reforms, there is a need to set a wider context in which these reforms have taken place. This chapter, therefore, provides a profile of Tanzania's geography, demographic and economic features, the political and constitutional system and the political reforms introduced in 1991. The chapter is organised around three major themes, Tanzania’s country profile; political and constitutional system; and multiparty democratic reforms introduced since early 1990s.
Tanzania: A Brief Country Profile

Location and Geography

Tanzania, located between two and ten degrees latitude and 30 and 40 degrees longitude, is a sub-Saharan country on the eastern coast of the African continent. It covers a total area of 945,087 square kilometres, including 61,238 square kilometres of lakes and rivers. Comparatively, Tanzania is slightly larger than Australia’s New South Wales (802,000 square kilometres) and about twice the size of France (547,026 square kilometres). The country’s terrain consists of plains along the coast, a central plateau and highlands in the north and south. Within the northern highlands stands Kilimanjaro, the highest mountain in Africa, rising to 5895 metres above sea level. Besides Kilimanjaro, northern Tanzania also houses Lake Victoria, the world’s second largest fresh water lake (69,484 sq. kilometres) and the source of the river Nile. Lake Tanganyika, the world’s longest (680 kilometres) and second deepest freshwater lake, lies on the west of the country and is endowed with hundreds of kilometres of clean beaches and calm bays. Tanzania’s game parks, including Serengeti National Park, are world famous and cover 25 percent of the country’s total land.

With a land boundary totalling 3,861 kilometres, Tanzania shares its north-western boundary with Burundi and Rwanda (668 km); its west and south-western border with Democratic Republic of Congo (459 km); its northern border with Kenya (769 km) and Uganda (396 km); and shares its southern boundary with Zambia (338 km), Malawi (475 km) and Mozambique (756 km) (see Annex). To the east is the Indian Ocean whose waters wash a total of 1,424 kilometres of coastline.
The country’s islands of Zanzibar and Pemba (with a total area of 2,460 sq. km) are situated 25 km off the east coast of Tanzania mainland.

Although an extensive area of Tanzania is semi-arid during most of the year, its climate varies from tropical along the coast to temperate in the highlands. Coastal lowlands give way to two grasslands: the central plateau that covers more than a third of the country and the vast northern Maasai Steppe. Most of the country’s climatic conditions are influenced by the Indian Ocean westerly monsoon winds, bringing in short rains (Masika) in November/December and long rains (Vuli) in February/May in most parts of the country. Annual rainfall totals between 80 and 140 centimetres. Temperatures depend on altitude and season. During the coolest months of June and July, for example, temperatures range from 10-20 degrees Celsius while in December and January temperatures range from 25-31 degrees Celsius.

**Demographic Features**

According to the 2002 population census, Tanzania’s population stood at some 34.5 millions (33.6 million for the mainland and 0.9 million for Zanzibar). The climatic conditions, the availability of water, arable land and economic opportunities largely influence the distribution of the country’s population. For example, the highlands in the south west (Iringa and Mbeya) and north-east (Arusha, Kilimanjaro and Tanga) and areas around Lake Victoria (Kagera, Mara, Mwanza and Shinyanga) have a high concentration of population because rainfall is relatively plentiful in these areas. Economic activities in the urban centres and in a few other non-weather-dependent areas, such as the gold and diamond mining centres, also influence the country’s population distribution.
Language and Culture

Tanzania’s population is ethnically highly diverse, with native Africans comprising 99 percent of the mainland population and the remaining 1 percent consisting of Asians, Europeans and Arabs. However, 95 percent of the native Africans are Bantu comprising of some 130 ethnic groups with different dialects, customary practices and value systems. Zanzibar houses both native Africans and Arabs. Although 133 local languages are spoken in Tanzania, Kiswahili, applied as a medium of instruction in primary schools, remains an indigenous and commonly understood lingua franca. A larger part of the population aged 15 and over can read, write and speak Kiswahili, making it a political unifying factor in the country. Although Kiswahili enjoys the status of a national language, English is the main language of commerce and administration and is also used as a medium of instruction in universities and other tertiary institutions. Despite being a secular state, Tanzanian’s society is a mixture of Christians (31 percent), Muslims (25 percent) and Hindus (25 percent). The remaining (19 percent) are a mixture of atheists and those who observe traditional religious beliefs.

General Economic Features

Ninety percent of Tanzania’s population live in the rural areas, with agriculture being the main occupation. However, despite the economy being dependent on agriculture, there has been little significant development in basic infrastructure such as technology, finance, transportation, marketing, storage and credit to support meaningful agricultural development (Tax, 2005:5). Agricultural production is weather-dependent and relies, to a great extent, on hand hoes and ox-driven ploughs. Agriculture accounts for about 40 percent of the GDP, the
remaining being largely accounted for by industry (16.4 percent) and services (36 percent).

Tanzania’s natural resource potential includes hydropower, coal, iron, gold, diamonds, natural gas, nickel and gemstone. The country also possesses oil deposits along the coast and exploration for exploitation is going on. In terms of natural resource endowment, Tanzania compares with South Africa but remains one of the poorest countries in the world. The factors influencing low level exploitation of natural resources in countries such as Tanzania include lack of appropriate technology; inadequate understanding of exploration risks; and uncertainty of the exploration outcomes (Jones, and Thornton, 2002). If these resources are fully exploited and properly utilised, there is no reason why the country should not feature among the richest per capita in Africa.

Tanzania exports coffee, cotton, tea, sisal, tobacco, cashew nuts, diamonds, gold, fish, flowers, seaweed and cloves to its major markets abroad. The country’s primary imports include petroleum, machinery, consumer goods, clothing, transport equipment, pharmaceuticals and industrial chemicals. The major suppliers of imports are the UK, Japan, Germany, India, the United States of America, Hong Kong, the United Arab Emirates, Singapore, Kenya and South Africa.

Administratively, Tanzania consists of 26 regions (21 on the mainland and 5 on the off-shore islands) and 99 districts. Dar es Salaam remains the capital and the country’s largest city. However, since 1973 Dodoma, located in the centre of the country, has been designated the new capital. Although the Parliament holds its
sessions in the new capital, the government appears reluctant to move there. Regions and districts are administered by Regional Commissioners and District Commissioners respectively, representing central government interests in their areas of jurisdiction. Although the mainland Commissioners are appointed by the United Republic President, their isles counterparts are appointed by the Zanzibar President. Rural development planning in the regions is undertaken by various local government authorities (LGAs), through 22 urban and 92 rural councils, reflecting the policy of regionalisation and decentralisation introduced in 1972. Although decentralisation abolished LGAs supposedly to empower the local people plan for their own development needs, LGAs were re-introduced in 1984 (see Chapter Five).

**Tanzania’s Political and Constitutional System**

**The Colonial Heritage**

Tanzania (then Tanganyika) attained independence in 1961 with a severely underdeveloped economy and limited infrastructure. Unlike Kenya, which assumed a British colonial possession and whose infrastructure was well developed Tanganyika, a British Protectorate (see below), inherited infrastructure that could not support meaningful development. At independence, the national government inherited from the country’s colonial masters a dependent agrarian economy consisting of a traditional rural agricultural sector, with the majority of the population being engaged in subsistence activities.

Before its independence, Tanzania passed through two periods of colonialism: under the Germans (1891-1918) and the British (1919-1961). In 1891 direct
administration of the territory was taken over by the German government which appointed a governor and made Dar es Salaam the country’s administrative headquarters. The Germans constructed a railway line from Dar es Salaam to Kigoma. The administration introduced cash crops such as coffee and sisal and forced the native Africans to engage in producing them.

After World War I, Tanganyika became a British Protectorate under the League of Nations’ mandate. The British introduced sweeping measures including the creation in 1926 of ‘indirect rule’, building up a cheaply operated local government system based on traditional authorities. Chiefs were appointed from among native Africans to promote a firm control of the natives by fellow natives. A Legislative Council (Legico) was introduced in the same year. However, although the native Africans were the majority in the country, they were excluded from the Council until 1955 when it was restructured to give equal representation to Africans, Europeans and Asians.

Unlike neighbouring Kenya which the British had transformed into a ‘White Man’s Country’ Tanzania never had an entrenched economically and politically powerful European community (Mohiddin, 1981:41), for a number of reasons. Firstly, the inhospitable climate and the limited range of exploitable resources made both the Germans and the British decide to transform Tanganyika into a cash crop producing country rather than a permanent settlement for the white people (Ruthenberg, 1964). Thus, both colonial powers preferred to exploit the existing resources with little or no encouragement for white settlement as had occurred in Kenya or Rhodesia (Cliffe and Saul, 1973).
Secondly, the assumption of a mandate status under the League of Nations soon after WWI and a Trust Territory under the United Nations after WWII meant that Britain’s main role, in ruling Tanganyika between 1918 and 1961, was to ensure the territory’s gradual progress to self-government. In this regard, it can be argued that the mandate and the Trusteeship status of Tanganyika disadvantaged the country in that, unlike Kenya which was developed on the basis of being a British possession, the British avoided ruling Tanganyika as their possession and, therefore, did little to develop it economically (Huxley, 1956). The British policy, gauged on the adage ‘let the sleeping dog lie’, was to govern the people on their own lines in accordance with their own ideas and customs, and the natural environment in which they would continue to live (Cameron, 1939). However, at independence, Julius Nyerere (see below) praised the British colonial administration for its favourable policy towards Africans. Nyerere’s praise can be understood in the context that Britain’s failure to develop Tanganyika as its possession contributed to the country’s smooth transition to independence, compared to Kenya which had to wage a seven-year (Mau Mau) guerrilla war to achieve independence from Britain, resulting in loss of life and property.

However, during its forty years of colonial rule, the British did ensure that ‘Tanganyika was exposed to the British cultural and educational values, and that the economy of Tanganyika was firmly integrated into the international capitalist system as a producer of raw materials and market for manufactured British goods’ (Mohiddin, 1981:44).
African Political Development

The history of party politics in Tanzania dates back to 1929 when a welfare association named Tanganyika African Association (TAA) was formed by a stratum of educated Africans serving in the British colonial administration. TAA lasted until 1954 when Julius Nyerere, then a school teacher, and Oscar Kambona transformed it into a political party named Tanganyika African National Union (TANU). The formation of TANU as a political party motivated a group of Africans in Zanzibar to establish the Afro-Shiraz Party (ASP) in 1957, with a view to challenge the islands’ sultanate rule.

Although TANU portrayed itself as a nationalist movement aimed at uniting the native Africans, promoting their nationalism and organizing a nationwide campaign for independence from colonial domination and subjugation, a colonial administration-supported opposition party named the United Tanganyika Party (UTP) was established in 1956 to challenge TANU (Mallya, 1994). This resulted in the first multi-party General Elections in September 1958 in which TANU scooped over 60 percent of the votes, defeating the UPT. Soon after its defeat the UTP silently faded into oblivion, implying that its establishment was aimed at weakening TANU and undermining its popular support.

Independence and the Republican Constitution

The second multiparty elections under the British colonial government were held in 1960 and TANU won all but one parliamentary seat won by a splinter party named African National Congress (ANC). Soon after, ANC’s candidate crossed over to TANU thereby making Tanganyika a de facto one party state. To
pave the way for independence, a Constitutional Conference was held in Dar es Salaam in March 1961 and the British government’s Secretary of State for Colonies, Ian MacLeod, helped draft the Independence Constitution modelled on the Westminster system of government. Under this Constitution, the Queen was recognized as head of state, represented by a Governor-General, the majority party in parliament would provide an executive prime minister, and ministers were individually and collectively responsible to parliament. In May 1961 TANU formed a provisional government (*Madaraka*) and the country attained full independence on 9 December, with Julius Nyerere as the first Prime Minister (see GT, 1961). Demonstrating a rare gesture among African leaders, Nyerere resigned as prime minister soon after in order to devote more time ‘in strengthening the party’ (Chachage, 2003). Following his resignation, Nyerere appointed Rashid Kawawa to succeed him as Prime Minister until December 1962.

Although the independence of Tanganyika from Britain appears to have been attained without bloodshed, that does not mean there was no political struggle for independence. Chachage (2003), for example, asserts that it was the struggles by the working people of Tanganyika against land alienation, forced labour, taxation, low produce prices and poor living conditions under colonialism that influenced TAA’s formation as a political organization that latter became TANU, which finally won independence for Tanganyika. There are also scholars who take the view that the British allowed independence for Tanganyika for fear of the occurrence of a Mau Mau-style rebellion which had rocked neighbouring Kenya (e.g. Talbot, 2000).
Since the attainment of independence, however, Tanzania has remained politically stable, becoming an ‘oasis’ of peace and tranquillity in a continent characterised by civil strife (Tripp, 1999). This is explained by the absence of ethnic politics of the sort witnessed in other parts of Africa (Oyugi, 1992; Mpangala, 1999). However, although there has been no civil wars, no military coups, no state collapse, no warlords, neither ethnic nor religious clashes in Tanzania, this characterisation has changed with the advent of political and economic reforms introduced in the 1990s (Hirschler, 2004:1). According to Hirschler, the unavoidable reforms might have helped the country out of its economic and political misery, ‘but at the price of violent conflicts’, as revealed later in this chapter. Generally however, Tanzania’s political tranquillity has not been without social and environmental costs to the country as it has become a sanctuary for half a million refugees from around the Great Lakes region.

On 9th December 1962, Tanganyika became a republic with Nyerere as Head of State. A new Republican Constitution to supersede the Independence Constitution introduced a presidential system, doing away with the Westminster-style parliamentary constitution inherited at independence (see Chapter Five). The Republican Constitution remained in force until 1964 when it was superseded by the Union Constitution.

**The Union Constitution, 1964**

The United Republic of Tanzania was born on 26 April 1964, following the union between Tanganyika (now Tanzania mainland) and Zanzibar (comprising of Zanzibar and Pemba islands off the mainland’s coast)(see Annex). Two major events appear to have staged the union between the two countries. Firstly, there
occurred on 12 January 1964 a revolutionary upheaval that ended a short-lived period of political stability in Zanzibar after gaining independence from Britain on 10th December 1963. Following the upheaval, the radical left-wing ASP overthrew the Sultanate of Zanzibar in a violent revolution, staged by a Ugandan mercenary, ‘Field Marshal’ John Okello who, with a group of soldiers, was hired by the ASP to overthrow the government. The African-dominated ASP had felt cheated in the elections it lost to the coalition involving the Zanzibar Nationalist Party (ZNP) and the Zanzibar and Pemba Peoples Party (ZPPP) which were friendly to the Sultan (Middleton and Campbell, 1965). These elections resulted in an Arab-dominated government led by Jamshid bin Abdullah bin Khalfan bin Haroub of the Oman-based Al Busaid dynasty, perpetuating an Arab rule established in Zanzibar on 14 September 1806. After the revolution, Abeid Aman Karume was declared the new president of Zanzibar (Lofchie, 1965).

Secondly, eight days following the Zanzibar upheaval, a failed military coup occurred in Tanganyika on 20 January 1964. The army mutiny occurred despite Nyerere’s belief that it could not happen. Commenting on the possibility of a military coup occurring in independent Tanganyika, Nyerere had said, ‘[It] cannot happen here. First, we have a very strong organization, TANU… [And further] there is not the slightest chance that the forces of law and order in Tanganyika will mutiny’ (Nyerere, 1960: 13 quoted in Mazrui, 1968:269). That a coup happened shortly after independence indicates that Nyerere could make serious flaws in his judgments. As shown in this study, similar misguided beliefs continued to recur in Nyerere’s future policy decisions, with dire consequences for the country’s economy. However, the army mutiny was suppressed by British forces, following Nyerere’s request to the British government. Seeking help from former colonial
masters he had openly castigated implies that when things went wrong Nyerere would readily turn to countries and systems he previously loathed, another point demonstrated by this study. The study also reveals that the help Nyerere sought from Britain marked a turning point for Tanzania’s reliance on foreign assistance to resolve domestic problems.

Four months into the revolution in Zanzibar and the army mutiny in Tanganyika, the two countries merged to become the United Republic of Tanzania with Julius Nyerere as President and Karume, the head of the Zanzibar revolutionary government, as Vice President. While Karume continued as leader of the ASP, Nyerere held the union presidency and Chairmanship of TANU until the two parties merged in 1977 (see below).

Although the merging of Tanganyika and Zanzibar to form Tanzania was a major constitutional and policy event, it mainly involved two personalities, Nyerere and Karume, who signed a treat called the Articles of Union (EACCD, 2005). The people of both countries were neither consulted nor given the opportunity to discuss the needs, division of powers or the preferred union structure. According to the EACC (2005), the Union Constitution was simply a modification of the Tanganyika Republican Constitution, and was adopted like any other ordinary act of parliament without being discussed by a constituent assembly. From then on, adoption of major policy decisions without involving the people and using parliament to rubber-stamp those decisions became Tanzania’s common mode of policy making. Although one year was provided for the appointment of a Constitutional Commission to involve people in a constitutional debate and subsequently produce a permanent constitution through a constitutional assembly,
such a Commission was not formed until thirteen years later when a permanent constitution was put in place in 1977. Ahluwalia and Zegeye (2001) argue that the union has since its inception remained divisive because the terms on which it came into being were not discussed openly (see below).

Several explanations have been advanced for the union between Tanganyika and Zanzibar. In the opinion of some scholars, the union that created Tanzania was initiated by the Christian rulers on the mainland to suppress Islam and Islamic fundamentalism in the Islands and to counter the spread of the same to the mainland (al-Zinjibari, 2005). Othman (2004) appears to shares these views, stating that the proximity of Zanzibar to Tanganyika had been a headache to Nyerere even before Tanganyika’s independence. Two years prior to independence, Nyerere stated: ‘If I could tow that island out into the middle of the Indian Ocean, I’d do it...I fear it will be a big headache for us’ in future (Othman: 2004:1). Besides Islam Nyerere, a pro-west Christian, had become apprehensive of the influence of communism in Zanzibar.

Apart from his religious perspective of the union between Tanganyika and Zanzibar, Othman also attributes the union to the Cold War pitting the capitalist West against the communist East. Petterson (2002) shares this view, arguing that the United States and Britain became nervous of the encroachment of communism in Zanzibar and desired a means to contain it before it spread to the rest of East Africa. Since Nyerere was at the time perceived by western governments to be pro-western, the most effective means of arresting communism in Zanzibar was the union between Tanganyika and Zanzibar. Thus, pressure from major western powers influenced Nyerere to plan and execute the union between Tanganyika and
Zanzibar to prevent ‘an African Cuba under communist control’ from being established in East Africa (Speller, 2007). The fears of ‘an African Cuba’ were compounded when, soon after the 1964 bloody revolution, Zanzibar ordered all British civil servants out of the country, closed down a United States space tracking station, and allowed socialist East Germany to establish a Consulate in Zanzibar (Metrowich, 2005). Thus, Metrowich regards as baseless the argument that geographical proximity and people’s strong desire for closer economic integration played a major role in influencing the union between Tanganyika and Zanzibar. He asserts that had this been the case, then Britain which had ruled both countries would have seen the need to unite them prior to the revolution.

The Union between Tanganyika and Zanzibar presents a major example of external powers’ involvement in influencing Tanzania to adopt policy decisions. This involvement has continued to be a pattern of major policy decisions in the country as demonstrated later in this chapter and by the subsequent chapters of this study. Since its inception in 1964 though, the Union between Tanganyika and Zanzibar has been a point of tension between the people of the two countries. Tronvoll (2006) raises a number of contentions about the Tanzanian Union system as inherited from the Nyerere era. Firstly, he contends that the union has not managed to bridge the divided identities among the mainlanders and islanders because Zanzibar has its own institutions of governance and the mainlanders travelling to Zanzibar must carry passports while that requirement does not apply to Zanzibaris entering mainland Tanzania. Secondly, the Union has not managed to muster a unifying level of trust among all the county’s citizens because not all citizens identify themselves with or accept the new political entity. While the mainlanders see the arrangement as having decimated Tanganyika while
upholding and guaranteeing the right of autonomy in Zanzibar, the Zanzibaris regard mainland Tanzania, with a centralised power system, as being too dominating and too strong to be an equal partner.

Upholding these contentions, Stepan (1999) observes that since the after-math of the French Revolution, no sovereign nation-states have ever ‘come-together’ in an enduring federation. Further studies (e.g. Linz and Stepan, 1996; Snyder, 2000; McGarry and O’Leary, 2003) also support this view, revealing that poor success records have been registered by multi-national federations, such as represented by Tanzania, where one partner feels to be economically dominated and squeezed by the other.

**The Interim Constitution 1965: The de jure one-party state.**

In June 1965 Nyerere visited China for the first time. As revealed in the next chapter, this was the time Tanzania had strained relations with her major western donors, leading to withdrawal of economic aid. His visit to China, therefore, was aimed at opening up new avenues of external co-operation that would ensure the flow of financial assistance to Tanzania. Immediately following this visit, Chinese political features began to emerge in Tanzania’s political sphere, including the adoption of the Chinese-style collar-less tunic, which was popularized as Ki-Mao (Maoist dress), as TANU’s official dress, while an English suit became party of a colonial legacy; the Maoist Red Guards-style youth movement which in Tanzania was called ‘Green Guards’; a structure parallel to the Chinese ten-house cell system to mobilise development initiatives at grass-root level (Barkan, 1994).
In the same year, a constitutional amendment introduced the Interim Constitution with twofold aims. The first was to formalize a Chinese-style one-party state in Tanzania. Defending a one-party system, Nyerere reasoned that one-party democracy was a crucial vehicle toward national unity (Nyerere, 1967a). According to Nyerere, the question of unity for Tanzania was imperative after independence as much as it was during the struggle for independence. From his point of view, only through a single party could the country promote unity towards achieving the twin objectives of nation building and economic development. Nyerere rejected multi-party systems as being western institutions and, intoning a pluralist view (see Chapter Two), argued that Africans had their own form of democracy whereby they argued a case until a consensus was reached. The 1965 Interim Constitution, therefore, made Tanzania a *de jure* one party state, with TANU as the supreme organ of the state with control over all economic and political matters. As revealed later in this study, this pattern of control by the ruling party continues to be felt even after the introduction of multiparty democracy in Tanzania.

The second aim was supposedly to strengthen the Parliament whose debates had become ‘lifeless and superficial’ (Kjekshus, 1974). How the Parliament could be strengthened in a political situation where the ruling party had acquired constitutional powers to exercise control over ‘all economic and political’ aspects of state remained a matter of contention between the Party and the Parliament as evidenced later in this study. However, the Interim Constitution lacked an element of constitutionalism and the participation of the people as it was provided by an ordinary Act of Parliament that amended the existing Constitution (EACC, 2005).
The introduction of the Chinese-style one-party state meant that Nyerere had completed reforms in the political system. However, the measure was a prelude to the transformation of the market economic system inherited from the British colonial administration at independence (Mugomba, 1978). To effect this transformation, Nyerere announced on 5 February 1967 the Arusha Declaration which introduced the socialist mode of production in Tanzania (see Chapter Four). With the Arusha Declaration, came the flow of aid from the East (Hoskyns, 1968). The introduction of the one-party state and the subsequent announcement of the Arusha Declaration in Tanzania can, therefore, be understood in the context of tactical measures deliberately initiated to attract aid from the Eastern Block (Therkildsen, 2000).

The Arusha Declaration resulted in two notable economic features in Tanzania namely, the nationalisation of all major means of production and collectivisation of farming in *Ujamaa* (socialist) villages. As shown in the next chapter, both these features failed to achieve the intended results due partly to what has been described as the tendency to make and implement decisions in a hurry without proper planning (Lofchie, 1978; Kikula, 1997; Hyden, 1999). This lack of proper planning and haste in decision making has continued to haunt Tanzania even after it introduced political and economic reforms (see Chapter 7 - 10).

Despite the 1965 constitutional amendment that made Tanzania a *de jure* one-party state, two parties (TANU on the mainland and ASP on Zanzibar) continued to co-exist for twelve years. On 5 February 1977 the two parties merged into a new party named *Chama Cha Mapinduzi* (CCM, literally meaning the party of revolution). The measure was meant to strengthen the politicians over bureaucrats
(Mlimka and Kabudi, 1985). To accord CCM a legal status and give politicians a constitutional right to control the bureaucracy, a new constitution (the 1977 constitution) was formulated, stipulating that ‘all activity of the organs of the state of the United Republic shall be conducted under the auspices of the party’ (URT, 1977a). The constitution also declared CCM to be the sole political party in Tanzania.

Although there have been several amendments to the 1977 constitution (e.g. in 1984 and 1992) it remains fundamentally unchanged. For example, following its agreement with the IMF in 1986, Tanzania has liberalised its economy, privatised its public enterprises and invited foreign direct investments. While these measures suggest the accumulation and ownership of private property, Tanzania’s constitution still retains socialist clauses including that the nation should be built through the pursuit of the policy of socialism and self-reliance; economic activities should not be conducted in a manner capable of resulting in individuals’ accumulation of wealth; the major means of production should not be controlled by a few individuals; and the country should be governed according to the principles of socialism (URT, 1998a:18-19). Retention of these clauses in the constitution implies that Tanzania has not renounced its socialist policy and the government may at some stage resort to nationalisation of private property. As revealed elsewhere in this study, these clauses have been cited as negating the pace of foreign direct investments in the country.

The new party’s name, the Party of Revolution, implied that it would continue to carry the revolutionary banner initiated by its predecessors, TANU and ASP. After the merger, CCM became the sole instrument for mobilizing and controlling the
population in the union in all significant political and economic matters. To effectively exercise political mobilisation and control, CCM formed five mass organizations including, Vijana (Youth), Wanawake (Women), Washirika (Co-operatives), Wafanyakazi (Workers), and Wazazi (Parents). Members of the public would belong to one or several of these organisations. Each of these organisations was led by a chairman and secretary both of who were members of the NEC of CCM. The role of NEC as the Party’s political think tank is discussed in Chapter Five. A party branch was established in every organisation, including the ministries, parastatals, and the armed forces. Heads of these organizations became party branch chairmen. This political arrangement had economic repercussions, as shown later in the study on the performance of parastatals. Membership of the party became a prerequisite for being considered for managerial positions, enrolled for higher education and enlisted in the armed forces (Lupogo, 2001).

**Multiparty Democratic Reforms**

**Countdown to Democratic Reforms**

Tanzania’s democratic reforms were initiated as part of the overall political and economic reforms which began in the late 1980s and culminated in early 1990s. Ironically, it was Nyerere, the architect and defender of the one-party democracy in the country, who created the impetus for political reform by arguing that having one party system was not God’s will and criticising CCM for being blind to reality (Hyden, 1999). Hyden argues that Nyerere had learnt from the collapse of one-party democracies in Eastern Europe and the Soviet Union that there was no way Tanzania could escape the global political reforms. Later in this study, it is shown
that Nyerere was a person who could change positions and annul his cherished beliefs so long as doing so enhanced his political aims.

Nyerere’s remarks provided the impetus for pressure groups, including professionals, students and academics to call for multiparty democratic reforms in 1990 (Chachage, 2003). These groups later united to form a National Committee for Constitutional Reforms (NCCR), drafted a multiparty constitution and sought government permission to organise a national workshop on the constitution. According to Chachage, the government initially resisted but finally relented, following pressure from donors. The NCCR initiative paid dividends when in March 1991 President Ali Hassan Mwinyi inaugurated the Nyalali Commission (headed by a respected former Chief Justice Francis Nyalali) to collect views from people on whether Tanzania should retain the single party or adopt a multiparty system. After a nationwide survey, the Commission tabled its report to government in February 1992. From the Commission’s findings, 90 percent of the people favoured a one-party system (Mushi and Mukandara, 1997).

The above result was expected because for over 30 years, the people of Tanzania had known no other party than TANU and later CCM, and had identified themselves with one party politics. In this regard, they could not make effective decisions on a multi-party system they did not properly comprehend. Besides, Chazan, (1990), Chabal and Daloz (1999) and Hameso (2002) argue that unlike in western societies where civil society is distinct from the state and civil associations and pressure groups are diverse and highly pronounced, in Africa civil society and the state are almost merged into one and, therefore:
...there is on the continent no genuine disconnection between a structurally differentiated state and civil society composed of properly organised and politically distinct interest groups (Chabal and Daloz, 1999:18).

However, despite popular support for a single party system, the Commission recommended to the government the adoption of a multiparty system, arguing that the majority that expressed preference for a single party insisted on major reforms on the CCM in order to ‘cleanse’ and strengthen itself (CCM, 1996). This suggests that the decision to allow for political reforms was, to a large extent, influenced by the desire to politically entrench the ruling party as reflected in Nyerere’s argument that a multiparty system would jerk CCM from its political slumber, prompting it to strengthen itself. The commission prescribed the necessary conditions to facilitate the introduction of a multiparty system in Tanzania including repealing 40 pieces of repressive laws to create a conducive environment for free participation in multiparty politics; establishing a body to oversee the transition, with a clear transition timetable; appointing a constitutional Commission to draft a new constitution with considerably reduced presidential powers; conducting a free and open debate on a new constitution and subjecting it to a national referendum; setting up a major public education programme on multiparty democracy; and de-linking CCM from public institutions such as the armed forces and the civil service.

**Constitutional Reform**

Despite the recommendation of the Nyalali Commission to adopt a multiparty system, it was expected that the Tanzania government would respect the majority’s verdict on political reforms because the government acknowledges the people as
‘the foundation of [the] nation’s sovereignty’ (URT, 1998b). Yet, despite popular support for one-party system, the government introduced multiparty democracy in 1993. If democracy is defined as ‘government by people’ (Singleton et al, 2003:3) based on majoritarian consensus (Hughes, 1998), the major question here is why Tanzania’s government sought the views of the people and subsequently decided to ignore them? Hyden partly answers this question, arguing that the Tanzanian transition to democracy and the momentum of change from the top have been primarily influenced and reinforced by ‘the persuasive powers of Julius Nyerere and...the international community, rather than the local civil society or political opposition’ (Hyden, 1999: 154).

USA admits the international community’s involvement in influencing Tanzania’s political activities, stating that since early 1990s its own main focus has been on ‘aiding transition from single party to multiparty democracy’ (USAID, 2004). Reinforcing Hyden’s views on external influence, USAID concludes that the government has been ‘more accountable to donors and international financial institutions than to its own people’ (USAID, 2004:85). This further supports the view that Tanzania’s transition to democracy was initiated from outside and introduced from above by reformers within the political elite, ‘with the citizenry playing a rather passive and reactive role’ (Chaligha, Mattes, Bratton and Davids, 2002:5).

Commenting generally on transition to multi-party democracy in Africa, including Tanzania, Professor Othman says:

*First of all, we must understand that most African states went into multiparty system reluctantly. Most of them wanted to control the*
change, in the sense that they wanted to make sure the ruling parties were taking advantage and benefiting from the change. And that is why we find that in a number of countries the [old] political order and the legal system continue to exist (VOA, 2004:1).

Othman says that the constitutional reforms such as undertaken by Tanzania in 1992 have largely been cosmetic. This explains why, for instance, Tanzania’s government decided against the wishes of its own people to introduce multiparty democracy without explaining to the people the reasons for such an important political decision. Despite the Commission recommending a public education programme, no effort was made to create people’s awareness on the costs and benefits of the new political system. Furthermore, there was no public or parliamentary discussion of the Nyalali Report. It was tabled before the CCM Delegates Conference in February 1992 and adopted without discussion. In May, Act 4 of 1992 provided the Eighth Constitutional Amendment, removing the one party system and establishing a multiparty system in Tanzania (Meena, 2003). However, the government implemented the Nyalali report by merely amending the constitution to provide for political pluralism and the establishment of an Electoral Commission with a supervisory role over the conduct of elections and promulgation of election results. Most of the conditions recommended by the Nyalali Commission were ignored by the government without providing any reasons. Moreover, the Constitution of the United Republic of Tanzania (as amended) remained silent on party representation in the Electoral Commission, a situation seen by the opposition as benefiting the ruling party. On this point, Professor Lipumba observes:

*The constitution has not changed enough to facilitate a level of playing ground for multiparty politics. The ruling party [CCM] conducts itself as if it was still [in] a single party system; [opposition parties] don’t*
have the right to participate, for example, to suggest who should be in the electoral commission (VOA, 2004:2).

Pursuing this further, Baregu provides six features that have characterised the multiparty political system in the country since 1992 as including a CCM-controlled transition, rather than a negotiated transition in which all parties participated in determining the path, the pace, process and the players in the transition; extreme uncertainty with regard to the rules and procedures resulting in entrapment of opposition parties; lack of a clear and unwavering commitment to the promotion and institutionalisation of multipartism as a desired political system; a consuming preoccupation with political stability and emphasis of law and order; restrictive rules and regulations designed to control political parties rather than to nurture them; and systematic harassment of opposition parties and their leaders with the Preventive Detention Act (1962) in particular, ‘hanging over their heads’ (Baregu, 2000).


Tanzania held its first multi-party elections on 29 October 1995, pitting CCM against 13 opposition parties. The second multiparty elections occurred in 2000 and in both elections, CCM’s former Science and Technology Minister Benjamin William Mkapa won by a landslide. Faced with the challenges of political and economic reform, Mkapa appeared to shun Nyerere’s famous development strategy of running ‘while others walk...’, quoted at the beginning of this chapter, when he declared that Tanzania was like ‘an aircraft on the runway. We are facing the right direction, and we are moving towards it’ (SANF, 2004). Mkapa’s words reflect his strategy of implementing structural reforms whereby Tanzania must fly ‘while others walk’ because mere running in a globalised world would get the country
nowhere. However, history will judge him on whether or not he piloted the country to the right direction. Mkapa served two terms of five years each, as allowed by the constitution. The third multiparty elections held on 14 December 2005 elections were also won by CCM, bringing in Jakaya Kikwete, former Foreign Affairs Minister, as President for a five-year term. Before the 1992 constitutional amendment, there was no limit on a president to hold office. This allowed Julius Nyerere to serve as president for a period of 23 years (1962-1985).

The 1995 elections were condemned by a 150-person Commonwealth Group of Observers as chaotic, and by the opposition as rigged (Glickman, 1997). The election results in the capital city Dar es Salaam were cancelled by the National Electoral Commission (NEC) because, in the NEC’s view, shortage of ballot papers and money to pay polling agents had prevented many voters from casting ballots. The opposition regarded the cancellation as calculated measure to save CCM which, it claimed, had lost most of the parliamentary seats in the capital. The opposition contested in the High Court the Commission’s decision to rerun the elections in the city on 19 November 1995. However, a three-man court presided by Justice Josepht Makanja dismissed the application on grounds that the opposition failed to show how it would be disadvantaged by the rerun elections. The ruling was expected as the judiciary had always acted in favour of the ruling party (see Chapter Five). The ten opposition parties that had challenged the results boycotted the rerun elections to register their mistrust in the state-run NEC.

The electoral process in Zanzibar was even more chaotic than on the mainland. The number of votes cast in some constituencies exceeded the number of voters registered (Ahluwalia and Zegeye, 2001). Compounding the chaos, the main
opposition in Zanzibar, the Civic United Front (CUF), declared on 5 November 1995 to have won the Isles’ elections. After prolonged delays in the release of election results, the Zanzibar Electoral Commission (ZEC) finally declared CCM’s Salmin Amour to have won the Zanzibar presidential elections by a one percent margin over CUF’s Seif Sharrif Hamad. Aggrieved by these results, CUF Members of parliament boycotted Zanzibar House of Representatives (ZHR) sessions and Sheriff Hamad appealed to World leaders to denounce the election result and impose sanctions on Zanzibar. This appeal influenced Norway to suspend an USD 4.5m of electrification aid to the island. For over three years, relations between CCM and CUF remained tense until a Commonwealth-brokered reconciliation agreement (Mwafaka) was signed in June 1999, but remained unimplemented into the next election (Haussler, 2002).

The 29 October 2000 elections were almost a repeat of the 1995 elections. Election results were either delayed or cancelled in some constituencies. In Zanzibar, a number of election after-maths, including the mysterious disappearance of Salum Msabaha of CUF after being declared the winner in Kwahani constituency and a confrontation between CUF members and the riot police on 27 January 2001, resulted in further tensions between CCM and CUF. These results support Throup and Hornby (1998) and Baker (2000) who contend that multiparty elections do not necessarily constitute democracy. Multiparty politics may perpetuate autocratic rule through widespread voter registration irregularities, electoral fraud, media coverage buy-outs, abductions and political harassment of the opposition, state sponsored ethnic violence, religious rivalries and human rights abuse.
Although the people of Tanzania enjoy a democratic system comprising of a myriad of political parties, CCM (the ruling party) remains strong and virtually unchallenged in the rural areas where 85 percent of the country’s population lives. Initially multiparty politics was well received among the elites and urban populations. But election results indicate that this situation appears to be changing. In the 1995 general election, CCM won by 67 percent. This result improved to 71 percent in the 2000 elections and 87 percent in 2005, indicating how weaker the opposition was becoming by the day.

Four factors may explain the poor political performance of the opposition in multiparty politics. Firstly, the opposition parties are yet to make a political mark in the rural areas (Baregu, 1994a; Mmuya, 1998). In many remote parts of the country, people still think CCM is the sole political party. Secondly, political rivalry and infighting among leaders within opposition party ranks has also been a common feature in multiparty politics, forcing political leadership to concentrate on solving internal party feuds rather than spreading party policies to the whole country. Thirdly, state restrictions on political opposition and inadequate state funding have also been cited as factors contributing to poor performance by opposition parties in the country (USDS, 2007).

Fourthly, though the re-emergence of multi-party politics was formally introduced by the Tanzanian government itself (which is unusual among African leaders), the speed with which it was introduced suggests that the political ground was not well prepared for its introduction. In this regard, Francis Nyalali, the Chairman of the Commission of Tanzania’s Democratic Reforms, concludes that democratic reality
remained a far cry for Tanzania because the country had some distance to go in making the four basic principles of democracy operational (TOMRIC News, 5 May 2000). These principles, in Nyalali’s view, include free and fair elections; respect for human rights; an independent judiciary; and dissemination of information through independent media.

**Conclusion**

This chapter outlines the environment in which reforms have taken place. The chapter reveals four important aspects. Firstly, Tanzania has been subjected to colonisation to the extent that the colonial legacy of forcing decisions on people still influences the mindsets of the country’s political leadership. Major policy decisions have been taken without the people of Tanzania being involved. Even in a situation where such involvement was seen to take place (e.g. in transition to multipartism), people’s views were either not heeded or given any serious consideration.

Secondly, the one party-system introduced in 1965 placed sweeping powers in the ruling party. Although there have been political reforms which introduced a multiparty system in the country in 1992, the legacy of one party rule continues to haunt the ruling party (CCM) to the extent that it fails to acknowledge the fact that Tanzania is no longer a one-party state. Thirdly, although the country adopted a parliamentary democracy after independence, Parliament has been used simply to rubber-stamp decisions already adopted either by the party or the executive. Measures introduced, for example by Interim Constitution, to strengthen the parliament have been cosmetic in that has continued to occupy a subservient position in relation to the ruling Party.
Thirdly, many of the country’s major decisions have been influenced by external powers, either directly or indirectly. For example, the Union between Tanganyika and Zanzibar was directly influenced by major powers pitting the West against the East. While the West feared the influence of communism on the island, the east regarded Zanzibar as an important ally through which Marxist-Leninist philosophy could be spread to the rest of east and central Africa. The adoption of one-party state was indirectly influenced by external powers. After Tanzania has severed relations with the Britain over the unilateral declaration of independence (UDI) in Rhodesia, Nyerere turned his attention to the east for economic aid. The adoption of political reforms (i.e. one-party state) as well as economic reforms (the adoption of socialism in 1967) was a tactical manoeuvre aimed at attracting aid from the East.

Fourthly it is revealed that although there have been changes in the country’s constitution to accommodate current political and economic reforms, these changes have not been fundamental. The constitution still carries clauses that emphasise the policy of socialism and self-reliance, the role of the state in economic development and public control of the major means of production.

Chapter Four provides a more detailed focus on Tanzania’s various phases of economic reforms since independence and in doing so it highlights the extent to which such reforms have been influenced by external forces.
CHAPTER FOUR

TANZANIA: The Historical Context of Structural Reforms

Introduction

Chapter three provided the wider context of Tanzania’s structural reforms. This chapter presents a detailed historical context of various phases of reform since independence.

After Tanzania (then Tanganyika) attained political independence from Britain in 1961, the new government embarked on a reform process aimed at promoting the private sector to advance economic growth with a view to rid the country of three defined enemies namely poverty, ignorance and disease (Lonsdale, 1968). However, in 1967 the government abandoned this phase of reform and introduced socialism and self-reliance through which people were guaranteed a decent living in thirty years time. Unfortunately, the measures undertaken failed to achieve the intended results. Studies by Skarstein and Wangwe (1986), Stein (1992) and Hyden and Karlstrom (1993) indicate that by 1981 Tanzania’s economy had deteriorated to the extent that urgent measures were required to redress the situation. The poor performance of the economy has been attributed to the policy of socialism and self-reliance (Hedlund and Lundahl, 1989). Faced with economic crisis, the government started negotiations with the International Monetary Fund (IMF), culminating in signing an agreement with the Fund in 1986. Following this agreement the government began to implement the IMF-supported pro-market
structural reforms, emphasising the role of the private sector and a minimal government participation in the economy.


Shortly before independence, the British colonial administration had invited the World Bank to propose practical measures for a ‘balanced programme of social and economic development’ of Tanganyika (Bienen, 1970; Rugumamu, 1997:112). However, Rugumamu contends that rather than recommending suitable ‘practical’ measures for Tanganyika’s post-independence economic development, the World Bank recommended the same ‘improvement’ and ‘transformation’ measures it had offered to ‘most countries emerging from colonial rule’ (Rugumamu, 1997: 112). This study shows that the Bank’s tendency to provide Tanzania with off-the-shelf policies continues to this day.

The World Bank proposals became the basis for Tanganyika’s three-year plan (1961-64), emphasising mainly private agricultural development and culminating in the creation of a major resettlement programme in the rural areas. In the Bank’s view, the country’s industrial development would depend on an internal market growth, created and expanded through agricultural development (World Bank, 1960). However, this plan focused more on capital formation rather than on long-term economic development (Bienen 1970).

After independence, Tanzania associated the 1961-64 five-year plan with colonialism, prompting the country’s leadership to begin sorting out a national strategy that would eradicate poverty and promote rapid socio-economic development (Ben-Amor and Claremonte, 1965). A replacement strategy drawn up
in 1964, become known as Tanzania’s First Five Year Plan (FFYP: 1964-69) for Social and Economic Development. Although the new plan was supposedly a national statement of intentions, it was also based on World Bank recommendation of the continuation of the free-enterprise economy and was drawn up by French experts hired through the Bank’s support (Bienen, 1970; Mohiddin, 1981; Sojquist, 1996). Beside Tanzania lacking experts at the time to draw up an economic plan, its leaders did not understand how to ‘order their priorities in terms of economic development’ (Bienen, 1970:262).

To operationalise the new strategy, the government created a favourable environment to attract foreign investment, including introducing a tariff and tax incentive structure; advertising existing investment opportunities; establishing industrial estates; and guaranteeing foreign investors against nationalisation (Rweyemamu, 1979). Rweyemamu observes that the strategy resulted in 160 per cent increase in manufacturing establishments from 220 in 1961 to 596 in 1965. The contribution of the industrial sector to GDP rose from 4 percent in 1961 to 8.4 in 1967 (Skarstein and Wangwe, 1986).

Despite the impressive performance of the manufacturing sector, the strategy had negative economic aspects including the creation of a centre-periphery phenomenon, concentrating industrial development in urban centres and turning rural areas into raw material producers; a pattern of investment and distribution that favoured a small minority of big farmers, urban wage earners and non-African entrepreneurs; a heavy reliance on foreign assistance; and a vulnerability to changes on the international scene (Sojquist, 1996).
Moreover, the implementation of the FFYP could not sustain economic growth as it depended on foreign sources for seventy nine percent of its funds (Bienen, 1970). The Plan suffered a heavy set back when disputes broke out between Tanzania and its two major donors, Germany and Britain, resulting in withdrawal of aid (Yeager, 1989). In 1964 Tanzania’s relations with West Germany were strained after Zanzibar (the isle part of the union) recognised East Germany which opened up a consulate in the capital Dar es Salaam. When Nyerere refused to close down the consulate as demanded by West Germany, the latter withdrew economic aid to Tanzania and suspended all development projects under West German support (Bienen, 1970:408). Another dispute erupted between Tanzania and Britain in 1965 over the Unilateral Declaration of Independence in Rhodesia. Following this dispute, Tanzania lost a negotiated loan of Pound Sterling 7.5m from Britain, resulting in the loss of yet another large financial component for the implementation economic projects (van de Laar, 1980). With the loss of aid from the western donors, the implementation of the externally supported FFYP suffered a major failure.

After the FFYP’s failure, Nyerere began to re-examine foreign aid and envisioned a form of economic support that would not require the country to compromise its sovereignty (Bienen, 1970). Although Nyerere was not considered a radical African at the time, loss of western foreign economic assistance compelled him to seek an alternative strategy that would attract new sources of economic support (Pratt, 1976; Biersteker, 1980).

The Arusha Declaration

During a visit to the United States in July 1961, Nyerere had warned that if adequate aid was not flowing from the west, he would be compelled to apply for it from the east (NTF, 2005). This implied that Tanzania’s implementation of the market economy was conditional to continued adequate economic support from the capitalist west. Short of that, Nyerere would not mind transforming Tanzania into a socialist economy to attract economic assistance from the socialist block. Arguably, the loss of economic aid to Tanzania from West Germany and Britain created the impetus for Nyerere to translate his warning into reality.

Sjoquist (1996) outlines the features of a socialist economy as including self-declaration on the part of the official leadership; state control of the commanding heights of the economy; a high degree of central planning; nationalisation of land and strategic industries; and the primacy of political objectives over the economic ones. Shortly after Nyerere’s return from a state visit to China (see Chapter Three), Tanzania was formally declared a socialist country on Feb 5 1967, when the ruling party, TANU, endorsed a statement that came to be known as the Arusha Declaration (AD). The new policy which mapped out a socialist strategy for the country was based on a philosophy of African socialism called *Ujamaa* (literally defined as family-hood or togetherness) (Nyerere, 1967b). Although the Declaration reflected TANU’s policy, its major policy objectives were the brain-child of President Nyerere (Mwansasu and Pratt, 1979:3). The Tanzanian people, either directly or through their representatives, were not involved as the new policy was never discussed in Parliament.
The overall objective of socialism in Tanzania was to build a society in which all members have equal rights and equal opportunities; can live in peace with their neighbours without exploiting or being exploited; and have an increasing level of basic material welfare (Nyerere 1968a: 340). The main components or strategies of the Arusha Declaration were (Bienen, 1970:407; Mwansasu and Pratt (1979:8):

a) *Public Ownership* of production, distribution and exchange, culminating in the nationalisation of the major means of production and control of the commanding heights of the economy as shown below.

b) *Rural Transformation*: emphasising rural and specifically agricultural development through the introduction of *Ujamaa Vijijini* (rural socialism).

c) *Equality*: emphasising egalitarianism, enforced by the Leadership Code (see below).

d) *Education for Self-reliance*: focusing on the form and content of education to suit Tanzania’s development needs (Maliyamkono, 1980; Dyer, 2005).

e) *Self-reliance*: reliance on the country’s own resources, defined as people, land, sound policies and good governance ((Nyerere, 1968a:238-239).

However, Tanzania's brand of socialism differed from that identified with Marx, Engels and Lenin. Nyerere distinguishes *Ujamaa* from capitalism and the classical socialism as follows:

‘*Ujamaa*’ or ‘*Familyhood*’, describes our (brand of) socialism. It is opposed to capitalism, which seeks to build a happy society on the basis of the exploitation of man by man; and it is equally opposed to
doctrinaire socialism, which seeks its happy society on a philosophy of inevitable conflict between man by man (Nyerere, 1968a:12)

While Marxist socialism’s central thesis focuses on class struggle as a dynamic factor in historical development, Tanzania’s notion of socialism took into consideration the traditions found in Tanzania’s family, village and societal structures which guaranteed the well-being of the individual (Wobst, 2001). Explaining this further, Nyerere says: ‘the traditional African family lived according to the basic principles of Ujamaa...They lived together and they worked together; and the result of their joint labour was the property of the family as a whole’ (Nyerere, 1968b:106). This consideration may partly explain Nyerere’s non-involvement of the people in his decision to introduce socialism in Tanzania, as he believed that the people would support his brand of socialism because it reflected the African philosophy of sharing, living and working together. Although Nyerere was right about the African folk’s spirit of living, sharing and working together, his conviction about such spirit providing the basis for people’s support of his Ujamaa policy was proved wrong when people resisted moving to designated Ujamaa villages (see Chapter Five).

Socialism and its attendant features of nationalisation (see below) is a good example of the process of policy choice in Tanzania because it was adopted without the participation of people in the decision process, and any measures or steps being taken to guarantee the policy attained desired results (Coulson, 1977). In addition, the choice manifests the role of western donors in influencing Tanzania’s political and economic direction. For example, it was western donors’ withdrawal and withholding of economic aid and loans to Tanzania that forced President Nyerere
to adopt socialism with a view to attract economic aid from the socialist block, notably China (Hoskyns, 1968; Therkildsen, 2000). Following Tanzania’s adoption of socialism, most western donors, led by the World Bank, ‘uncritically, enthusiastically and strongly’ supported Nyerere’s development strategy through increased concessional lending, in what appeared an attempt to lure the country back from socialism (Danielson and Dijkstra, 2003). As revealed later in the study, the same western donors, led by the World Bank and the IMF, decided later to withhold and withdraw aid and loans, influencing Tanzania to abandon socialism, embrace the market economy and privatise public entities. This suggests that western donors’ withholding and withdrawal of economic support from Tanzania was the result of Nyerere’s delay in relinquishing his socialist ideas.

Policies associated with the socialist strategy encountered immense problems. Below, we examine the implementation of two key socialist strategies, public ownership of the means of production through parastatals, and rural transformation through villagisation. The choice of these two policies is based on the impact their implementation had on the economy, their political implications in terms of the number of people affected, and on the fact that their implementation strategy was typical of other policies under Tanzania’s overall approach of socialism and self-reliance.

**Public Ownership: the parastatals**

It is stated above that at independence, Tanzania’s commercial and industrial sectors’ contribution to the country’s GDP was almost negligible. To expand these sectors’ contribution to GDP, the ruling party decided that the major means of production and exchange in Tanzania should be controlled and owned by peasants
and workers through the government and co-operatives (TANU, 1967). TANU regarded private property as the ‘fruit of historical subjugation of the masses and the engine of ... exploitation of man by man’ (Nsekela, 1974:108). Control over the means of production would, therefore, not only enable socialism to attain meaningful expression but would also promote emancipation from colonialism and neo-colonialism (Taylor, 1974).

TANU identified the major means of production and exchange as including land, forests, minerals, water, oil and electricity, news media, communications, banks, insurance, import and export trade, wholesale trade, iron and steel, machine tools, arms, motor car, cement, fertilizer, large plantations and big factories. The announcement of the Arusha Declaration on 5 February 1967 culminated in the nationalisation of most of these sectors (Eriksson, 1991). By 1980 Tanzania’s mode of investment had become socialist with about 80 percent of large and medium scale economic activity being controlled by the public sector (Green, 1979).

Following nationalisation, the government transformed the nationalised industries into state-owned enterprises (SOEs) hereinafter referred to as parastatals. A parastatal is any industrial, agricultural and commercial concern which is owned by the central government but which operates outside the mainstream of ministerial or departmental structure (Truong, 1976:1; Mallya, 1994). Examples of parastatals include public corporations and state companies. In establishing parastatals, the Tanzania government adopted the British public corporation mode, whose characteristics are well documented by Mwapachu (see Mwapachu, 1983:17):
The parastatal sector in Tanzania could be divided into six major groups:

a) The Financial Parastatals;

b) Agricultural Parastatals;

c) Natural Resources Parastatals

d) Tertiary parastatals – those involved in training, research and consultancy

e) Utility Parastatals – those specialising in service provision in areas such as land, sea and air transport, water, power supply and posts and telecommunications;

f) Commercial and manufacturing parastatals – those specialising in trade, manufacturing and distribution of goods.

By 1980, the number of parastatals had grown to over 400. However, most of these parastatals were plagued by problems involving gross mismanagement, under utilisation of capacity, massive administrative over-heads, high indebtedness, heavy losses, over-employment, massive racketeering and corruption. In attempting to assist the parastatal sector, government subsidies extended to the parastatals had grown to over 7 percent of the country’s GDP (PSRC, 2000a).

Mukoyogo (1984) categorises the factors influencing the poor performance of parastatals as frantic creation of parastatals; poor organisational design; level of the country’s economy; poor infrastructure; shortage of qualified and skilled manpower; lack of a reliable domestic market; lack of accountability; overlapping controls; political interference; and industrial democracy. In the following sections, we attempt to briefly examine how each of these factors contributed to inefficiency in parastatals’ performance.
Frantic creation of parastatals

At the announcement of the Arusha Declaration in 1967, the number of parastatals had grown from 3 in 1961 to 43 (PSRC, 2000a). By 1980 a total of about 490 parastatals operated in Tanzania. The government continued to establish additional parastatals without first strengthening the existing ones (Mukoyogo 1984). Non-economic factors, such as employment policy and regional balance tended to influence the establishment of industrial parastatals in non-commercial locations. The result of this proliferation of parastatals was a loss of economies of scale by most of them, leading to inefficiency in their performance.

Poor organisational design

Organisationally, the government created a holding system in the parastatal sector, characterised by a principal company, a subsidiary company and possibly another company that might be controlled by a subsidiary (Mukandara, 1988). This organisational design created a financial burden on the productive parastatals as management fees were charged to subsidiaries by holding corporations as a percentage of net sales turnovers (CCM, 1982). In addition, the requirement for subsidiaries to interact with the government through the holding corporations led to delays in communicating government decisions to subsidiaries, frustrating performance at the level of production.

Decline in the country’s economic

Mukoyogo (1984) observes that most of the parastatals were hurriedly created without proper regard to their capitalisation and as a result, depended on government financing through loans and grants. This arrangement was only viable as long as the economy was strong. The decline in economic growth in mid 1970s
and the economic crisis facing Tanzania in 1980s meant that the government was no longer able to finance the activities of parastatals. Faced with escalating running costs, industrial inefficiencies, low capacity utilisation and declining competitiveness, the parastatals were unable to sustain themselves in the absence of government support (Komba, 1999).

**Poor Infrastructure**

Production and distribution of goods depends on an efficiently functioning and reliable national infrastructure. But like many developing countries, Tanzania’s infrastructure was characterised by a poor system of road network, an inefficient telecommunication and transport system, erratic power and water supply, and inefficient ports for importation of raw materials and equipment. This state of affairs had negative effects on parastatals in terms of constrained production as well as goods produced failing to reach markets on time (Mwase, 1984).

**Lack of markets and economies of scale**

The poor performance of industrial parastatals was also influenced by lack of a reliable domestic market. For example, the Southern Paper Mills (SPM), established in 1985 with a design capacity of 60,000 finished metric tons (FMT) had a very small local market. In 1995, the amount of paper sold was only 10,000 FMT (PSRC, 2000a). Another illustrative example is the textile industry which in 1985 had eleven textile mills scattered in several regional centres. Although these textile mills were established to target external markets, most of the textiles were competing for the limited local market as their products were internationally uncompetitive due to low quality and high prices.
**Shortage of qualified and skilled managers**

The management of parastatal organisations in Tanzania is based on collegiate leadership in the name of Boards of Directors (BDs). The main function of BDs is top-level policy making (Truong, 1976). The parastatal board was responsible to the sectoral Minister for implementation of ministerial and other relevant directives.

The Chairman of the board was an appointee of the President while members of the BDs were appointed by the sectoral Minister. Membership of the BDs consisted of government bureaucrats (including Ministerial Permanent Secretaries) and politicians, mainly parliamentarians, and appointments were made on political considerations rather than competence (Mukandara, 1988). As a result of parastatals boards being dominated by politicians, crucial activities of the parastatals such as the award of contracts, borrowing, investment decisions and appointment of executives were governed by political considerations. Furthermore, before any technical or policy decision could be announced by the BDs, it had to get the approval of the Workers Council on the recommendations from the Executive Committee of management (see below). Instead of being a source of innovation and strategic policy initiatives, parastatal boards were transformed into a rubber stamp of the decisions made by the Workers Councils, some of whose members were semi-literate (Baguma, 1989).

The day to day running of the parastatals was vested with General Managers, Director-Generals, Executive Directors and Managing Directors. However, high grade business managerial personnel were in short supply in Tanzania. At independence the country had only a total of 30 professionals out of a population
of about 10m people (Pratt, 1976:92). In the absence of qualified manpower, therefore, the creation of parastatals led to depletion of the country’s meagre resources through the increased use of foreign consultants, technical experts and management agents (Mukandala, 1988).

**Absence of managerial accountability**

The government of Tanzania has been ‘shy’ when it comes to making parastatal executives accountable for their activities. When a manager floundered in one parastatal, he was transferred to another (Baguma, 1989). In the history of parastatal management in Tanzania only one manager, for Air Tanzania Corporation, has been sacked for purchasing two defective airplanes which have not been operational since 1978. The non-accountability of managers meant that poor management decisions continued to be made to the detriment of parastatals’ performance.

**Overlapping and Conflicting controls**

Public sector organisations must, as a matter of national interest, be subjected to some adequate means of public accountability and control (Ribot, 1999). In the case of Tanzania, however, there were multiple conflicting sources of accountability and partly for this reason none of them was effective in promoting the performance of the country’s parastatals.

Firstly as stated above, the parastatals were under ministerial control. However, this control was undermined by the fact that Ministerial Permanent Secretaries, who were supposed to scrutinize the activities of the parastatals, became part and parcel of the problems of parastatals through serving as members of parastatals’
BDs. Secondly, parastatals were accountable to the Presidential Standing Committee for Parastatal Organizations (SCOPO), created in September 1967 within the office of the President (URT, 1967). SCOPO’s role was to approve organisational structures and deal with all matters pertaining to personnel of parastatal organisation. However, SCOPO acted merely ‘as a watchdog’ rather than an instrument of innovation to parastatals (Mwapachu, 1983:198).

Thirdly, the Parliament controlled parastatals through the Parliamentary Parastatal Accounts Committee. However, as noted above, members of Parliament also served in various parastatal boards and, therefore, the Parliament could not effectively examine the activities of parastatals without ‘exposing its own linen in public’. Fourthly parastatal organisations were subjected to the control of the ruling party. However, the party’s control of parastatals created more problems than solutions, as shown below. Other organs of parastatal control included the Treasury Registrar; Tanzania Audit Corporation; and the Tanzania Bureau of Standards. These controls had a financial component in that parastatals were charged fees to prop up the system that controlled them.

**Political Interference**

To ensure political direction and control of the parastatals, TANU established party branches in the Parastatals and posted Political Commissars, with no business background, to every parastatal to discuss corporate objectives, targets, productivity and problems of implementation (Mhaiki, 1976). As a result, numerous and unscheduled party meetings called by Commissars in work places lead to work stoppages that affected productivity. In addition,
parastatals became one of the major sources of party funds to finance party functions (Baguma, 1989).

**Industrial Democracy**

Another issue involved pertained to workers’ participation in management. A policy issued by President Nyerere in July 1970 introduced the participation of workers in management decisions to further industrial democracy in relation to the economic functions of the enterprise; give workers a greater and more direct responsibility in production; and reflect the public ownership of the parastatals (Mapolu, 1976). To operationalise the policy in the parastatals two organs, the Workers Council composed of workers from all levels of production and the Executive Committee composed of managers and departmental heads, were created to promote the involvement of workers in management decisions.

Clause 15 of TANU guidelines (TANU, 1971) reinforced the Presidential Directive of 1970 by stating that rather than respecting people and scorning off ostentation in their places of work, Tanzanian leaders were arrogant, contemptuous, oppressive and tyrants. This clause influenced not only labour relations and management styles but also affected production and the productivity of parastatals. Workers interpreted Clause 15 as the mantle of emancipation from imposed organisational rules and regulations. As a consequence, Tanzania’s parastatal sector witnessed a wave of strikes as workers downed their tools, staged work sit-ins or locked out management in protest of any managers who were perceived to be arrogant, contemptuous or tyrants (Baguma, 1989). As managerial authority was undermined, managers assumed the role of passive spectators as absenteeism and
indiscipline rose among workers to the extent of crippling organisational performance.

The factors that crippled the parastatals in the country suggest that improvement in the performance of parastatals required a comprehensive redress and removal of the impaire
factors. Addressing a given set of factors in the parastatal sector while overlooking or ignoring others would not have any significant effect in the sector’s performance. For example, Tanzania’s transport system today remains almost the same as in 1980s, with only 14.5 percent of the total road network of 85,000 km being in good condition (Mwakasege, 2001). This implies that mere restructuring of the parastatals without addressing inherent problems such as poor communication and transport and limited market opportunities in the country would not yield desired results.

The Villagisation Programme

After announcing the Arusha Declaration, nationalising the commanding heights of the economy and expanding industrial parastatals, President Nyerere realised that for these parastatals to be effectively productive, agricultural production had to be stepped up, through the transformation of the countryside, to support the country’s economy. To promote rural transformation, he introduced a villagisation programme in 1968. The program involved the creation of co-operative farm villages whereby Tanzania’s villages would not be mere villages but Ujamaa (socialist) villages entailing economic and social communities in which people lived and worked ‘together for the good of all’ (Nyerere, 1968a). Nyerere describes the organisation of villagisation in the following words:
Ujamaa (socialist) villages are intended to be socialist organisations created by the people, and governed by those who live and work in them. They cannot be created from outside. No one can be forced into an Ujamaa village, and no official—at any level—can go and tell the members of an Ujamaa Village what they should do together (Nyerere, 1968a:16).

However, contrary to Nyerere’s words, villages were in fact not created by the people themselves, force was applied to get them into Ujamaa villages, and government officials decided what the people should or should not do together (see below and Chapter Five).

The objectives of villagisation were explained by the government as including improvement of the productivity of farmers; a means to facilitate an effective delivery of social services such as health care, education and water supply; and improvement of the land use by the peasants (see Lorgen, 1999). To further promote productivity objectives villages and Ujamaa villages were registered, under The Villages and Ujamaa Villages Registration, Designation and Administration Act (1975), as multi-purpose producer co-operative societies to perform, among other activities, farming and animal husbandry, fishing, processing and marketing (Matiku, 1993). To give the villages operational monopoly the government dissolved all existing rural primary produce and marketing societies, transferring their operations to the villages. Unlike in rural primary societies where membership was voluntary, membership of the village producer co-operatives became both automatic and compulsory. This arrangement undermined the important principle of open membership which emphasises free will and self-initiated co-operation (Hilton, 1960).
The government decision to abolish rural primary societies in 1975 was followed by another decision on 14 May 1976 to abolish all existing Regional Co-operative Unions for failure to effectively serve farmers (Gibbon, 2001). Regional Co-operative Unions were entities organised and run by the farmers themselves and consisted of the ‘biggest African-controlled commercial organisations’ in Africa (Coulson, 1977). In place of the Unions, the government designated ten Crop Authorities and Crop Marketing Boards to deal only with crop marketing aspects for 8000 plus villages. In 1979, the Act was amended to affiliate villages and *ujamaa* villages into the Union of Co-operative Societies (Washirika) which, as revealed in the previous chapter, was also made a mass mobilisation arm of the ruling party (CCM).

The overall re-organisation failed to achieve desired results. A study undertaken by Kowa (1985) concluded that village producer co-operation failed to produce desired outcomes, suggesting that there is a great difference between grouping people together in *Ujamaa* villages and getting people to live and work together ‘for the good of all’. Success of such arrangements would depend, among other things, on habits of co-operation and the quality of village leadership (Cliffe and Cunningham, 1973). In most parts of the country, however, failure of village producer co-operatives has been attributed to Crop Authorities (Matiku, 1993). In Mara region, for example, cotton production fell from 44,158 tonnes in 1975/76 to 15,729 tonnes in 1981/82, despite increased acreage of land under cotton. The decline in cotton production was due to Crop Authorities, particularly their lack of support services to farmers, inefficient marketing and input delivery systems, inexperience and bureaucratic procedures, high indebtedness, and serving the interests of officials rather than farmers. More generally, the failure of the
villagisation programme has been explained by a number of factors, discussed below.

**Absence of fundamental Transformation**

Although Tanzania’s *Ujamaa* villagisation programme is associated with the 1967 policy of socialism and self-reliance its history dated back to 1962 when the government, on World Bank recommendation, adopted improvement and transformation approaches for rural development (Bienen, 1970; Mapolu, 1986). While ‘improvement’ was aimed at raising the productivity of rural households, transformation sought to radically transform agriculture and improve the productivity of the rural people through resettlement schemes and extension services. Mapolu (1986) concludes that both approaches failed to produce desired results due to excessive government bureaucracy, prompting peasants to regard themselves as government workers rather than independent farmers receiving government assistance.

Despite Nyerere’s insistence in 1968 that the villagisation programme was a new conception and not a revival of the 1962 settlement schemes (see Nyerere, 1968a), many existing settlement schemes were renamed *Ujamaa* villages ‘without any fundamental transformation in the organisation and operation of the village communities’ (Bienen, 1970:423). This led partly to the failure of the programme in some parts of the country as old practices dominated the ‘new’ settlements.

**Extraneous considerations**

Hyden (1980:129) and Lorgen (1999) argue that security and political considerations, rather than access to water, fuelwood, pastures and cultivation
fields, influenced the government’s choice of village sites and the planning and execution of the villagisation programme. Grouping people together in designated villages would not only make it easy to mobilise them into TANU’s ideological framework, control their movements but also control their productive and wealth creation activities.

On the basis of defence and political considerations, most village settlements were concentrated along main roads away from basic requirements (Lorgen, 1999). Increased distance from agricultural and pastoral land and fighting over land scarcity were some of the primary factors that led to programme failure (Pankhurst, 1992). The concentration of animals in villages, tree-felling for fuel and cultivation, intensive use of land and the new ploughing methods all had negative environmental and ecological impacts that led to decline in production (Kikula, 1997).

**Lack of People’s Understanding**

Daley (2005) provides that the system of individualised land market and commodification of agriculture introduced since colonial times had promoted not only capitalistic attitudes but also individualism among the Tanzanian peasantry. In this regard, they did not understand how they would benefit from the villagisation programme. As no effort was made to properly educate the people on the programme of villagisation, people moved and settled in villages without ‘a common understanding about what villagisation means’ (Lappe and Beccar-Valera, 1980:104). They did not understand how collective production in designated villages would lead to increased production, ensure fair distribution of wealth, and result in the happiness promised by the government. As discussed in Chapter
Three and later in the study, the trend whereby the government introduces polices and mobilises people to support them, without making people understand the significance and benefits of such policies, has continued to affect Tanzania’s political and economic reforms.

**Lack of Popular Support**

Due partly to lack of people’s understanding of the programme, the pace of villagisation between 1968 and October 1973 was not as rapid as Nyerere had expected. In November 1973 he issued a six-month ultimatum for people to be resettled in designated villages (Havnevick, 1993:205). To implement the directive, government officials applied force and threats and destroyed houses of resisting villagers to ensure that either people moved to the designated areas or did not return to their old homes (Raikes, 1975:50). This measure created mistrust between the people and officials and resulted in the people’s resentment of the programme supposedly introduced for their benefit. Lofchie (1988) contends that forcing villagers to give up their traditional burial habitats and move to designated villages had a big psychological impact on them. This resulted in a go-slow in productive activities as the people vented their frustrations and showed resistance to the new policy. By 1994, the villagisation programme had failed and about 80 percent of the households had either left or intended to leave the villages ‘to return to their former homesteads’ (Bruce, Hoben and Rahmato, 1994:19).

**Inadequate Resources**

Although villagisation was seen as a means to socio-economic development, the absence of resources impeded its success, triggering more costs than benefits (Hanlon, 1990:123). Matiku (1993) reveals that village producer co-operatives
lacked essential facilities such as sales offices, adequate storage, weighing scales and skilled inventory personnel. Crop Authorities, on their part, lacked sufficient financial resources and vehicles to purchase and transport crops from the villages. A combination of these factors resulted in further frustrations among villagers as huge piles of unstored and untransported crops were destroyed by rain and rodents in the villages.

**Exploitation of farmers by Corp Marketing Boards.**

Osterfeld (1985) argues that the crop marketing boards whose formation was meant to insulate the farmer from price fluctuations turned out to be revenue raisers for the government. As middlemen were outlawed, farmers were forced to sell their produce to the Marketing Boards receiving as little as 10 percent of the value of their produce. This state of affairs severely undermined the morale of farmers and eroded their confidence in government.

**Running Blindly?**

In 1962, Nyerere had issued a statement (see p. 1) to the effect that Tanzania would run while others walk. Hyden (1983) argues that lack of planning and Tanzania’s tendency ‘to run blindly’ has resulted in making and implementing many policies that failed to achieve their objectives. There is extensive literature indicating that the villagisation programme in Tanzania failed due to poor planning as the government rushed to introduce villagisation without considering such important aspects as land fertility, availability of fuel, proximity to water sources and farms (e.g. Lofchie, 1978; Kikula, 1997; Lorgen, 1999).
Coulson (1982) concludes that given the military-type ‘operations’ to get the people settled in villages, the value of property destroyed, the direct costs of re-settlement, the foregone value of crops that were not planted or harvested, the fall in marketed production of almost all crops, the short-term and long-term costs of villagisation in Tanzania were indeed very great.

**Tanzania’s Economic Performance Under Socialism and Self-reliance**

The performance of parastatals and the villagisation programme reflects the poor performance of most policies implemented in Tanzania under the Arusha Declaration, which in turn had a significant bearing on the economy. Hyden and Karlstrom (1993) point out, for example, that between 1967 and 1984 Tanzania’s economy registered a decline from a growth in GDP per capita of 2.5 per cent per annum (1967-1973) to a fall of 2.9 percent per annum (1982-84). In the same period, inflation rose from 8.5 percent per annum to 30.6 percent per annum, and the debt to export ratio level increased from 120.6 to 513.

A study conducted by Bagachwa and Maliyamkono (1990) indicates that after independence, Tanzania registered impressive levels of economic development until the latter part of 1970 when deep-routed problems began to emerge. These problems have been associated with a series of harmful policies inconsistent with internal realities; domestic economic mismanagement; open sabotage of the state sector through low productivity; political manoeuvring by the ruling class with a view to consolidate political power; and corruption, rent-seeking and embezzlement of public funds (Lofchie, 1988:148; Mallya, 1994; Mtatifikolo, 1998).
This study reveals that measures accompanying recent political and economic reforms to deal with corruption have not been effective in addressing this problem.

Lele (1989) and Campbell (1992) indicate that Tanzania’s economic crisis of the late 1970s and early 1980s can also be attributed to a number of external factors including poor climatic conditions (1973-75); the war with of Uganda (1978-79); oil price shocks (1973-79); the break up of the East African Community (1977) whereby Tanzania could no longer exploit the economies of scale that had existed under the integration (Wangwe and Rweyemamu, 2002); and the imbalance in world trade. As shown later, imbalance in world trade has not changed with the ushering in of economic reforms discussed below.

However, Uma Lele (1989) concludes that given the amount of foreign aid (US$ 2.7 billion) that Tanzania received between 1971 and 1981, external factors cannot explain Tanzania economic problems as the amount exceeds the external factor costs the country might have incurred during that period. In this regard, domestic factors must be the critical part of the explanation.

The Search for an Economic Strategy III

Build-up to Market-Driven Structural Reforms (1981-1986)

The quest for solutions to economic problems brought Tanzania face to face with the International Monetary Fund (IMF) and the World Bank when the government approached these international financial institutions in 1975 to obtain a negotiated loan. To access the IMF loans, Tanzania was given basic conditions to fulfil, including introducing reforms in agriculture; basic industries; domestic pricing
system; and the exchange rate regime (Bigstein and Danielsson, 1999). Despite being badly in need of the loan, President Nyerere discontinued negotiations with the IMF as the Funds stabilisation accord conditions appeared incompatible with the country’s socialist policy.

By 1981, however, the Tanzanian economic situation had deteriorated to the extent that the government was compelled to restart negotiations with the IMF (Skarstein and Wangwe, 1986). To qualify for the Fund’s Credit Facility Tanzania was required to fulfil specific conditions including introducing a 60 percent currency devaluation; removing price controls starting with the official price of sembe (corn flour); removing subsidies from oil, gas and petroleum products; deregulating external trade; and privatising state-owned enterprises (Green, 1983; Stein, 1992:65):

The government rejected the Fund’s package outright, arguing that its implementation would seriously affect people in low-income brackets (Green, 1983). For example, removal of the official price of Sembe would triple its price, making it unaffordable to low income earners whose survival depended on Sembe. Moreover, the removal of subsidies from oil, gas and petroleum products would indirectly increase prices of agricultural inputs and undermine agricultural production. Although Stein (1992) argues that the IMF conditionality has not been inconsistent with Tanzania’s socialist development agenda, Nyerere regarded the Fund’s stabilisation accord as a form of pressure towards changing the country’s socialist policy.
After rejecting the IMF accord, Tanzania decided to deal with the prevailing economic crisis in its own way. The government introduced a medium-term programme called National Economic Survival Programme (NESP) whose objectives included mobilising internal resources for export and food self-sufficiency; and meeting an export target of TZS 6bn for 1981/82 (see CCM, 1981).

Table 4:1, NESP Export Targets for Selected Commodities Compared to Actual Exports in 1979 (in TAS millions).

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<thead>
<tr>
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<tr>
<td>Cigarettes</td>
<td>17.256</td>
<td>42.0</td>
<td>50</td>
</tr>
<tr>
<td>Medicines &amp; Pharmaceuticals</td>
<td>0.041</td>
<td>-</td>
<td>16.0</td>
</tr>
<tr>
<td>Cashew Kernels</td>
<td>83.106</td>
<td>233.69</td>
<td>440.52</td>
</tr>
<tr>
<td>Pyrethrum Extracts</td>
<td>9.693</td>
<td>28.70</td>
<td>21.80</td>
</tr>
<tr>
<td>Cement</td>
<td>3.267</td>
<td>54.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Glassware</td>
<td>6.019</td>
<td>10.0</td>
<td>15.0</td>
</tr>
</tbody>
</table>

Sources: URT 1982

However, NESP failed to achieve its ambitious targets due to lack of donor support. Table 4:1 reveals that given the declining level of the economy at the time, the targets were both ill-conceived and unrealistic. For example, the total value of exports was 20 percent and 50 percent below the target level in 1981 and 1982 respectively (Stein, 1992:66).

Towards the end of 1982, the government abandoned NESP and began moving towards the IMF accord by announcing two complementary programmes, the National Agricultural Policy (NAP) and Tanzania’s own brand of Structural Adjustment Programme (SAP) (see URT, 1982:42-44). These contained piece-meal implementation of some aspects of the IMF conditionality. While NAP focused on
liberalising the agricultural sector and opened doors to private investors, SAP was aimed at ensuring projects with foreign exchange implications were well managed; controlling government budget and reducing government budget deficits; controlling parastatal expenditure; and linking expenditure to performance indicators.

To facilitate the implementation of NAP and SAP, the government introduced twin Acts in 1983: The Economic Sabotage Act (ESA) in March, followed by the Human Resources Deployment Act (HRDA) in May. Through the ESA, the government rounded up and detained without trial hundreds of persons who were considered to sabotage the economy through racketeering and hoarding of essential commodities. Through the HRDA, unemployed persons in cities were rounded up and repatriated to their home villages to engage themselves in gainful agriculture. The twin moves appeared to set the stage for a liberalised economy. For example, in order to promote investments in a liberalised agricultural sector, it was imperative that idle labour in cities be mobilised to provide required labour in the sector. However, due to being poorly planned and executed and lacking steps to guarantee successful outcomes, these adjustment measures negated rather than promoting growth in the economy (Wangwe et al, 1998). For example, between 1982 and 1984 the economy registered a severe fall in manufacturing (9 per cent), mining (10 per cent) and construction output (34 per cent).

After its own measured failed to improve the economy, the government sought reconciliation with the IMF by introducing the measures which the government had rejected in 1981. Through the 1984/85 budget, the government announced a 26 percent currency devaluation and removal of subsidy from Sembe and fertilizer...
(Daily News, 16 June 1984). The 1985/86 budget introduced additional measures toward implementing the IMF conditionality, including government downsizing to reduce expenditure; and raising interest rates by 16 percent (Stein 1992). However, as these measures fell short of what Tanzania was expected to implement, they failed to persuade the IMF to extend its loan to the country. As the government lacked funds to improve the key sectors, the volume of exports and imports slumped below 1981 levels. For example, in 1984 exports fetched a mere USD 285.6m and imports stood at USD 999.2m compared to USD 553.7m and USD 1161.0m respectively in 1981, and the country’s foreign reserve declined to a pitiful USD 16m (Stein, 1992).

As the crisis intensified Nyerere, a staunch critic of IMF policies, went on a voluntary retirement from the executive government in October 1985 to pave the way for Tanzania-IMF negotiations to resume. However, he remained to influence the country’s political scene as Chairperson of the ruling party, CCM, until February 1992 and as Chairperson of the South-South Commission until his death on 14 October, 1999.

**Market-Driven Structural Reforms 1986-1999**

Following Nyerere’s retirement Tanzania, under President Ali Hassan Mwinyi, began a series of negotiations with the IMF. These culminated in the signing of agreements for a comprehensive economic reform programme in June 1986. In August 1986, a ‘Memorandum of Economic and Financial Policies’ submitted by the government to the IMF Director provided the country’s economic road-map over the next eighteen months (IMF, 1986). Influenced by the proposed adjustment measures, the Fund agreed on 28 August 1986 to a standby agreement
for Standard Drawing Rights (SDR) 64.2m consisting of 60 percent of the IMF quota of SDR 107m (Stein, 1992:71-72). The conditions contained in the agreement, save the subsidies which had been implemented during the 1985/86 budget, were similar to those rejected by the government in 1981.

The Fund carried out a review in February 1987 to determine the extent Tanzania was committed to reforms and was satisfied with the progress (Stein, 1992:74). To further implementation of the requirements of the Agreement, other IMF-led measures were introduced in the country, including the Economic Recovery Programme, 1989-92; Economic and Social Action Programme, 1992-95; Enhanced Structural Adjustment Facility, 1996-99. An overview of these reforms is given below.

The government launched the Economic Recovery Programme (ERP) in 1988/89, whose objectives included increasing food and export production; rehabilitating the physical infrastructure; enhancing the utilisation of industrial capacity; and restoring internal and external balances (Wobst, 2001). Implementation of the three-year ERP ended in 1991/92 and recorded a number of successes including an increase in food production; an annual growth in GDP of 4.1 per cent; and a dampening of inflation to 23 per cent from over 30 per cent (UNCTAD, 2000). However, Wobst (2001) reveals that annual inflation, measured as a GDP deflector increased from 21.8 to 40.6 percent during 1990-92; export of goods and services declined from USD643.1m in 1989 to USD 353.4m in 1992 and GDP at factor cost experienced an 8.4 percent decrease from 1991 to 1992. The negative growth influenced Tanzania to scale down its pace of implementing further reforms. Consequently, ‘the IMF, the World Bank and other bilateral donors sharply
reduced their support to Tanzania and suspended payments for development projects and balance of payments assistance and withheld further financial assistance to push for further liberalisation measures’ (Wobst, 2001:12-13).

Faced with this prospect, party and government leaders realized that further implementation of the IMF conditionality would not be possible with the Arusha Declaration in place. To redress the situation, the NEC of CCM met in Zanzibar in February 1991 and issued the Zanzibar Declaration which introduced fundamental changes to the Arusha Declaration, reversed the socialist policy and espoused the new economic policy of liberalisation (Tripp, 1997). The Zanzibar Declaration also discarded the Leadership Code which, among other things, had restrained party and government leaders from engaging in ‘capitalist practises’ such as holding shares in any company; holding directorship in any privately owned companies; receiving more than one salary; or owning rental property (TANU, 1967:20, Nsekela, 1974).

However, as in the case of the Arusha Declaration, the Zanzibar Declaration was issued by the Party without involving the people, their Parliament or taking any measures to guarantee that the new declaration would succeed where the previous one had failed. Tripp argues that rather than eliminating capitalism or reducing poverty, the Arusha Declaration simply created growing state economic enterprises, expanding ‘opportunities for bribery, rent seeking, and clientelism’ (Tripp, 1997:177). In the same context, this study reveals that the Zanzibar Declaration simply enhanced the process of privatisation, further widening opportunities for rent-seeking and corruption rather than eliminating socialism or reducing poverty. This view is supported by the fact that the 1977 Constitution,
amended in 1991, still carries a clause describing Tanzania as a socialist country whose major means of production is under the control of the government (see URT, 1998a and Chapter Three).

The ERP was replaced by a new programme called Economic and Social Action Programme (ESAP), introduced for 1992/93 to 1995/96. The ESAP was a result of both the World Bank and the government of Tanzania realising that ERP had mainly focused on improving the productive sector while lacking 'special programmes aiming at provision of social services' (Havnevick, 1993:299). Although ESAP was supposedly launched to rehabilitate the provision of social services, its major focus was on economic liberalisation including liberalising foreign exchange and trade transactions; promoting market competition; restructuring agricultural and industrial sectors; and liberalising commercial banks (see World Bank, 1999).

However, studies carried out to assess the impact of ESAP (e.g. Turuka, 1995) revealed that Tanzania’s overall reform objectives were not mutually supportive and were in many respects self-defeating. For example, ERP measures such as currency devaluation, removal of subsidies and cuts in government spending on social services negatively impacted the ESAP objectives of improving agricultural production, education and health. The ERP measures resulted in increased cost of agricultural inputs, forcing farmers to abandon not only using agricultural inputs but also producing certain crops altogether. The introduction of cost sharing and user fees in education and health simply marginalised the poor and the vulnerable bracket of the Tanzanian society (Jeve and Ofstad, 2000).
Towards the end of the ESAP, Tanzania accepted on July 15 1996 the IMF Article VIII obligations ‘to refrain from imposing restrictions on the making of payments and transfers for current international transactions or from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval’ (IMF, 1996a). Based on this acceptance, the IMF approved in November 1996a a further three-year (1996-99) credit equivalent to DSR 161.6m (about USD 234m) under a new arrangement called Enhanced Structural Adjustment Facility (ESAF). The IMF noted that in approving the loan, the Fund had considered the progress made by the government in ‘parastatal reform....and the privatisation of about one-third of the public enterprises’ (IMF, 1996b). According to the IMF, the highest priority under the ESAF programme was restructuring and privatisation of the public utilities.

Before 1992, the operation of parastatals in Tanzania was governed by the Public Corporations Act enacted in 1969 to spearhead the establishment of parastatals. In 1992, this act was amended to provide for the restructuring of state-owned enterprises. The amendment established the Presidential Parastatal Sector Reform Commission (PSRC), an autonomous organ of the Government and a body corporate, to co-ordinate the implementation of privatisation. The IMF provides the funds for PSRC’s privatisation activities which are directed by foreign advisors and management consultants from behind the scenes (Mukandara, 1996; PSRC, 2000a). PSRC and foreign consultants are discussed in later chapters.

According to the PRSC the objectives of privatisation include:

   a) improving the operational efficiency of enterprises and their contribution to the national economy;
   b) reducing the burden of parastatals on the government budget;
c) expanding the role of the private sector in the economy and permitting the government to concentrate public resources on the provision of basic public services;

d) encouraging wider participation of people in the ownership and management of business (PSRC, 2000a).

Since 1996 the programme of structural reforms has focused on privatisation (Naschold and Fozzard, 2000). Privatisation, aimed at dismantling the pillars of socialism, has superseded reform ‘as a lead concept’ (Mukandara, 1996:2). The intention, it appears, has been to demonstrate to donors that Tanzania has moved from socialism to a market economy. Privatisation has been swiftly undertaken to the extent that an average of 33 parastatals has been privatised yearly. Fifty two parastatals were privatised in 1997/98 alone (IMF, 1999). By 2006, only 36 out of over 400 parastatals under public ownership in 1990 remained in government hands (URT, 2006). Although privatisation was initially justified as a way of dealing with loss making parastatals and reducing government financial burdens, the first parastatals to be privatised were the profit-making ones, including Tanzania Breweries Limited (1993); and Tanzania Cigarette Company (1995) (see AFRODAD, 2007). This became the trend of privatisation in the country, as revealed in later chapters.

As a consequence of privatising profitable parastatals, government privatisation effort has been contested and resisted by parliamentarians and workers alike. For example, in 1995 the Organization of Tanzania Trade Unions (OTTU) filed, on behalf of workers, a suit in the High Court of Tanzania challenging the PSRC for privatising the profit-making parastatals, such as TCC. OTTU contended that the exercise was prejudicial to national interest and contrary to Government and CCM policies. In some of the parastatals, notably NBC, TANESCO, TTCL and the textile
industry, workers staged strikes to protest against privatisation and guarded the enterprises to bar the new investors from taking over. The government had to forcefully intervene through its paramilitary police. However, despite the government’s pace and vigour in privatisation, the World Bank feels that the exercise has not been swift enough due to corruption (World Bank, 1998a). Details on how the privatisation strategy has been initiated and carried out are found in the case studies presented in Chapters 7, 8 and 9.


After Tanzania had completed the implementation of the ESAF’s three-year programme in 1999, the IMF changed its approach for loan approval. Instead of issuing a string of conditions to be implemented by the government, the World Bank and the IMF declared in September 1999 that from then on loans and debt relief to highly indebted poor countries would be considered on the basis of Poverty Reduction Strategic Papers (PRSPs) prepared by the countries themselves (FAO, 2005). To qualify for loans, the Tanzanian government would be required to prepare PRSPs describing the measures to be implemented within a three-year reform programme. The Halifax Initiative (2005) states that PRSPs have five core elements including being:

a) country-driven — involving broad-based participation by civil society and the private sector in all operational steps;
b) results-oriented — focusing on outcomes that would benefit the poor;
c) comprehensive in recognizing the multidimensional nature of poverty;
d) partnership-oriented — involving coordinated participation of development partners (bilateral, multilateral, and non-governmental); and
e) based on a long-term perspective for poverty reduction.
In the view of the IMF, the new approach was aimed at making elimination of poverty the goal of the growth programme; promoting pro-poor policies in terms of investment in health, education and rural infrastructure; and promoting the participatory principle and democracy, giving the poor a role and the voice in programme preparation, execution and control (IMF, 2000a). The PRSPs would have to be jointly approved by the World Bank and the IMF for loans to be disbursed.

The participatory and the pro-poor elements of the PRSPs can be regarded as mere rhetoric considering that the government did not consult the rural poor who constitute 80 percent of the poor in Tanzania in preparing the PRSPs. Members of the civil society who participate in discussing the PRSPs are the non-governmental organisations (NGOs) which are ‘riddled with self interest, corruption, infighting and...institutionally weak’ to the extent that their participation does not represent the majority of the poor in Tanzania (Kelsall, 2000). Moreover, the government lacks control and ownership of PRSPs in the sense that government proposals are based on IMF and World Bank recommendations and have be approved by the Executive Boards of the twin institutions to be implemented. Generally, a series of problems have been identified that render PRSPs less effective in realising their objectives (see Halifax Initiative, 2005), including:

a) Dominance of the Bank and IMF in agenda-setting and outcomes;
b) Uniformity of policy outcomes across countries;
c) Lack of public and Parliamentary involvement in the PRSP process;
d) Severe administrative capacity constraints in low-income countries;
e) Absence of mechanism or guidance to adapt the PRSP according to differing country conditions;
f) Shortcomings of data including poverty and social impact analyses;
g) Absence of a full range of policy actions required for growth and poverty reduction;
h) Failure to integrate the Millennium Development Goals within the process;
i) Pressure to expedite the PRSP process without proper analysis and without full country participation.

PRSPs, under IMF’s Poverty Reduction and Growth Facility (PRGF), have been criticised as a new face of IMF structural adjustment policies, imposing additional burdens on Tanzania (Mbilinyi, 2000; Spanger and Wolff, 2003). The approval of the PSRPs by the World Bank and the IMF implies an imposed development programme as Tanzania has to tailor the programme to suit the World Bank/IMF terms of reference and conditions. This may explain the contradictions between the PRSP and the National Poverty Eradication Strategy (NPES) prepared by the government in 1998 along with the National Development Vision 2025 (see below).

Tanzania presented its first PRSP to the IMF in March 2000, describing the macroeconomic, structural and social policies to foster growth and reduce poverty in a three-year economic adjustment programme under the PRGF (IMF, 2000a). Structural reform measures presented in the PRSP included strengthening tax administration and expenditure control mechanism; further restructuring of the financial system; implementation of performance budgeting; and privatisation of the remaining public enterprises. These measures appeared to be a continuation of the IMF’s conditions spelt out in earlier ESAP and ESAF programmes rather than addressing poverty reduction in the country.

In addition, the World Bank and IMF Joint Staff assessment of Tanzania’s PRSP noted that its preparation was done so speedily that ‘some issues were not addressed as fully as would have been desired’, because the country’s authorities wished to move to the completion point in order to qualify for the loan and debt relief (IMF and IDA, 2000). The assessment also noted that, apart from superficial
involvement of the civil society by the government in preparing its PRSP, the poverty information on the basis of which the PRSP was prepared was outdated and hardly contained any data on the impact of recent economic policies. Despite the noted limitations in Tanzania’s PRSP, the IMF approved in April 2000 a three-year loan to Tanzania under the PRGF equivalent to SDR 135m (about USD 181.5m). Revealing what it appreciated in Tanzania’s PRSP, the Fund commended the government for its intention ‘to make further rapid progress in completing the transition to a private sector-led economy in the context of the new PRGF arrangement’ (IMF, 2000b).

Danielson (2004) states that Tanzania’s first PRSP was prepared on the basis of the 1998 National Poverty Eradication Strategy (NPES) and Tanzania’s Development Vision 2025 (Vision 2025) both of which have poverty reduction as their main agenda. According to Vision 2025, Tanzania is expected to be a stable, peaceful and united country; have a population with a high quality of life; a well-working good governance machinery; have a well-educated population; and have a competitive economy capable of producing sustainable growth. However, these were the same objectives envisaged by the failed Arusha Declaration (Mallya, 2000). The difference between the Arusha Declaration and Vision 2025 is that the later neither spells out a mechanism for attaining its objectives nor indicates how it would overcome the factors which resulted in the failure of the Arusha Declaration. This suggests that the PRSPs may not necessarily provide solutions for poverty reduction (see below).

Upon the approval of PRSP, the Executive Boards of the IMF and IDA carried out debt sustainability analysis in April 2000 to determine whether Tanzania had
reached a decision point under the enhanced initiative for Heavily Indebted Poor Countries (HIPC) (See IMF and IDA, 2000). The requirements to be met by Tanzania included an approved poverty reduction strategy paper (PRSP); satisfactory implementation of the country’s poverty reduction strategy for at least one year; a stable macroeconomic position kept on track with IMF-supported programmes; and satisfactory implementation of a set of social, structural and institutional reforms. In November 2001, the IMF and the World Bank formally declared that the country had ‘taken the steps necessary to reach the completion point’ under the enhanced framework of the HIPC Initiative (IMF, 2001b). However, rather than providing indications of ‘satisfactory implementation of poverty reduction’ under PRSP, the major reform measures cited by the IMF and World Bank as having been undertaken by Tanzania included:

a) Closure of government-owned oil refinery and the subsequent complete liberalisation of the petroleum sector;
b) The privatisation of the TTCL, the container harbour and the NBC; and
c) The initiative to unbundle TANESCO into autonomous commercial entities.

In recognition of these efforts, the twin institutions approved for Tanzania USD 3bn in debt service relief under the HIPC initiative (IMF, 2001b). Tanzania completed its first three-year PRSP programme in June 2003 upon which a new three year PRSP arrangement was approved by the IMF for 2003/2006. However, it is indicated later in the study that though the IMF and the World Bank introduced PRSPs in Tanzania supposedly to address the problem of poverty, they were in fact pursuing objectives other than poverty reduction. This point is supported by Gunning (2006), arguing that whenever the Tanzanian government attempted to implement reforms in a way that would in fact contribute to poverty reduction but which diverted from the World Bank’s pursued objectives, the Bank
would either withdraw or withhold aid. For example, in 2004, the Bank withheld USD 150m to force the government back to the track of ‘the needed reform conditions’ (Gunning, 2006). This tendency of the World Bank to withdraw or withhold aid to force Tanzania’s government to implement reforms commensurate to the Bank’s objectives is revealed later in the privatisation of the country’s major economic sectors.

**Tanzania’s Structural Reforms, HIPC Initiative and Poverty Reduction: some issues**

It is shown above that Tanzania’s economic problems and its inability to sufficiently address the problem of poverty were attributed to its policy of socialism and self reliance implemented since 1967. To revamp the economy and deal with poverty, the government adopted the IMF and the World Bank supported measures including structural reforms; poverty reduction strategy papers; and the HIPC Initiative. The major aims of these measures were to sustain rural development, reduce poverty by increasing incomes of the people and improving their livelihood, enhance access and quality of public services and improve social indicators (World Bank, 2006). Below, evidence is provided to indicate that the IMF and World Bank-supported reform measures have not facilitated government effort to reduce poverty. In later chapters it is shown that although sustaining ‘rural development’ and reducing poverty are some of the major aims of the country’s reforms, liberalisation and privatisation have in fact tended to undermine rural-based institutions, including closure of rural banking, that supported rural development efforts.
IMF (2007a) states that countries such as Tanzania, that implemented reforms and received the HIPC initiative assistance, spend ‘more than five times the amount of debt-service payments’ on health, education and other social services, indicating that additional resources created through the Initiative are targeting the poor. A number of studies (e.g. Garuda, 2000; Dicks-Mireaux et al., 2000) support the IMF view that in many countries reforms have resulted in increased economic growth. In Tanzania, recent studies (IMF, 2004a; World Bank, 2004a; AFRODAD 2006) indicate that reforms in the country have resulted in increased growth as indicated increased GDP growth rate from 2.5 per cent in 1980 to 6 per cent in 2005. The IMF sums up the contribution of reforms in Tanzania, stating that the country ‘has achieved a sustained strong economic performance through market-oriented policies’, raising average per capita income and reducing inflation. These measures have enabled the country ‘to remove key impediments to growth and achieve lasting (benefits) against poverty’ (IMF, 2007b).

However, while on one hand the IMF argues that reforms have helped Tanzania to reduce poverty, on the other hand the Fund acknowledges that persistent ‘poverty in Tanzania, especially in the rural areas, (remains) a cause for concern’. In the Fund’s view, there has been a general decline in living conditions and livelihoods in Tanzania as fifty percent of the population live below the poverty line of USD 0.65 a day (IMF, 2000a; 2003). This observation on poverty is supported by a number of studies (e.g. Mbilinyi, 2000; Tsikata and Mbilinyi, 2001; Steinwachs, 2002; SIDA, 2003; Danielson 2004; AFRODAD, 2006), indicating that reforms in Tanzania have not in fact resulted in poverty reduction. For example, Tsikata and Mbilinyi (2001) and Steinwachs (2002) point out that apart from poverty and income inequalities increasing in conjunction with the economic reform process,
Tanzania’s population has experienced severe problems, especially in the areas of social security and health care services. A number of factors have been advanced to explain why poverty has persisted despite reforms.

Danielson (2004), for example, states that poverty reduction initiatives in Tanzania have been directly linked with economic growth in terms of increased tax revenue and per capita-income growth, without other factors, such as income distribution which is an important element in poverty reduction, being considered. In his view, growth in Tanzania has been concentrated in sectors not directly linked with the poor, such as mining, and has ignored agriculture from which the poor derive their incomes. Despite influencing growth in the economy, reforms have ‘ignored some sectors of the economy where reforms seem most urgent, and have not dealt with underlying (poverty reduction) hindrances’ (Tax, 2005:8). These findings support the views that growth in per capita GDP does not necessarily and automatically lead to poverty reduction unless such growth is pro-poor and supports the poor (Stiglitz, 2000; Wangwe and Charle, 2005). Growth is pro-poor if it uses the assets the poor own, favours the sectors in which the poor work, occurs in the areas where the poor live and ‘improves the living conditions of the poor’ (Wangwe and Charle, 2005:9). According to the Tanzanian Parliamentarians, growth has not improved the poor as the rebounding economy has ‘in fact cushioned foreigners, who rip most of the benefits leaving indigenous people to wallow in abject poverty’ (Guardian, 9/2/2006).

Regarding the IMF (2007a) assertion that the HIPC initiative has created additional resources, enabling countries to spend ‘more than five times the amount of debt-service payments’ on health, education and other social services,
AFRODAD (2006) argues that the amounts resulting from the HIPC initiatives are very small compared to the actual needs of the recipient countries. For example, AFRODAD reveals that under the HIPC Initiative, Tanzania’s twenty-year debt servicing burden has, in real terms, been reduced by 45 percent from USD 193m (1999/2000) to USD 87m (20020/21) (AFRODAD, 2006). This means that on average, the country enjoys an annual debt service relief of USD 5.3m, which is insignificant given the prevailing magnitude of poverty to be reduced. Moreover, the country’s 6 per cent annual growth performance has been inadequate to significantly reduce poverty (SIDA, 2003:7; Danielson, 2004).

As noted earlier, reforms have been accompanied by policies, such as removal of subsidies and cost sharing, which have not been pro-poor and have excluded the majority of poor Tanzanians from access to basic services as education and health (van Ginneken, 1999). Consequently, illiteracy rate has increased from 10 percent in 1980s to 24 percent in 2002, reflecting the negative impact of economic reforms on school enrolment (ADB and OECD, 2004). In addition, the high prices of consumables, including food, has negatively influenced family expenditures whereby the poor spend 75 per cent of their income on food while spending 2 percent and 0.6 percent respectively on healthcare and education (Meena, 2003). The result is that 32 percent of the poor and 57 percent of the absolute poor have not received any kind of formal education and life expectancy at birth has dropped by 15 percent from 52 years in 2000 to 42.7 years in 2004 (World Bank, 2005). Apart from lack of availability, the quality of service delivery has been appallingly poor. For, example, in certain parts of the country where primary schools have witnessed a rise in child enrolment, ‘pupil-teacher ratios have risen to alarming
levels’ due to IMF’s imposed wage and employment freeze policy that makes it difficult for the government to recruit more teachers (Lawson et al, 2005).

Lawson et al (2005) contend that the country’s support under foreign aid, loans and the HIPC Initiative has focused on general budget support (GBS) rather than addressing specific poverty reduction parameters. Although external support has resulted in increased domestic revenues, its role has been to facilitate foreign-driven reform process as well as increasing government leaders discretionary spending. Implicitly, little of the external support has focused on poverty reduction. Moreover, reform-driven economic aid to Tanzania has greatly influenced the country’s dependence on external assistance as presently 80 percent of projects are donor-funded, resulting in ‘total aid (being) substantially greater than it ever was in the past’ (Lawson et al, 2005:2).

Furthermore, foreign assistance including aid, loans and debt relief costs has not been translated into social spending that truly reaches the poor due to bad governance, corruption and graft that have become a major constraint to investment, growth and poverty eradication (Kwabena, 2002). Although one of the IMF’s main reform agenda in Tanzania has been to fight corruption and promote good governance through accountability, transparency, more disciplined civil service, enhanced tax collection and exercised austerity spending measures, these problems still riddle the country’s governing machinery (Heilman, and Ndumbaro, 2002). In the view of the World Bank, grand corruption in Tanzania has increased with the pace of liberalisation (World Bank, 1998a). As a consequence, funds earmarked for socio-economic development, and hence poverty eradication, have
been used for purposes other than towards promoting growth and poverty reduction.

Heilman, and Ndumbaro (2002) contends that corruption has increased twofold, as officials in the party and government scramble to enrich themselves, following the dismantling of the Arusha Declaration in 1991 and particularly the Leadership Code that required public officials to declare their wealth in public. In the view of Heilman, and Ndumbaro (2002), measures taken by the government to deal with corruption, including a Presidential Commission of inquiry (the Warioba Commission, headed by Justice Joseph Warioba) formed in 1996, have not adequately addressed the problem as the government appears reluctant to effectively deal with institutional corruption. Most of the Warioba Commission’s recommendations, for example, remain unimplemented, resulting in corruption becoming increasingly a serious problem in Tanzania. Mutahaba argues that there is a close link between corruption and pay in Tanzania’s public service because pay is ‘too low and uncompetitive’ in comparison with other employers in the country and elsewhere (Mutahaba, 2005). As shown later in the study, corruption and bad governance have played a major role in liberalisation and divesture of state-owned enterprises in the country.

In conjunction with the above reasons, there also appears to be lack of coordination among various economic sector strategies toward poverty reduction. For example, Eggenberger-Argote (2005) reveals that the contribution of the private sector, which is currently considered ‘the engine of economic growth and development’, has not been given priority in the country’s PRSPs poverty eradication initiatives. The author explains this omission in terms of donors’ mixed
vested economic and political interests, lack of coherence of strategies and coordination across government, and the legacy of socialist mindsets impeding change.

Generally, Tanzania position as one of the six poorest countries in the world has not changed since 1985, despite twenty years of economic and structural reform implementation (Wobst, 2001). Given this reality, Danielson (2004) regards as rhetoric statements by the IMF and the Tanzanian government that tend to highlight Tanzania’s level of achievement resulting from reform implementation. For example, while the IMF claims that reforms have lowered inflation in the country to 5.2 percent, Tanzania Private Sector Foundation reveals that the rate of real inflation was between 15 and 30 per cent, ‘making the living for poor Tanzanians even worse...and rendering manufactured goods uncompetitive and increasing the cost of living for the poor’ (Guardian, 1/9/2007). In addition, reforms have widened Tanzania’s trade imbalance with its trading partners by 131.6 percent from USD -448.8m in 1996 to USD -1038.8m in 2003, implying that a sizeable amount of Tanzania’s income is spent in importing goods destined for urban areas than fighting rural poverty (Kweka, 2004, AFRODAD, 2006). In chapter Six, further evidence is provided to show that IMF and World Bank-supported reform programme has not produced desired results in developing countries.
Conclusion

The main argument presented in this Chapter is that since independence, Tanzania has at different periods attempted to introduce and implement a range of structural reforms aimed at overcoming the country’s three identified ‘enemies’ namely poverty, disease and ignorance. For example, soon after independence Tanzania decided to embrace the market economy with a focus on rural development, based on modernisation and transformation approaches. However, the country made a u-turn in 1967 to adopt a policy of socialism and self-reliance, doing away with the market economy. Under the socialist policy, a number of approaches were taken with a view to create resources to fight poverty, including nationalisation of the major means of production, and the villagisation programme. When these initiatives failed to produce desired results, the government was forced to abandon socialism and return to the market economy in 1986 with the support of the IMF and the World Bank. Despite all the reform efforts, however, the fight against poverty remains elusive and the country remains one of the poorest in the world. The reasons explaining this state of affairs are summarised below.

Firstly, all reform measures have been donor dependent and donor-driven to the extent that they were adopted on the basis of the origin of external assistance. As a result, strategic reform initiatives have been externally-driven rather than being problem-oriented and evolving out of environmentally tested solutions. For example, the market-driven modernisation and transformation approaches adopted in 1961 were influenced by the World Bank which at the time saw capital shortage as a major hindrance to sustained growth. The second phase of reform
introduced in mid-1960s under the banner of the Arusha Declaration was a consequence of international political developments that resulted in strained relations between Tanzania and its development financiers and was introduced to counter the withdrawal of western donors. Since the socialist block became the new source of economic assistance, the country’s new policy emphasised central planning, with the public sector being the sole source of policy advice as well as a strategy for development and poverty eradication. Due to a number of factors, including shortage of capital, political and economic mismanagement, vagaries of climate and lack of sufficient support from the east, the strategy failed to achieve the desired results.

In the mid 1980s and following threatening economic crisis, a third phase of reform was introduced after the government gave in to international pressure for change. However, while Tanzania wanted a gradualist approach in reform implementation, the IMF and the World Bank pressured for a radical transformation. Focusing on the market economy, the IMF and the World Bank demanded a complete dismantling of the structures, laid down during the second phase of reform, by privatising the state owned enterprises. Privatisation has been speedily undertaken to the extent that 97 percent of the parastatals were privatised between 1993 and 2002.

In the second phase of reform, achievements were made in terms of promoting socio-economic development and income equality reduction, despite dismal economic performance. Conversely, the third phase of reform has seen significant achievement in the economy, with an annual growth rate of between 5 and 6 percent of the GDP, while there has been widespread income inequality and social
problems especially among the rural population. Corruption has also been rampant in the third phase of reforms.

Secondly, in all the three phases of reform the people, who are supposedly the beneficiaries of the outcome of the reforms and whose efforts would contribute to reform implementation, were not consulted. As a result, some strategic reform measures, notably transformation in the first phase, villagisation in the second phase and privatisation in the third phase, have in various ways been resisted by the people. People’s resistance of the reform initiatives tends to suggest that they failed to see how the reform effort would improve their quality of life. Thirdly, in almost all the reforms, the NEC of the ruling party has been in the background, deciding the direction of the reforms without taking measures to ensure the proposed mechanisms were in conformity with the country’s needs and circumstances.

Our main interest is in this study is focused on explaining why Tanzania’s liberalisation and privatisation strategy was chosen and how it should have been chosen to guarantee desired results. Before we specifically address Tanzania’s liberalisation and privatisation policy choice, we need an understanding of the country’s general policy making machinery. This is accomplished in the next chapter.
CHAPTER FIVE

Tanzania: The Machinery and Process of Policy Making

Introduction

This Chapter focuses on the machinery and process of policy making that have been developed by Tanzania, trying to ensure that its initiatives to address the challenges of poverty, ignorance and disease in two major categories of reform, social policy reforms (1965-85), and efficiency and growth reforms (1986 to present), yielded desirable results.

Firstly, the chapter outlines the model of government adopted by the newly independent Tanzania in 1961. Secondly, it addresses the country’s adoption of a combination of parliamentary and presidential (hybrid) model in 1963 and examines the problems associated with the policy making machinery between 1965 (the year Tanzania adopted a one party system), and 1985. Thirdly the chapter looks at policy making in the wake of democratic reforms, 1985 to the present. Finally, it underscores the underlying issues that cut across policy making in the two reform periods.

Post-independence policy making in Tanzania

Tanzania’s system of government

At independence in 1961, Tanzania (then Tanganyika) adopted the Westminster model of parliamentary government, part of its heritage as a colony of Great Britain. The model, also described as ‘cabinet government’ or ‘responsible
government’, is based on the doctrine of ministerial responsibility whereby ministers are accountable for their decisions to parliament (Sutherland, 1991). The model is governed by the theory that by ministers being responsible to parliament, ‘the people will, in turn, be able to hold accountable at election time the men and women who effectively run the government’ (Stanbury, 2003:4). However, for citizens to make intelligent judgement on who to reward or penalise at the polls they have, as a prerequisite, to understand the functioning of their public institutions (Martin, 2002; Brian 2004). A people’s understanding of public institutions would be possible where institutional structures are simple and processes are clearly stipulated to enable people to determine strengths and deficiencies of the performers.

The structure of the Westminster system has, apart from a multiparty democracy and a ceremonial head of state, an executive branch (consisting of the core executive and the bureaucracy), a legislature and a judicial system. The executive Prime Minister (PM) heads the government, appoints ministers, controls the working of the cabinet and is leader of government business in the House. According to Davis (2002) and Weller (2004) the cabinet, chaired by the PM, determines government direction, allocates resources, legitimates government announcements, approves policy decisions, co-ordinates government activity, settles inter-ministerial disputes, and manages crisis situations. The Cabinet, therefore, governed by collective responsibility, ‘is the locus of public policy decisions’ in a Westminster system (Okumu, 1979:46).

The system also consists of an elected legislature (parliament) whose role includes questioning ministers concerning public affairs; debating the performance of
ministries during annual budgets; deliberating upon and authorising government plans (policies) for implementation; enacting legislation; and deliberating upon and ratifying all treaties and agreements to which the government is party. The parliament has the ability to dismiss the government by a vote of no confidence, but can itself be dissolved with fresh elections being called after its tenure has ended or at any time upon disagreement between itself and the government of the day (Weller, 2004). Though parliament as a whole may not participate directly in initiating policies, a section of it - the Cabinet - does so (Okumu, 1979). In addition, Okumu argues that though the major role of parliament is to give legislative effect to policy decisions, the final policy is the result of deliberations, arguments and contributions of the members of parliament on behalf of the electorate. This is meant to ensure that the policy decisions that are finally adopted for implementation are in the interest of the people whom they represent in the house.

Governance in a Westminster model is based on the rule of law (Ziller, 2001). Important features of the rule of law, that presuppose the existence of a well established and independent judicial system, include capacity for judicial review of administrative actions; separation between executive and judicial functions; the executive is not granted dispensation from the criminal law; judicial decisions are made on the basis of legal standards; the right of citizens to a fair trial; the equality of citizens before the law; the right of citizens to privileged communications with legal advisors; accessibility of the content of law to the public; and accessibility of courts to citizens seeking to prevent abuse, violation or neglect of law (Gleeson, 2001). Rule of law-based governments rely on the established judicial system to resolve disputes (Peerenboom, 2002:83). However, Lord Steyn (2006) contends that the mere existence of the judicial system, rule of law and ‘strict adherence to
legality’ does not guarantee good governance or freedom from tyranny. He refers to modern day rule of law based democracies such as the United States of America and its Guantamano Bay where people are held without trial, to justify his contention.

Turning now to Tanzania, the country emerged out of colonial rule with the 1961 Independence Constitution granting the Governor-General the status of head of state (acting on behalf of the Queen). Since TANU had won the majority of seats in parliament, the Governor-General chose Julius Nyerere as the country’s first PM and head of government (see Chapter Three). On the basis of the Independence Constitution, Tanzanian National Assembly was accorded ‘high status with important decision making powers and control functions’ (Okumu, 1979:47).

The Tanzanian system of government began to show signs of a dramatic turn as early as 1962 when Nyerere resigned his position as PM, arguing that he wanted to devote most of his time ‘to strengthen the party so that it would be able to take up the challenges of building the country’ (Chachage, 2003:6). Chachage observes that while ‘strengthening the party’, Nyerere initiated in June 1962 the publication of a White Paper in which he outlined the principles of a new constitution, the Republican Constitution. These included that Tanganyika would become a republic with an executive President; the President would have powers over all government actions and responsibilities; Parliament would remain sovereign, with powers to legislate laws, raise taxes and vote money for the government; and governance would be based on the rule of law. In the same year the Republican Constitution was passed by Parliament, concentrating power within the executive arm of government and specifically, within the presidency. Tanzania became a republic.
within the Commonwealth on 9 December 1962, with Nyerere becoming the country’s first President while also retaining his position as party chairman.

However, Nyerere conceded that there would be a clash with reality when some of the principles of the Republican Constitution were put into effect (Chachage, 2003). Firstly, the rule of law principle would clash with reality in that while the Republican Constitution upheld the rule of law with a view to protect the citizens against tyranny, the government espoused some repressive legislation it inherited from the colonial administration such as the Deportation Ordinance, the Collective Punishment Ordinance and the Emergency Powers Order in Council. To these, the independent government also added its own repressive laws such as the Preventive Detention Act which gives the President powers to detain a person without trial. Secondly, there would be a clash between the excessive powers of the President and the sovereignty of parliament. This comes in view of the fact that while the President would have powers ‘over all government actions and responsibilities’, presumably including those of parliament, Parliament was expected to exercise its full sovereignty. Nyerere also stated categorically that the President would ‘have full executive authority’ and would not be bound by Cabinet decisions, reinforcing the view that in presidential systems cabinet ministers play a narrower role, serving as mere ‘aides of the president’ (Chachage, 2003; Stein, 2005: 61).

Through the Republican Constitution, Tanzania established a system of government that was neither Westminster nor Presidential, but rather what is referred to as ‘the new parliamentary’ or ‘hybrid’ democracy (Solyom and Brunner, 2000). While in a presidential system members of the cabinet are not members of parliament, Tanzanian cabinet members are picked from among members of
parliament (see below). However, the Republican Constitution laid a foundation for an ‘imperial presidency’, as it combined in the President the powers of head of state and government and all the previous powers of the Governor General and PM (EACCD:2005). In addition to being Head of State and head of government and Commander in Chief of the armed forces, he also held another powerful portfolio of being ruling party chairman. While the President is not an MP, he is part of Parliament in that he plays critical roles in the life of Parliament. In Tanzania ‘Parliament’ and ‘National Assembly’ are not used interchangeably. Parliament refers to the President together with the National Assembly, while the National Assembly (hereinafter referred to as Bunge) refers to the legislative body only. As part of Parliament, the President opens it and must assent to bills before they become law. Parliament could not impeach the President though the latter had powers to dissolve parliament. This has changed following constitutional amendment which accompanied economic and political reforms (see below and Chapter Three).

The constitution provides for the offices of Vice President (VP) and PM. The PM, appointed by the President from among MPs elected on the ruling party ticket, is accountable to the President instead of the Parliament and may be sacked by the President. The duties of the PM include having authority over the control, supervision and execution of the day to day functions and affairs of the government of the United Republic, and being the leader of government business in the Bunge (URT, 1998a:55). Given the duties of the PM, the specific role of the VP remains unclear, apart from being seen as a political symbol of the union between Tanganyika and Zanzibar. The United Republic Constitution provides that both the President and the VP cannot hail from one part of the union (URT, 1998a:51).
The third arm of the Tanzanian government is the judiciary which, based mainly on the British Common Law, operates on a three-level court system introduced by the Magistrates’ Act of 1963. The system consists of the subordinate courts comprising of primary, district and resident magistrates’ courts; the High Court of Tanzania which, despite its name, is restricted to the mainland as Zanzibar operates its own judicial system, minus the court of appeal (URT, 1998a); and the Court of Appeal of Tanzania, the highest court in the country and constitutionally empowered to hear appeal cases from both parts of the United Republic. All judges of the High Court are appointed by the President but once appointed, can only be dismissed through an established procedure (see URT, 1998a).

A number of studies (e.g. Feld and Voigt; 2003; Hanssen, 2004) indicate the importance of an independent judicial system in economic development and in shaping public policy. Feld and Voigt (2003), for example, argue that judicial independence ‘positively influences GDP growth’ by not only making state actors ‘stick to their promises’ but also contributing to responsible decision making as administrative decisions are amenable to reviews by the courts. The involvement of the judiciary in the policy process comes about through a review of policy related cases because the High Court in Tanzania has constitutional jurisdiction to ‘hear...(and) deal with any matter...obtaining in Tanzania’ (URT, 1998a:97). During the socialist era, however, the judicial system in Tanzania enjoyed limited independence as judges ‘blindly supported government decisions’ for fear that doing otherwise would be interpreted as opposing socialism (James, 1973; Devarajan, et al, 2001). Following the introduction of the reforms, the judiciary has started to exercise a degree of independence (see two case studies below).
Policy making in the era of social policy, 1965-1985

The contradictions that have characterised Tanzania’s policy making scene in the era of social policy began soon after independence. Although the 1962 Republican Constitution bestowed enormous powers on the presidency, the President still expressed a belief in parliamentary sovereignty. For example, when addressing Bunge in April 1964 urging it to ratify the Articles of Union between Tanganyika and Zanzibar, President Nyerere had this to say (as quoted by Msekwa, 1995):

_This Parliament is the supreme organ of the people of Tanganyika. No important constitutional issues, or important matter concerning state...can be finally decided by any one or any group of persons other than this Assembly. All such matters must be brought before this House, and it is entirely in your discretion, Hon. Members, to approve them or reject them. Today, I am submitting to you for consideration the Articles of Union between Tanganyika and Zanzibar_ (Msekwa, 1995:17).

This quotation reveals Nyerere’s belief in the supremacy of Parliament and its role in the policy process. In reality, however, the quotation amounts to ‘brainwashing’ of the Parliament to rubber-stamp the decisions jointly agreed between Nyerere and Karume of Zanzibar. These decisions were drafted into the Articles of Union by an external legal consultant from Uganda, implying that the use of external consultants in addressing policy issues in Tanzania is traceable to the 1960s (Kalandstrom, 1995). Neither the people nor the Cabinet had been availed the opportunity to discuss the policy. As if it understood the limitations of its powers vis a vis those of the President, the Parliament adopted the Articles of Union on the same day without discussion, producing a Union that has been plagued by problems ever since (see Chapter Three).
In June 1964, the government initiated a structure that came to dominate the country's policy making. A Presidential Commission appointed by Nyerere to investigate the political system in Tanzania produced ‘double-edged’ recommendations, advocating a one-party democracy while recommending the strengthening of Parliament, which it accused of ‘lifeless and superficial debates’, and ‘rapidly and uncritically’ passing of legislation ‘without challenge to basic principles or careful examination of detailed provisions’ (URT, 1965). However, the Commission’s recommendations on how to strengthen Parliament did not address the underlying question of ‘imperial presidency’. Kjekshus (1974) argues that though six Parliamentary Committees were introduced in 1965 to strengthen the efficient functioning of parliament, only the Public Accounts Committee was given any substantial powers in that it reported in writing to Parliament after examining the accounts of ministries. In his view, the purpose and functions of the other committees remained blurred, perpetuating the ‘lifelessness’ of the Parliament throughout the socialist epoch.

However, the Commission’s report had far reaching implications in policy making in that it led to the 1965 Interim Constitution which made Tanzania a one party state, granting TANU overall responsibility for formulating broad policies. The Constitution did not only give the Party constitutional status but its powers, scope and involvement in policy making was also increased to the extent that it usurped some of the important functions of government (Zolberg, 1973). Despite the existence of both an elected parliament and a cabinet chosen from it, policy making was dominated by the ruling party through the Party’s executive institutions. Msekwa points out that the supremacy of the one party system meant that the Party had the sole right to set long-range goals for the nation and to make all major
political, social and economic decisions and to issue appropriate guidelines or strategies for their implementation (Msekwa, 1995). The following statement Nyerere made after the 1965 constitutional changes reflects the relationship between the Party and Parliament in the new set up. Nyerere says,

*Under One Party constitution, TANU is supreme. It is able to give directions to government about general policy which must be adopted for national development...it has power to give specific instructions about priorities of action in any aspect of our national life...it has power to summon the cabinet, or any Minister or Government Official to account for their activities* (Quoted in Blau, 1975:35)

Besides demonstrating the extent to which Nyerere could change his political perspective, this statement shows it was the Party and not the Parliament that was supreme; was responsible for policy formulation; and to which the government was accountable, implying that the Party was to play the role of parliament. Tordoff (1967a) observes that TANU granted itself exclusive powers, including that of policy making, in the belief that it is the Party that forms government and not the other way round. If the people had given their support to the Party during elections to enable it form government, they did so because they were convinced that the Party, through its good policies, was capable of governing the country towards the attainment their development objectives. In this regard, the Party had the right to formulate policy, supervise and hold accountable the implementation machinery. However, Hyden regards the supremacy of the party as a deliberate design of a core ‘group of leaders who by virtue of some agreed criteria (could) control access to the political arena’ to serve their own interests (Hyden, 1983:42). Baregu (1994b) shares this view, observing that the sole aim of the party has all along been to promote its own interests by suppressing competing forces including rich farmers, business people, bureaucrats and the popular masses.
TANU divided itself into three distinct organs namely, the Central Committee (CC), the National Executive Committee (NEC) and the National Conference (NC). All three organs were chaired by the President in his capacity as Party Chairman. The Party’s CC, consisting of 18 members of CCM, became the ultimate source of all major decision making, assuming the role of the Cabinet. The President, in his capacity as Party Chairman, nominated members of CC from among NEC members in the same way he chose Cabinet members from among members of parliament. Mushi (1981) argues that which policy issues would be deliberated by the CC or the Cabinet depended on the decision of the President. In general, major policy decisions remained the prerogative of the CC while the Cabinet was left with decisions of a routine nature. Once a policy decision had been made by the CC, it was passed over to the NEC, consisting of 120 members who played the role of the Bunge. It is in the NEC that decisions were deliberated and subsequently approved. By this arrangement, the President was able to manipulate and influence the party into adopting his decisions which would later be passed into law by parliament (Mwansasu and Pratt, 1979:8). In the view of Mwansasu and Pratt, President Nyerere preferred to channel his ideas through the party because the majority of its members consisted of semi-literate people and hardly ‘any radical intellectuals’.

Msekwa observes that although in theory the party’s NC, with about 1800 members, was the body responsible for policy formulation, ‘the long intervals at which it met tended to lessen its effectiveness’ leaving the NEC to become the ‘powerhouse of the party’ (Msekwa, 1995:15). For example, Msekwa points out that because the NEC held its meetings quarterly, it was impossible for its decisions to be repudiated by the NC which met once in two years, later extended to five years.
By using the NEC, the President was able to fully exercise the powers pertaining to his ‘imperial presidency’ including suppressing parliamentary sovereignty.

The *Bunge* received major decisions from the NEC for passage into law. The *Bunge* was reduced to a rubber-stamp of the decisions produced by party organs while the government became a mere tool of the party for policy implementation (Tordoff, 1967b). A number of measures were introduced to ensure parliament ‘rubber-stamped’ decisions from the NEC. Firstly, parliamentary debates were curtailed through the abolition of the customary ‘Third Reading’ of parliamentary bills and through tabling of bills under ‘Certificate of Urgency’. Secondly, Members of Parliament (MPs) were not permitted to raise questions about policy content or make substantive alteration to its objectives. When in 1968 seven MPs raised the question over which between the party and parliament was supreme, NEC expelled them from the party ‘for having grossly violated the party creed both in their attitudes and in their actions, and for showing a very clear opposition to the party and its policies’ (NEC, 1968, quoted in Msekwa, 1995:20). Consequent to this expulsion, the seven MPs lost their seats in parliament.

Thirdly, 48 percent of the MPs, including Regional commissioners, were nominated either by Party organs or by the President and, therefore, were under obligation to support party policies (Kjekshus, 1974). Fourthly, all candidates aspiring for parliamentary seats during general elections were screened and picked by the NEC (Kjekshus, 1974). Commenting on the underlying rationale for NEC’s picking of candidates for parliamentary elections, Richard Wambura, the then Parliamentary Secretary in the office of the 2nd Vice President stated:
The Party picked you in nomination, and (hence) the party has the right to discipline and dictate your tasks...the party is supreme and all the MPs are working under the leadership of the Party...It is high time the MPs should know where they come from...that this Parliament belongs to the Party (Quoted in Kjekshus, 1974:19-43).

Due to these factors and TANU’s politics of patronage, policies tabled before parliament were passed for implementation without much debate or the scrutiny befitting a policy proposal. It took MPs less than a day to pass some decisions which would otherwise require several weeks of deliberation (Kjekshus, 1974).

Okumu (1979) argues that some of the major and large scale policy decisions made by the Party in similar fashion include, the Arusha Declaration and TANU’s Policy for Socialism and Self-reliance; various Five Year Plans for Social and Economic Development; 1972 Government Decentralisation policy; and Transfer of Capital from Dar es Salaam to Dodoma in 1973. Okumu argues further that while the Party had ‘experienced tremendous growth in legal and decision making ability...that acquisition of legal rights (had) not always gone hand in hand with the corresponding capacity to exercise it’(Okumu, 179:54). He states that the Party did not have the ability to command political and economic resources. It neither had competent and knowledgeable personnel of high integrity nor financial liquidity to enhance its capacity to discharge its new role and fulfil its objectives. The Party continued to depend for resources on the government whose bureaucracy was ‘still unpersuaded by the logic behind the move to strengthen the party’. Most civil servants considered themselves to be superior to most party functionaries in terms of education, long service and professionalism (Okumu, 1979:55). The bureaucrats considered party policies as an imposition of party hegemony and were, as a result, reluctant to bring them to fruition (see below).
Many of the major policies promulgated by the party for implementation had disastrous results (see the outline of two major policy case studies below) and many of the decisions were consequently reversed. For example, the abolition of the local government that followed the decentralisation policy was reversed (see below). The disastrous performance of the economy under the socialist policy led to the introduction of the on-going IMF and World Bank brokered structural reforms; and not only has the capital city failed to move to Dodoma since 1973, but the whole idea appears to have been aborted.

**Policy outcomes during the social policy era: Two case studies**

The following two brief case studies illustrate four key points raised above. These are that the NEC of the party had assumed the role of parliament in policy making but did not have the capacity to produce carefully considered policies; the parliament had become a rubber-stamp of party decisions which it passed without discussion; the bureaucrats considered party policies as an imposition and were either reluctant to implement them or implemented them in such a way as to sabotage their goals; and most of the policies formulated by the party failed to produce desirable results.

**Case Study I: The Villagisation Policy**

In 1969, the CC of the party decided that socialism should be extended to the rural settings by settling all Tanzanians living in the rural areas in *ujamaa* (socialist) villages. Since socialism in villages was TANU’s policy, the CC observed that ‘the party should be fully involved with the development of all *ujamaa* villages’ (Coulson, 1982:265). The basic idea was that it would be easier to mobilise and organise people with a view to providing them with basic social services when they
were living in *ujamaa* villages than in scattered homesteads (Havnevick, 1993). Basic services included schools, health centres, water pumps, credit facilities and agricultural extension services (Mlay, 1981). This decision was adopted by the NEC of the party which directed the government to ensure that the rural villagers were re-settled in designated villages; that the re-settlement be carefully planned to enlist the co-operation and support of the people in its implementation; the pattern of settlement was to be 250 families per village; before people were moved to the new settlements, efforts should be made to sensitize them to understand the benefits of villagisation; and that all existing settlement schemes should be abolished (Erdal, 2005:14).

Implementation of the NEC decision by government bureaucracy began in earnest in 1972. However, it was not until almost three years after implementation had begun that the NEC decision was sent to parliament which legislated it as the Village and Ujamaa Village Registration Act in 1975 (Matiku, 1993). By 1980, about 91 percent of the Tanzanian population had been re-settled in more than 8000 designated villages, a resettlement that has been described as the largest in African history (Rudengren, 1981).

There is extensive evidence to suggest that poor policy and mismanagement of the resettlement programme led to its failure. Southall (2005:235) reveals, for example, that instead of re-settlements being ‘carefully planned’ the entire exercise was grossly botched by government bureaucrats who were responsible for implementing the programme. Firstly, a six-month ultimatum was issued for people to be re-settled in designated villages (Havnevick 1993:205). This led to undue haste, including carrying out resettlement in the middle of the planting
season. By the time villagers had settled down, the planting season was over. Secondly, administrators resorted to coercion, including people being rounded up, herded into waiting lorries and sent to designated villages while their original homes were either demolished by bulldozers or burnt down and crops were destroyed to ensure they would not come back (Raikes, 1975). Thirdly, people were forced to resettle in the new villages without understanding what it meant to live together (Lappe and Becca-Valera, 1980). Fourthly settlement patterns ranged between 400 and 600 instead of 250 families per village (McHenry, 1979; Mlay, 1981). Each family was allocated two acres of land regardless of the family size. Fifthly, many of the old settlement schemes were renamed *Ujamaa* Villages ‘without any fundamental transformation in the organisation and operation of the village communities’ (Bienen, 1970:423). Finally, settlements were established along the roads with total disregard of proximity to water, fuel wood, pastures and farms.

The results of the above features were the worst famine that hit the country in 1974-75; overcrowding of people and livestock in villages; intensive cultivation and livestock rearing; restricted shifting cultivation which had previously allowed fallow land to regain fertility for good crop; families being allocated land far away from home, making it difficult for them not only to apply inputs such as manure and fertiliser but also to protect crops against pests and wildlife; fighting for land between agriculturalists and pastoralists; and soil erosion and land degradation. The overall result was environmental degradation, declining agricultural production and declining overall economic performance given that ‘peasant production remained the backbone of the country’s economy’ (Southall, 2005:235).
The re-settlement programme not only produced resentment among villagers and badly eroded support among the people, but also failed to produce desired results. By the late eighties, the entire re-settlement programme had collapsed and 90 percent of the villagers had gone back to their original homesteads to start a new life (Bruce, Hoben and Rahmato, 1994).

Failure of the resettlement programme in Tanzania has been attributed to two major factors. On one hand, the programme failed because the policy guiding its implementation was poorly formulated and disruptive (Sahn and Sarris, 1994; IOB, 2004:26). On the other hand it had failed because it was ‘distorted’, ‘hi-jacked’ and deliberately ‘sabotaged’ by bureaucrats in the course of its implementation (Mapolu, 1986). Mapolu’s view is shared by Schneider who argues that Tanzania’s rural socialism failed because it was undermined by the bureaucrats for fear that its successful implementation would give credit to the party and erode their own power and privileges (Schneider, 2004).

**Case Study II: The decentralisation policy**

In 1972, the same year the implementation of the villagisation programme began, the NEC made another crucial decision that saw the introduction of a programme called ‘decentralisation’. NEC's decision was based on a recommendation by the New York based consultancy firm, McInsey Inc, and its main aim was to reorganise the government administration in order to bring it in line with the ideals of socialist development (Mniwasa and Shauri, 2001). In other words the NEC employed a firm from a leading capitalist country to recommend how Tanzania would successfully achieve its desired socialist goals. The programme was initiated as a supportive measure to help ensure the successful implementation of the
villagisation, and was explained in terms of shifting ‘decision-making machinery close to the people, with district and village governments given greater control over planning and allocation of resources within areas of their jurisdiction’ (Shanks, 1990).

Following the NEC decision, the Bunge enacted the Decentralisation of Government Administration Act, 1972. This Act abolished the existing local government authorities and local representative councils, replacing them with Regional Development Committees and District Development Committees of the party. The party designated Regional and Area (District) Commissioners to serve as Party Regional and District Secretaries respectively in their areas of jurisdiction. At grass-root level, Party Division Secretaries were appointed to serve as party and government heads in their areas, replacing local government appointed Division Executive Officers (Mniwasa and Shauri, 2001). The central government was then directed to establish a supportive administrative mechanism as well staffing the regions, districts and wards with well qualified personnel to assist in implementing ensuing party policies and directives.

The central government established in the regions and districts Regional Development Directorates (RDDs) and District Development Directorates (DDDs) respectively to undertake the planning and supervision of development projects in their areas of jurisdiction. However, instead of providing regions and districts with ‘well qualified staff’, decentralisation provided a loop hole for senior administrators in central government to push into the districts and villages the officers they disliked or those they wished to punish or demote (Abitbol, 1998). This, according to Abitbol, resulted in most extension workers being unmotivated, frustrated,
underutilised and unsupervised, interpreting and implementing directives as they deemed right. The staffing problem was compounded by the fact that unlike the Councillors who were close to and accounted to the people who elected them, these bureaucrats were accountable to their bosses in central government and whose knowledge of what was taking place at the local level depended on reports submitted to them by officials in the districts (Kayuza, 2006).

Prior to decentralisation, districts councils were responsible for approving development plans formulated by organs at district level. With the introduction of the new structure, district development plans were formulated by regional development directorates and submitted to the Prime Minister’s office for approval. Apart from this procedure creating unnecessary delays, the approved plans were out of touch with the realities at grass-root level (Olowu, 1989). Although Max (1991:88) observes that the decentralisation system turned the district councils into ‘bureaucratic organisations dominated by (government) officials’, it has been argued that the system led to an increase in the workload of central government officials in that they were ‘directly and indirectly’ called upon to shoulder and manage responsibilities which had previously been managed by the people themselves (Olowu, 1989). The system created an extension of central administration to the local level with most of its officials lacking knowledge, skills and the required competence to effectively deal with issues at grass-root level (Nooi, 1987). The overall effect of the policy was a deterioration of basic social services and infrastructure and a severe decline in production in the districts (McHenry, 1981).
Although the decentralisation programme was reversed in 1982 with the re-introduction of local authorities in the same year, it has been observed that to refer to the period between 1972 and 1982 as ‘decentralisation’ is ‘confusing and misleading’ (Oyugi, 1998). Olowu (1989) agrees, elaborating that what was accomplished in Tanzania was administrative decentralisation or de-concentration of central government power rather than devolution. Olowu (1989) and Kayuza (2006) argue that devolution means shifting power to the people with a view to promote their self-governance whose features include localisation of decision making; direction and control of the local community affairs by the people themselves; powers for the people to set own rules and to plan for use of resources; powers to levy and collect taxes; and provision of a regulatory mechanism for economic and social services development.

Kironde (1999) argues that although the focus of decentralisation was supposedly to empower the people to define their own development priorities with the government facilitating and co-ordinating their development efforts, it actually usurped all the powers previously held by the people. It facilitated the ‘hijacking’ of the programme by bureaucrats who then imposed their own will on people. Allen (1987) echoes this view, arguing that decentralisation has been used by central government to camouflage its bureaucratic intention to extend its powers and tentacles to the countryside to control it. Kayuza also shares this view arguing that the main reason for the abolition of local government in Tanzania was that local councils were perceived as ‘rivals to the local branches of (the ruling party) TANU’ and, therefore, decentralisation was simply used to justify the removal of that threat (Kayuza, 2006:69).
Baregu (1994b:204) argues that abolishing District Councils and replacing them with District Development Directorates was a big mistake as it cost the nation dearly in terms of stagnation in rural socio-economic development. Nyerere regrets this mistake when he says:

*There are certain things I would not do if I were to start again…one of them is the abolition of local government and cooperatives. We had useful instruments of (people’s) participation and we got rid of them… Instead of helping them we abolished them* (Nyerere, 1984).

**Policy making in the era of ‘efficiency and growth’: 1985-2005**

Kelsall (2002) describes the current political scene in Tanzania as being characterised by what the author regards as ‘veranda politics’ whereby what is displayed on the ‘shop window’ is different from what takes place in the ‘smoke-filled rooms of CCM’ and government. This section shows that the economic and political reforms appear to have put in place a system of responsible government in that policies begin at Cabinet and are deliberated by a sovereign parliament. It is also shown that the judiciary has begun to function as an independent entity. However, it is revealed that CCM still exercises a great deal of influence on the Cabinet and the *Bunge* with respect to policy making.

**The post-reform Cabinet and policy making**

Although the Cabinet existed in the period between 1965 and 1985, all major policies originated in the CC of the party and the Cabinet was left with decisions of a routine nature. With the coming of the economic and political reforms in 1985, however, the government’s policy think-tank appears to be the Cabinet whose official role consists of ‘advising the President regarding all matters concerning the exercise of his powers’ (URT, 1998a:57). The Cabinet consists of the President who presides over its meetings, the Vice President, the President of Zanzibar, the Prime
Minister, the Attorney General and all senior ministers. Cabinet decisions are constitutionally binding in that once made, they cannot be contested in any court of law (URT, 1998:57). Although such constitutional provision is meant to ensure that implementation of cabinet decisions is not hampered by legal suits, Shamir argues that it appears to be irrelevant because empirical experience ‘indicates that courts systematically support the operations of state rulers’ (Shamir, 1990: 782).

Kaare (2003) observes that formally, the policy process is based on a system of Cabinet Papers. A Cabinet Paper is a specific policy proposal that originates from a sectoral ministry and is submitted to the Cabinet ‘for a government decision either in form of legislation or executive/ministerial directive’ (Kaare, 2003:8). Cabinet Papers and subjected to a series of ministerial in-house discussions, which involve representatives drawn from various departments of a sectoral ministry from which the paper originates and are intended to enrich the policy without altering its substance.

Mchomvu (2004) criticises the practice of policy originating from ministerial in-house discussions rather than from discussions by the people in the districts. In his view, policy proposals coming out of these bureaucratic-dominated discussions mainly reflect the ‘utility value’ of the sectoral ministries and the general interests of bureaucrats rather than focusing on national needs. Mchomvu argues further that instead of such discussions addressing wider problems of society and its implementation environment, they focus on the identification of performance ‘gaps’ in the existing policy vis a vis the organisation and structure of the ministry. In so doing, wider societal development needs are either ignored or overlooked. Mchomvu provides, as an example, the formulation in 2003 of the National Energy Policy whose main focus is the country’s urban area and does not clearly spell out
any link between energy and poverty reduction strategy in the country. Urban biased policies have been singled out as the main cause for economic stagnation in the rural areas of most developing countries, including Tanzania (Lipton, 1977; Schiff and Valde, 1998: Bee, 2004).

Following ministerial in-house discussions, the document is availed to ‘a stakeholders’ forum’ for further discussions and recommendations. Stakeholders’ forums consist of representatives of specific groups in society deemed to be directly affected by the implementation of a particular policy. The President usually chairs a stakeholders’ forum, a measure that may be interpreted as an attempt by the executive to demonstrate the extent the state recognises the contribution of those groups to the country’s development, and to persuade it to support government proposal. A specific example of a stakeholders’ forum is the Investors Round Table which is organised by the Tanzania National Business Council to discuss business-related Cabinet Papers initiated by sectoral ministries such as the Ministry of Trade and Industry. Mchomvu, (2004) wonders why a stakeholders’ forum consisting of particular interest group with specific interests to protect is given more access to policies than the civil society which is supposedly targeted by these policies. He regards this procedure as a marginalisation of civil society, and argues that through chairing of stakeholders’ forums, the President allows himself to be unduly influenced by the groups’ opinions, given the fact that he chairs the cabinet meetings that finally make government decision on the same issues.

The Cabinet Paper with recommendations from the respective policy forum is submitted to a central ministry, for example the Ministry of Finance in the case of budget related Papers, or a group of ministries representing the sectors that are considered the main stakeholders of the proposed policy for further inputs (see
Following this stage, the Paper is sent to the Cabinet Secretariat for onward forwarding to the Inter-Ministerial Technical Committee (IMTC) which comprises of Permanent Secretaries from all ministries. The IMTC, chaired by the Chief Secretary (who is also chief of the civil service) from the President’s Office, was created to have ‘overall responsibility for overseeing reform implementation’ and its role is to make thorough reviews and endorse policy proposals before they are finally approved by the Cabinet (Ronsholt and Andrews, 2005). Power struggle between the politicians and bureaucrats is manifested at the IMCT as Permanent Secretaries regard themselves as being superior technocrats and more experienced, and so, better placed to approve government decisions compared to ministers who are politicians and, therefore, ‘destitute’ of the requisite knowledge and skills in government affairs (Ronsholt, et al 2003). Ronsholt et al submit further that Permanent Secretaries show their defiance of ministers by directly reporting to the Chief Secretary, whom they regard as the most senior civil servant, rather than to their ministers. What is implied here is that the commitment and effectiveness of the IMTC in reviewing and producing result-oriented policies remain doubtful in view of the fact that the Permanent Secretaries have to undertake a rigorous review of policy proposals while the Cabinet, whose members they hold in low esteem, takes the credit by approving them.

From the IMTC the Paper is submitted to the Cabinet for final deliberations and approval. The approved decision comes out as a Bill to be submitted to the Parliament for legislative formalities or as a Presidential or Ministerial Directive. At least twenty-one days before the Bill is submitted to the Bunge for first reading, the Minister responsible for introducing it in the Bunge must have its full text published in the official Gazette with a statement of its objects and reasons.
However, the publication procedure may be dispensed with if the President signs a Certificate of urgency declaring the Bill to be of such an unusual nature that time does not allow compliance with the procedure. Figure 5.1 below summarises the current machinery and formal process of policy making in Tanzania. Budget preparation is simply used here to illustrate a typical policy process.

**Figure 5.1: The machinery and process of policy making in Tanzania (1985-present)**

- **The National Assembly**

- **Relevant Parliamentary Sectoral Committee (e.g. Finance and Economic Committee)**

- **The Cabinet**

- **Inter-Ministerial Technical Committee**

- **Central Ministry(ies) (e.g. MOF)**

- **Consultative Forum (CF)**

- **Technical Institutions**
  
  A Sectoral Ministry Starts the policy process in form of a Cabinet Paper.

The *Bunge* authorises the budget after Members of Parliament debate on Revenue and Expenditure proposals submitted by the Minister for Finance and other Ministers. Upon approval, the Finance and Appropriation Bill is passed as the Annual Finance and Appropriation Act.

Before the Finance and Appropriation Bill is tabled before the National Assembly for discussion and approval, it undergoes a detailed examination and gets prior approval by the Finance and Economic Committee.

Approves budget policy: spells out budget goals and implementation objectives; approves annual plans and guidelines.

Ensures the budget policy proposals are consistent with national development objectives and targets; advises the Cabinet accordingly.

Provides guidelines; coordinates budget policy preparation.

Formulate budget policy: prepare plans, estimates and action plans through Departments/sections and relevant parastatals.

Source: Adapted from Kaare (2003:10)
Multiparty Parliament and Policy Making

Following the introduction of democratic reforms in 1992, the Bunge took steps to try and strengthen its role in policy making and enhance its authority by amending constitutional provisions and abolishing some Parliamentary Standing Orders and Rules that had subjected it to the control of the party and the presidency (Msekwa, 1995:5-8). Through these steps, the President was stripped of powers to appoint up to 15 MPs and powers to dissolve parliament, except during the last year of its five-year term; the Bunge was empowered to impeach the President and move a vote of no confidence against the Prime Minister; and parliamentary standing orders and rules, whereby all PMs constituted a Standing Committee of CCM, were repealed. Msekwa, (1995:24) points out that the supremacy of parliament ‘is clearly enshrined’ in sec 63(2) of the present constitution which governs the United Republic of Tanzania, and which states,

\[\text{The National Assembly shall be the principal organ of the United Republic which shall, on behalf of the people, supervise and advise the government of the United Republic and all its agencies in the exercise of their functions} \] (emphasis added).

To supervise, according to the Collins Dictionary (1999), is ‘to direct (i.e. control the affairs of, give commands or orders with authority) and to watch over as to maintain order’, while to advise is ‘to inform, notify or recommend as to appropriate choice’ or manner. While the former connotes supremacy, the latter connotes inferiority and places the Bunge in a subordinate position to government in that advice can either be accepted or rejected. Section 63(2) gives the Bunge the mandate to supervise the ‘government of the United Republic and all its agencies’, but in practice the Zanzibar government accounts to the Zanzibar House of Representatives rather than to the Bunge.
Additional steps taken by the *Bunge* to enhance its efficiency in fulfilling its supervisory role include the decision to increase the number of Parliamentary Standing Committees from the previous six to thirteen. Parliamentary Standing Committees, also known as Sectoral Committees of the Bunge, play a crucial role in scrutinizing policy documents. A policy document in form of a Bill from the Cabinet reaches the *Bunge* through the Clerk of the *Bunge* who tables it before the *Bunge* in its First Reading. After the First Reading, the Bill is passed over to the relevant Sectoral Committee of the *Bunge* for a detailed examination. A relevant Sectoral Committee has no powers to amend a Bill submitted to it but may make recommendations to the responsible minister to introduce such amendments to the House. After the relevant Committee has completed its examination of the Bill, its Chairperson informs the speaker who then orders that the Bill be entered in the Order Paper ready for its Second Reading. At this stage the minister responsible for introducing the Bill moves a motion that the Bill is ready for discussion whereupon the Chairperson of the relevant Sectoral Committee that considered the Bill outlines the views of the Committee followed by the official spokesperson of the Opposition. These official submissions are followed by parliamentary debates on the Bill whereupon the responsible minister makes an overall submission. After all discussions are completed the *Bunge* then sits as a Committee of the Whole House to consider the Bill clause by clause and subsequently have it passed.

However, before this stage occurs the President may summon MPs from the ruling party to sit as a Special Party Committee under his chairmanship to deliberate on the Bill, where the government has concluded from parliamentary debates on the Bill that the majority of ruling party’s MPs are opposed to it. Within party circles, such meetings are aimed at *kuwekana sawa* (literally meaning promoting a
meeting of minds) among party members. An example to illustrate this process is provided in latter chapters. In certain cases, the President has also appointed outspoken CCM MPs to ministerial positions in an attempt to silence them and hence moderate parliamentary debates (Kelsall, 2002:612).

**The Judiciary and Policy Making**

In contrast to the Bunge in which certain measures were instituted following the introduction of economic and political reforms in 1991, there has been no specific re-organisation in the Judiciary. However, since 1991 the Judiciary appears more inclined to exercise some degree of independence than before in conducting legislative reviews. In carrying out these reviews, the High Court of Tanzania may be seen to undertake policy reviews, as our definition of policy (see Chap. Two) includes laws, ordinances and Acts of Parliament. The legislative reviews undertaken by the High Court of Tanzania appear to have triggered a power struggle between the Judiciary and the Bunge. This power struggle with the Bunge, dominated by MPs from the ruling party, implies that CCM still considers itself supreme and does not tolerate any challenge to its status quo (see below). Two case studies are given below to illustrate not only the extent to which the Judiciary exercises its degree of independence but also the sentiments this independence has produced in Parliament.

In Civil Appeal No. 64 of 2001 involving *Julius Ishengoma Francis Ndyanabo vs the Attorney General*, the Court of Appeal quashed and set aside a policy decision whereby the *Bunge* had passed an NEC-originated provision that required election petitioners to deposit in court, Tanzania Shillings (TAS) 5 million before their case can be heard. Julius Ndyanabo, an advocate by profession, had contested a parliamentary seat in Nkenge constituency and lost. He was aggrieved by the
results and filed a petition in the High Court of Tanzania in accordance with Section 111(1) of the Elections Act, but the court could not set a hearing date because the petitioner had failed to pay TZS 5m in accordance with Section 111(2) of the Electoral Laws (amendment) Act of 2001. Ndyanabo then filed a petition in the Appeal Court under Article 30(3) of the Constitution of the United Republic and Section 4 of the basic Rights and Enforcement Act 1994, to challenge the constitutionality of Section 111(2) of the Election Act and petitioned the Court to declare it as arbitrary, discriminatory and unreasonable. Although the government, through the Attorney General, submitted that the payment was intended to bar ‘unreasonable and vexatious petitioners who might bring petitions without reasonable cause’, the petitioner argued that the payment requirement ‘constituted an unjustified restriction on the right of a citizen to be heard’. The three Appeal Justices upheld this reasoning and invalidated Section 111(2) of the Electoral Act 1985 as amended by Act No. 4 of 2000, declaring that the provision denied petitioners their constitutional right to a free access to justice.

The reaction of the *Bunge* to this judgement was swift. Pius Msekwa, its then Speaker, challenged the Judiciary for ‘usurping’ the powers of the *Bunge*. Msekwa stated that ‘the legislature’s competence to make or unmake laws is not limited by anybody and anything except by the legislator’s wisdom and use of common sense’ (*Guardian*, 27/2/2001). However, Mvungi contends that the Speaker had forgotten that the Constitution is the fundamental law of the United Republic to which all other laws must conform; and it is the duty of the courts to interpret the laws so that they are consistent with the Constitution (Mvungi, 2002:25).

The invalidation of Section 111(2) was a threat to the MPs’ retention of seats in the *Bunge*. The Speaker’s contention, therefore, supports the argument that matters of
national importance become insignificant in a situation where interest-driven reactions are involved (Rocha and Ghoshal, 2006). Soon after the delivery of the judgement, the government tabled a fresh Bill to reinstate the TZS 5m requirement for election petitioners and the Bunge immediately passed it into law.

On 24 April 2006, three High Court of Tanzania Judges, Justice Natalia Kimaro, Justice Thomas Mihayo and Justice Salum Masati declared section 119 (2) and (3) of the National Election Act No 1 of 1985 (as amended in 2000) as violative of Articles 13(1) and (2) and 21(1) and (2) of the Constitution of the United Republic of Tanzania and hence null and void. This followed a petition jointly filed in the High Court of Tanzania by the Legal and Human Rights Centre (LHRC), the Lawyers’ Environmental Action Team (LEAT) and the National Association for Legal Assistance (NOLA). Through section 119(2) and (3) of the National Election Act, the Bunge had legalised the policy of giving of inducements, in the name of Takrima (traditional hospitality), to electorates by presidential, parliamentary and civic election contestants when soliciting for votes. The petitioners had argued that apart from being bribery given another name, the section violated the right of equality of citizens before the law as it had advantaged wealthy candidates against the less wealthy. The section also provided a loophole for the government to misuse public resources in enabling ruling party candidates to win elections. The Judges upheld these views.

The NEC of CCM in post-reform policy making

It is revealed above that between 1965 and 1985, a small group of people within the party’s NEC had attempted to wield absolute power and exercise control over all aspects of national life. This had resulted in a struggle for authority between the party, the bureaucracy and the legislature (Baregu, 1994b). In Baregu’s view, the
overall effect of the power struggle between state organs was the crippling of the country’s economy, leading to negotiations with the IMF for financial assistance and culminating in the introduction of economic reforms in 1986.

The IMF supported macroeconomic stabilisation and structural adjustment policies were supposedly aimed at promoting efficiency and growth by addressing the mistakes committed under socialism (Wobst, 2001). However, economic reforms introduced in 1986 were not immediately accompanied by constitutional and political reforms. The 1977 constitutional provision which recognized Tanzania as a one-party state was amended in 1991 to allow political pluralism, five years after the introduction of economic reforms (see Chapter Three). This gave the state party CCM the opportunity to plan from the onset the direction of political reforms that would suit its interests. Hyden observes that as late as 1990 many party leaders still advocated for party supremacy ‘as if the CCM monopoly on power was irreversible’ (Hyden, 1999: 142-155). However, unlike in neighbouring countries, such as Malawi, Kenya and Zambia, where political reforms have ousted long existing ruling parties from power, reforms did not throw CCM out of the political sphere, as it has managed to go through three multi-party general elections (i.e. 1995, 2000 and 2005) without losing power to the opposition.

Baregu (2000) argues that the multiparty political system in the country still features a CCM-controlled reform in which the NEC determines the path, the pace, process and the players in the system. Hyden shares this view arguing that ‘Tanzania still has a long way to go before it can be called a liberal democracy’ and CCM is still a force to reckon with and will continue to dominate the country’s political process for a long time (Hyden, 1999; Kelsall, 2003).
In order to understand the strength of CCM in influencing policy decisions in post-reform Tanzania, there is need to briefly mention CCM’s \textit{Ilani ya uchaguzi} (Election Manifesto) and the extent it weighs on cabinet and parliamentary decisions. Shortly before any presidential and parliamentary elections, the NEC produces the party’s \textit{Ilani ya uchaguzi} revealing the major policies it intends to implement in the next presidential and parliamentary term. During nominations, candidates aspiring for presidential and parliamentary seats through the CCM ticket have to appear before the NEC and enter into a ‘covenant’ with the party that if elected they will uphold the party creed by translating \textit{Ilani ya uchaguzi} into practice. This ‘covenant’ appears to be so strong that when inaugurating the Forth Phase Parliament in Dodoma on 30 December 2005, the country’s current President Jakaya Kikwete ‘assured’ the CCM that the ‘implementation of the 2005 election manifesto is in safe hands’ and went on to say that he would not let the party down. This implies that Kikwete’s presidency was merely a tool to carry out the policies as pre-determined by the NEC because when the NEC has decided on a policy, state organs have no choice but to deliver it (Msekwa, 1995). Ronsholt et al, (2003:4) observe that even the Poverty Reduction Strategy Papers (PRSPs) the Tanzania government has submitted to the IMF have been ‘in many aspects based on the CCM (election) manifesto’.

However, President Mkapa conceded during his first term in office (1995-2000) that the CCM \textit{Ilani ya Uchaguzi}, ‘filled with magnificent promises’ which his government attempted to implement, was not only inadequate but also impracticable and unrealistic (Amnesty International, 1997). This implies that not only is the country’s machinery of policy making incapable of producing result-oriented policies but also that little has changed with the introduction of reforms. It
also supports the view that when formulating and implementing policies in post-reform Tanzania, the government is caught in a collision course involving the CCM and the IMF (Tordoff, 2002).

Although the *Bunge* had taken measures aimed at restoring its supremacy and the sovereignty lost during the one-party rule, practice reveals that little has been achieved through reforms as CCM continues to exercise some control of parliament. For example, the NEC of CCM continues to screen and pick candidates for parliamentary elections in the same manner it did in pre-reform period and is still empowered to expel its own party members whereupon they would, if they are MPs, lose their seats in parliament. In addition, despite the *Bunge* reducing the number of ex-officio members by removing 25 Regional Commissioners from the *Bunge* and included a provision that required all MPs to be elected, the NEC has filled that gap by evolving since 1995 a system of ‘special seats for women’. As this measure touches on the sensitive issue of gender, no organ in the United Republic has been able to openly challenge it. The number of ‘special seats’ has risen from 15 percent of the total constituent seats in the 1995 presidential and parliamentary elections to 20 percent (2000) and to 30 percent in 2005. This procedure has enabled CCM to increase the number of nominated MPs on special seats from 28 in 1995 to 58 in 2005, as revealed in Table 5.2 below.

All ‘special seats’ MPs from CCM are nominated by the NEC. Meena (2003) contents that although the special seat arrangement has increased the number of women in the *Bunge*, it has also increased CCM’s voice and enabled it to enjoy an overwhelming majority in the multiparty parliament. Table 5.2 below supports this view revealing that apart from CCM controlling most of the seats in the House, the features of the post-reform parliament are more or less the same as the pre-reform
The power of the President to nominate MPs was restored during the 2000 elections. There are also five CCM MPs nominated from Zanzibar who sit in the Bunge and participate fully in its proceedings. In the current Bunge, there are a total of 92 MPs, including those from Zanzibar, who represent no constituency on the mainland.


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<td>CCM</td>
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<tr>
<td>Directly elected constituent MPs</td>
<td>186</td>
<td>46</td>
<td>198</td>
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<tr>
<td>Special seats for women</td>
<td>28</td>
<td>9</td>
<td>41</td>
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<td>MPs appointed by the President</td>
<td>-</td>
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<td>9</td>
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<tr>
<td>MPs from Zanzibar</td>
<td>5</td>
<td>-</td>
<td>5</td>
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<tr>
<td>Ex-officio members</td>
<td>2</td>
<td>-</td>
<td>2</td>
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<tr>
<td>Total</td>
<td>231</td>
<td>55</td>
<td>255</td>
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Source: Compiled from the National Electoral Commission.

*Opp: Opposition Parties.

The above measures instituted by CCM are aimed at ensuring that its policies pass through the House with minimum challenge. In principle CCM expects the entire House to support its policies on grounds that the majority of seats it controls in parliament and which gave it the right to form the government are evidence that it ‘was able to convince the majority of voters that it had the best policies and programmes which will benefit the country if...given the opportunity to be implemented’ (Msekwa, 1995:68). The NEC believes that all its policies are ‘good and correct’ only ‘bad leadership’ makes things go wrong (van Donge and Liviga,
This implies that the NEC is aware of the power struggle that exists between the party and the bureaucracy but is unable to effectively deal with the problem.

The Tanzanian Policy Making Weaknesses: the Underlying Issues.

Despite the fact that the reforms introduced in Tanzania were aimed at promoting efficiency by improving the decision making and implementation structures, the country’s policy making is still plagued by underlying problems, some of which date back to the socialist era. The weaknesses, some of which are rooted in the country’s level of development, that undermine Tanzania’s ability to produce result-oriented policy include use of top-down approach; reliance on external consultants; decision processes being donor driven; the process lacking sufficient funding; hasty policy making; unrealistic ambitions; absence of research based decisions; and lack of a well defined policy framework (Hyden 1979; Shelukindo, 1992; Mchomvu, 2004). These features are briefly discussed below.

Mchomvu (2004) observes that policy making in Tanzania adopts a top-down approach whereby decisions are formulated at the top echelons of government and imposed on the people. This, in his opinion, tends to marginalise civil society for whom policy is intended. The observation is supported by the revelation above that policies originate from discussions in ministries rather than originating from people at the grass-root level. The ILO (2004) states that if implementation of policy is to bear desired results, men and women at the grass-root level should be involved from the planning stage of its formulation. Apart from people seeing the policy as their own rather than government’s, this approach would enable the citizens to understand the scope, benefits and limitations of the policy and to give
fruitful comments. From this perspective, most policy interventions in post-independence Tanzania have failed in their objectives because they were imposed from the top with citizens being regarded as mere tools for implementation (Havnevick, 1993, Bee, 2004).

The top-down approach in policy making is compounded by the presence of and domination by foreign consultants, a feature that robs policy of its national character (Mchomvu, 2004). Clay and Schaffer (1984) and Sutton (1999) argue that by engaging foreign experts to advise on policy, the policy process is drawn away from the indigenous people to outsiders. Leach and Mearns (1996) contend that foreign experts’ advice on matters of policy tends to reflect heavily the practices pertaining to their own environments while ignoring local reality, leading to misguided or even flawed policy. Mchomvu (2004) argues that since foreign consultants lack knowledge of the needs of the local environment, they ‘import’ their own value preferences which they blend into the country’s policy, making such policy not only alien to the Tanzanian people but also expensive to implement. Implementation of such policy becomes expensive because the ‘foreign dominated value preferences’ inherent in the policy do not pertain to the means and technological know-how available in the country. Christiansen and Redd (2004) point out that when a country engages foreign advisors in policy making not only the approach to implementation but even the choice of policy is greatly influenced by the presence of such advisors.

Shelukindo (1992) contends that policy decision making is such a core function of government that it should not be shared with or delegated to external agents. In his opinion, it is wrong for Tanzania’s government to delegate policy making to
external agents because, as revealed by Colebatch, ‘the purposes of the (country’s) policy makers may not be the dominant motivation of such agents contracted by the government to carry out some activity on its behalf’ (Colebatch, 1993: 35). Colebatch argues that consultancy firms, such as those engaged by the World Bank to undertake consultancy work to facilitate Tanzania government policy making, may give more allegiance to the Bank and therefore, be more sympathetic to the Bank’s objectives rather than those of the government. In his view, any consultancy firm engaged by the government on policy-related matters would be ‘more sensitive to the interests of its industry than to the concerns of the policy-makers’ (Colebatch, 1993: 37). Sutton (1999:27) contends that one of the methods applied by external policy advisors to introduce agendas of their own into the policy, hence marginalising the interests of the local population, is ‘labelling’. Institutionalised policy labels such as ‘gender policy’, ‘poverty reduction policy’, and ‘land policy’ (to name a few), are formulated on the basis of external benchmarks as opposed to the local environment for which policy is made. For example, an American or British consultant hired to advise on or assist in gender policy formulation would, more often than not, come up with gender policy benchmarks reflecting American or British values while ignoring or overlooking the values of the local environment.

The policy process in Tanzania also suffers from insufficient funding with the result that review and final drafting of the policy document is donor dependent (Mchomvu, 2004). Consequently, the state renders itself prone to donors to dictate or influence what its priorities should be. This view is echoed by Ashford (1983) who argues that when the state or any other organisation depends on external financing for its policy making, it loses not only freedom in decision making but also control in the manner such policy would be implemented. Mazey and
Richardson (1999) contend that it is difficult for a state to accept even the slightest external assistance without first acceding to some form of a pre-condition for its provision. Kane and Orszag (2003) state that when policy lacks sufficient funding, it not only becomes substantially and politically complicated but it is also less likely to produce significant results. Two factors may account for this. On one hand the formulation of such policy may not have been based on up to date and result-oriented information which requires sufficient funds to generate. On the other hand, its implementation would hit a snag due to lack funds needed to acquire policy relevant skills and technology.

Hyden (1979:97) argues that policy makers in Tanzania have always adopted Nyerere’s catch word of ‘running while others walk’ when dealing with policy issues. Hyden points out that due to the country’s pressing problems and society’s expectations on government to deal with those problems, policy makers are driven by the urge ‘to do everything and do it at once’. On one hand they want to demonstrate their commitments towards addressing public problems and on the other hand, they want to maximize as many social values as possible through policies that serve to mobilise new resources for the achievement of these values.

It follows, in Hyden’s opinion, that policy decisions are produced without policy makers first having obtained full and detailed knowledge of the consequences of such decisions. Hyden regards this as the ‘motivation-outruns-understanding’ style of policy making whereby ultimate objectives are given weight over any cost considerations. Citing the decision to nationalise the major means of production in as a case in point, Hyden argues that decision makers should have counted the cost resulting from severe disturbances in the production and service sectors given the
low level of technology and shortage of qualified and skilled manpower at the time. Hyden’s view is supported by the IMF and the World who jointly observe that in making decisions, the Tanzania’s leadership relies heavily on insufficient data and does not address issues ‘as fully’ as would be desired (IMF and IDA, 2000). Recent studies (see Dix, 1998, 2003; Przeworski and Vreeland, 2000; Robinson and Torvik, 2005) indicate that policies chosen on the basis of ultimate objectives alone without due consideration on their cost and other relevant factors may produce destabilisation leading to serious economic and social consequences.

Hyden (1979) also regards Tanzanian policy makers’ unwillingness to utilise the past and the present as a source of guidance for the future as an inherent weakness. In other words, the country’s leadership does not value the utility of policy research in providing information to assist policy decisions. Hyden’s view, the Tanzanian policy makers are guided by the assumption that the solution to a problem is not always found in some available information regarding the problem; it may as well be found through trial and error (Hyden, 1979). This approach has produced policies that ‘would otherwise be ruled out by conventional criteria of rational calculation’ (Hyden, 1979:98). In the absence of relevant information to correctly inform policy makers on basic development needs, policy making in Tanzania is usually biased towards macro rather than micro-perspectives (Mchomvu, 2004). However, Mukama (1981) argues that making reference to the past when dealing with the present or the future on matters of policy would be baseless rigidity. In his opinion, past development needs on the basis of which certain data was generated may not necessarily be relevant to present needs due to differences in premise, time and context in which such needs occurred. This position contradicts the view held by a number of scholars (see Hagedoorn, Link and Vonortus, 2000;
Orphanides, 2001; Jacobs and Page, 2005) on the importance of policy research that examines past and present data as a guide for the future.

Tanzania’s policy makers also tend to produce ambitious and unrealistic policies, compelling employees in the public sector to work in a context where public expectations constantly exceed what can actually be attained in reality (Hyden, 1979:98). The assumption of policy makers in producing complex policies is that such policies would force state bureaucrats to ‘improve performance’ on the realisation that failure to deliver expected results would jeopardise their own positions (Hyden, 1979:99).

Due to the complexity and the far reaching nature of the country’s policy goals, policy objectives and standards are either unclearly stated, unrealistic, inconsistent or untimely (Mukama, 1981). The result is that policies suffer from lack of clearly stipulated implementation structures and technology that address or reflect existing realities. To ensure that such policy attains results, the government usually draws up or adopts sophisticated and elaborate systems of coordination as though the implementers have infinite capacity and inflexibility (Morrisey, 2002). Shelukindo (1992) argues that due to the routine nature of policy making, it is always assumed that the skills and tools to undertake the responsibility exist in the organs of government; that people in the traditional organs of government know exactly what they are supposed to do and are fully aware of the demands placed upon them with respect to policy making. The result is that implementing agents find it difficult to formulate operational plans, work out appropriate programmes, lay down operational procedures and mobilise resources at the appropriate time.
Reflecting on this illusory perspective of policy making, Shelukindo (1992) observes that in the entire machinery of the government of Tanzania, Policy Analysis and Review Units (PARUs) have only been established in three offices namely the Cabinet Secretariat (President's Office), Prime Ministers Office and the Civil Service Department. In Shelukindo's opinion, and given the complexity and scope of public policy, PARUs should be established in all the ministries in order to create appropriate policy-relevant information, advice and feedback that would facilitate effective policy making. The specific functions of these organs should be:

To analyse problems and policy options including the evaluation of policy proposals emanating from other parts of government, and to review and report on implementation and effectiveness of policies including giving advice on their modification or termination (Shelukindo, 1992:1)

**Conclusion**

Generally, policy is made to address a country’s prevailing needs and, therefore, the machinery of policy making should be designed in such a way as to facilitate the formulation of policy which is capable of attaining desired development goals. Conventional public administration has always regarded policy making as a threshold role of government which has evolved the machinery to undertake this activity over time. However, during the one-party state in Tanzania (1965-1991), policy making became the domain of the ruling party (TANU and later CCM) rather than being an activity of government. The party assumed the role of policy making on the argument that the people who voted it to lead the country did so on the basis of its policy proposals and, for that reason, it had the duty to directly deliver those policies. The party transformed the parliament into a rubber stamp to legalise its decisions while the government became an instrument for implementing party
decisions. The policy process, therefore, suffered not only in terms of the party’s lack of knowledge and skills in policy making, but also in terms of the power struggle between party stalwarts and the state bureaucrats who saw the party as imposing its own will on bureaucracy. The result of this power struggle was that most of the policies made by the party did not only fail in implementation due to lack the support by the bureaucracy but also caused a great deal of damage on account of their being poorly formulated.

The economic and political reforms being implemented in Tanzania were supposedly introduced to address the shortcomings experienced in policy making during the one party state. Regrettably, however, these reforms have not significantly addressed the underlying problems in the policy making arena. Although the Cabinet, has re-assumed its traditional role of policy formulation, and despite the fact that parliament has attempted to regain its sovereignty, the effectiveness of these organs in policy making is hampered by a number of underlying limitations including top-down approach; donor-driven policy process; reliance on external consultants; lack of funds; hasty decisions; lack of relevant information; absence of a well defined policy framework; and the reluctance of CCM to relinquish its legacy of party supremacy.

Policy making in the country continues to assume a top-down approach in that policy discussions are limited to ministerial levels rather than taking a participatory approach whereby people at the grassroots should be involved. The results of this state of affairs is that policy making tends to be incremental, based on the identification of implementation ‘gaps’ in existing policy vis a vis the structural and organisational capacities of sectoral ministries. The marginalisation
of the civil society means that the basic needs of the civil society are also marginalised. The top-down approach in policy making is compounded by the fact that the process is donor-driven. Donors take advantage of the state of the economy to influence policies in return for financial support to implement its development programmes. The donors’ package includes foreign ‘experts’ who lack knowledge of local conditions and, therefore, apply principles and benchmarks pertaining to their own countries in making policy for Tanzania. The result is that policy is laden with foreign values whose translation into reality becomes difficult due to the absence of corresponding local skills and technology and differences between the assumptions of policy makers and local realities.

Policy making also suffers from lack of relevant data and information to guide the policy makers in formulating policy that addresses the pertinent needs of society. As a consequence, Tanzania policies focus on ‘macro’ issues while ignoring or overlooking the ‘micro’ issues which touch the core of the country’s socio-economic problems. There exists no relevant framework to provide advice on policy. As a result, policies are made in haste without due consideration not only on the ability of the country to implement them but also on the long-terms social and economic consequences of such polices.

In the political sphere, CCM continues to strengthen itself and to influence policy despite the fact that the economic and political restructuring in 1990s were, among other aims, supposed to weaken its influence in matters relating to policy making by restoring the supremacy of parliament. Among measures that promote the party’s control of parliament include screening and picking of parliamentary election candidates; the provision in the party’s constitution which empowers it to
indirectly remove any MP by expelling them from the party; and the introduction of election manifesto spelling out policies which serves as a ‘covenant’ between the party and its sponsored MPs as they make a vow to defend and support the manifesto when elected. Additionally, the introduction of ‘special seats for women’ has assisted CCM to dominate and control the legislature. The ruling party looks upon members voted into parliament on its ticket to support government policy proposals. Whenever it is observed that most of the CCM members in the Bunge are opposed to a particular policy proposal, a provision in the party constitution enables the President to have them sit as a ‘Special Party Committee’ whereupon they are reminded of their election promises to support the government in implementing CCM election manifesto.

This examined of the machinery of policy making in Tanzania will provide a basis on which to address the main questions relating to why Tanzania chose privatisation as its policy for reforming its public enterprises, how the policy was chosen and how it should have been chosen. However, in Chapter Four of this study, it was revealed that recent policy reforms in Tanzania are based on recommendations from the World Bank and the IMF. In the next chapter, therefore, it is important that we first provide a general understanding of the World Bank and IMF policies.
CHAPTER SIX

WORLD BANK AND IMF: THE STRUCTURAL REFORM STRATEGY IN THE THIRD WORLD

Introduction

Tanzania has, since 1986, been implementing structural reforms as a condition for obtaining loans from the World Bank and IMF (see Chapter Four). Structural reforms and adjustments refer to steps taken by governments borrowing from the two international financial institutions (IFIs) to bring domestic economic institutions and policies in line with world trends in areas such as pricing and investment controls (Kiggundu, 1989:270). The major aim of these reforms is to inhibit state intervention in the economy and promote efficiency by encouraging use of the market in allocating resources (SCDR, 1995). By making structural reforms a conditionality for borrowing, the World Bank and the IMF have aimed at ensuring their policies are adopted by as many countries as possible. This chapter discusses the relevance and impact of World Bank and IMF reform and adjustment policies in developing countries.

The chapter begins by briefly outlining the role of the World Bank and the IMF. This is complemented by the activities and programmes promoted and supported by the two IFIs. The chapter then discusses the World Bank and IMF approach and motivations for offering support to developing countries, and the final section deals with evidence regarding the relevance and impact of World Bank and IMF lending policies to developing countries.
The Role, lending policy approach and supported activities of the Bretton Woods Institutions (BWIs)

The World Bank

The International Bank for Reconstruction and Development (IBRD), also called the World Bank, is a specialised agency of the United Nations, with headquarters in Washington DC. It was initiated by the Bretton Woods Conference (BWC) in 1944 and became operational in 1945. The World Bank has four affiliates including the International Finance Company (IFC), established in 1956 to facilitate the provision of loans and technical assistance to private business without the requirement of government guarantee (Mason and Asher, 1973:347); the International Development Association (IDA), established in 1960 to cater for the needs of developing nations (Mason and Asher, 1973:380); the Multilateral Investment Guarantee Agency (MIGA), established in 1989 to measure the non-commercial risks of investing in developing countries and guarantee foreign investors against such risks (Sanford, 2003:14); and the International Centre for Settlement of Investment Disputes (ICSID).

The idea that culminated in the establishment of the World Bank originated in the United States government treasury in 1940 when a proposal was drawn up for the establishment of an Inter-American Bank (IAB) (Mason and Asher, 1973). The role of IAB would be, among others, to stabilise currencies and serve as a clearing house for international payments; make loans; buy and sell the securities of any of the member governments or their political subsidiaries; guarantee credits in gold and foreign currencies; discount bills and other credit instruments; accept deposits;
and perform normal banking functions (Mason and Asher, 1973:15-16). Since Bank’s establishment, the US government has taken steps to promote its control of the Bank including ensuring the Bank is headquartered in Washington DC; approving the appointments of the Bank’s presidents who must be US citizens; and controlling the largest single vote of any member country (van de Laar, 1980; Kraske, 1996; Sanford 2003:14). For example, the US government’s contribution to the World Bank itself has grown from US$ 571.5 in 1947 to USD 31.6 billion in 2000, giving the US the largest single vote of any member country.

Commenting on the formation of the World Bank, Korner et al (1986) argue that at the BWC, the US took advantage of the weakness of its industrial rivals in Europe to influence and anchor its interests in the structures of the Bank and its affiliate organisations. Kraske supports this view, arguing that since its inception the major role of the World Bank has been to serve the interests of the US foreign policy while at the same time operating ‘according to commercial standards acceptable to the private sector’ (Kraske, 1996:9). North (2003) argues that like any other financial institutions that perform business to create sound dividends for their shareholders, the World Bank performs business for its major shareholders who include the US, Japan, Germany, France and the UK. He affirms that it is these major shareholders who determine the Bank’s policies as well as influencing its strategic lending approach to poor countries. For example, to justify its existence, the World Bank must satisfy its shareholders that its ‘investments...bear good returns’ (North, 2003:61). In North’s opinion, the World Bank has been posting profits for its major shareholders each year since 1948 and the Bank’s annual returns generated for these shareholders have, in most cases, exceeded the amount of loans disbursed.
McLellan (2003) provides that originally, the needs of developing countries did not feature in the World Bank’s objectives. This resulted in a vigorous campaign and pressure from developing countries for the establishment of an institution under United Nations control that would cater for their needs. The consequence of this campaign was the establishment of the Bank’s affiliate, the IDA, in 1960. The creation of the IDA shifted the original focus of the World Bank from assisting the reconstruction efforts of war-torn countries of Europe to assisting the efforts of developing countries towards socio-economic development. The Bank’s assistance to developing countries focused on guaranteeing private investments; making loans to public and private investors on the basis of government guarantee for repayment; and making loans to governments for development of infrastructure including transportation, communication and electric power (Mason and Asher, 1973:12).

The World Bank’s support to developing countries has focused on infrastructural projects and public utility sectors, mainly the construction of intercity-highways and rural road rehabilitation, hydropower construction, electric towers, telecommunications and water supply (Payer, 1982; North, 2003). This focus has been influenced by three considerations. One, since public utility sectors provide essential services to the majority of people in developing countries, it is through such sectors that the poor people of these countries could be integrated into the technological advancement of the industrialised countries. Two, since most public utility sectors are capital intensive, it is through their continued support that obsolete but costly equipment and other facilities that are no longer of interest to industrialised nations could obtain ready markets in developing countries. Three, as most development programmes in developing countries are focused on
development and modernisation of infrastructure, supporting such development would give the Bank ‘a greater beneficial influence on the country’s development programme’ (van de Laar, 1980:49). Moreover, when a country secures a loan for a particular project, it does not receive the money but instead ‘the money is paid directly to the corporations that win contracts for constructing and/or supplying projects financed by the Bank’ (Payer, 1982:35). This mechanism ensures that most of the project funds get back to the donor countries. Payer reveals, for example, that in 1980 the Bank disbursed loans totalling US$80 billion for project implementation in developing countries but 80 percent of this money went back to the major shareholders of the Bank.

Khor (2003) and Guttal (2007) argue that a key role of the World Bank is to create an environment that widens opportunities for foreign firms to make money. This observation is supported by the World Bank’s attitude towards private foreign interests vis a vis public interests in Tanzania, as revealed later in the study. Projects financed by the World Bank in developing countries are usually identified by the Bank itself through Bank-sponsored Country Economic Surveys, to ensure such projects have the potential not only to generate good returns for the Bank but also to create opportunities for foreign investments (Mason and Asher, 1973; Payer, 1982). Through country economic surveys the Bank helps a potential borrower to identify and locate a project, helps to prepare feasibility study for the project, and ‘appraises the results of its efforts’ before committing funds to the project (Mason and Asher, 1973: 234). North (2003) observes that since the World Bank’s project lending has put more emphasis on the returns to investments rather than on the human factor, the implementation of most of these projects has led to the displacement of millions of people as well as the destruction of the natural
environment. While many of the World Bank sponsored projects are linked with environmental degradation, the Bank’s budget on environmental conservation dropped from 3.6 percent of total project support in 1994 to 1.02 percent in 1998, a decline of 71.6 percent in four years (North, 2003).

Payer (1982:19) summarises the mechanism by which the World Bank has been able to promote international capital in developing countries as including acting as an intermediary for the flow of funds abroad, with taxpayers money from developed member countries serving to guarantee the safety of the bonds it sells; opening up previously remote regions through transportation and telecommunications investments, thus destroying the natural protection such regions had previously enjoyed; directly aiding multinational corporations, notably but not exclusively, in the mining, banking and telecommunications sectors; and pressuring the borrowing governments to improve the legal privileges of the tax liabilities of foreign investments. In Payer’s view, other mechanisms include insisting on production for export which chiefly benefits the corporations that control international trade while selectively refusing to loan governments that repudiate international debt or nationalise foreign property; opposing minimum wage laws, trade union activity and all kinds of measures that would improve the share of labour in the national income; insisting on procurement through international competitive bidding, which favours the largest multinationals; opposing all kinds of protection for locally owned business and industry; and financing projects promoting national policies that deny control of basic resources (e.g. land, water, forests) to the poor and appropriating them for multinational corporations and their collaborative local elites.
In 1980 the Bank introduced a loan programme called Structural Adjustment Loan (SAL) which requires any country that wishes to benefit from it to effect certain adjustments to its domestic economic policy before the loan can be disbursed (Crockett, 1981). The introduction of SAL shifted the Bank’s commitment to Third World development assistance from long-terms economic development to improvement of short-term balance of payments. The introduction of the programme also harmonised the Bank’s lending policies with those of the IMF thereby enhancing the cooperation between the two IFIs.

The IMF

Like the World Bank, the IMF was created by the BWC in 1944 and is located in Washington DC. Article 1 of the Fund’s Articles of Agreement spells out its objectives as promoting international monetary co-operation through consultation and collaboration on international monetary problems; facilitating the expansion and balanced growth of international trade; promoting exchange stability; assisting in the establishment of a multilateral system of payments and elimination of restrictions that hamper the growth of world trade; giving confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards; and in accordance with the above, shortening the duration and lessening the degree of disequilibrium in the international balances of payments of members (Khan, 1995). In spite of the Fund’s international character, however, as of 1999 the US held 17.53 percent through its total contribution of US$ 37.149 billion, giving the US government substantial control of the institution (Sanford, 2003). Thacker (1999), Barro and Lee (2003), and Vreeland (2004) argue that access to loan facilities from the IMF is dependent, to a large extent, on a country’s alignment with the US as measured by United Nations voting patterns.
The relationship between the IMF and the World Bank is enshrined in the latter’s Articles of Association which stipulate that before seeking membership in the Bank, a country has first to be a member of the IMF (Korner et al, 1986). IMF membership and conformity to the Fund’s rules and conditions are the major prerequisites for gaining admission to the World Bank and receiving development aid from it (Grusky, 2001). The IMF categorised the roles of the two institutions as follows,

The IMF and the World Bank are sister institutions in the United Nations system. They share the same goal of raising living standards in their member countries. Their approaches to this goal are complementary, with the IMF focusing on ensuring the stability of the international financial system and the World Bank concentrating on long-term economic development and poverty reduction (IMF, 2006).

In addition to allying itself with the World Bank, the IMF also enjoys a cordial relationship with the Paris Club (Guise, 2004). Formed in October 1962, the Club is a consortium of Western creditor countries, Belgium, Britain, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United States (the G10), that make loans or guaranteed export credits to developing nations. The Club is headquartered in Paris and usually meets in the French capital to discuss the tendering of emergency loans to countries in economic difficulty or in the rescheduling of debts. Since one of the considerations for loans is the borrower’s ability to repay debts, the Club relies on the IMF for information regarding the borrowers’ ability to do so (Guise, 2004). The importance of this reliance is revealed by Alain le Bel, the French Embassy spokesperson in Zimbabwe, when he says:

If Zimbabwe can get an agreement with the IMF, it would be easier to discuss with the Paris Club about debt rescheduling... If the Club knows
that a country has a good relationship with the IMF, it is easier to get a positive answer (Zimbabwe Independent, 27 May 1999).

The IMF loan programmes objectives are based on the World Bank ‘conditionality’ developed in 1957, which specify requirements to be met by the recipient country as an integral part of the agreement. The main objective of the conditionality is to ensure prompt loan repayment by the recipient country to ‘make the funds available to other members in need’ (IMF, 2005). The IMF reveals its role in policing international loan programmes when it says,

*It would be politically difficult for (creditor) authorities to try to exert a direct influence (on the borrowing country) without accusation of dollar diplomacy. But once an agreement is reached with the Fund, the (creditor) authorities can demand the observance of the provisions of such an agreement (IMF, 1964:63).*

According to the Fund, its conditions serve to strengthen the confidence of other lenders in the ability of the (recipient) country to repay the loans. Gould (2003) attributes the rise in the use of structural conditions to the influence of private creditors who supplement Fund resources. Creditors concerned about loan repayment by borrowing countries turn to the IMF agreement in an attempt to avoid what the IMF calls ‘showing direct influence’. Mason and Asher contend that since loan repayment is the concern of bilateral and multilateral creditors, compliance with IMF conditions has become a strategy for dealing with poor countries. Such important creditors as the Paris Club, the Hague Club and other agencies ‘usually turned on conditions considered satisfactory by the IMF’ as a basis for extending loans to poor countries (Mason and Asher, 1973:543). As the major concern of the Fund in disbursing the loan is repayment, any country that borrows from the Fund is forced to adopt certain measures that, though socially and politically harmful, would ensure development of the ability to repay the loan within a specified period.
The IMF engages in short term lending and medium-term extended loan facility lending (Joyce, 2004). The lending programmes operated by the IMF include the Stand-By Agreement (SBA) (since 1952); the Extended Fund Facility (EFF) (since 1974); the Structural Adjustment Facility (SAF) (since 1986); Enhanced Structural Adjustment Facility (ESAF) (since 1987); and the Poverty Reduction and Growth Facility (PRGF) (since 1999) (see below).

Procedurally, a member country of the IMF that experiences some economic crisis may request financial support from the Fund under the PRGF by signing a ‘letter of intent’, which specifies the policies that it will implement to address the crisis (Joyce, 2004). Upon approval, the Fund would continue to disburse credit so long as a government adheres to the policies it outlined in its letter of intent. During programme implementation, the IMF undertakes periodic evaluation to ensure a country fulfils its obligations as stipulated in the performance criteria, structural benchmarks and overall program objectives. Where non-compliance is observed, the Fund suspends or terminates the program.

Although the IMF sees itself as promoting policies and practices that enable developing countries to achieve what, in the short-run, would be impossible to achieve without access to the Fund, the existence of the very terms ‘conditions’ and ‘conditionality’ suggest that ‘what a member country agrees to do is often rather different from what it would choose to do if access to the Fund were available without strings’ (Mason and Asher, 1973:542). Commenting on the Fund’s loan facilities Killick says that the Fund ‘is too much of a monetarist organisation, dogmatically applying a monetarist approach to balance of payments policy in standardised ways which pay insufficient heed to individual country
circumstances...Fund programmes are short-term and neglect the structural supply side causes of payment difficulties’ (Killick, 1995:13). He points out that what is common in all the Fund’s loan facilities and their conditionality is the increased role of the markets and private enterprises through privatisation, restructured financial services, reform in interest rates and development of capital markets. However, he argues that the Fund’s policies and the design of its programmes are ill-suited to the specific conditions of low-income countries, leading to increase in poverty rather than alleviating it. Two major reasons for IMF policies being unsuitable for developing nations are provided by Korner et al (1986) and Helleiner (1986:8). Firstly, such polices are prepared by Fund staff who are inadequately informed of and insensitive to the local conditions and objectives of borrowing countries. Due to the fact that the policies are ‘handed over’ to developing countries for implementation from Washington, they do not adequately address the local environment of the recipient countries. The discrepancy between the policy objectives and the local reality results in such policies failing to deliver the outcomes that address the poverty experienced by poor countries.

Secondly, the IMF acts in the interest of the creditors in the sense that the Fund was introduced to replace the 19th century gunboat diplomacy where by debtor countries were forced at gun point to comply with debt repayment (Korner et al, 1986:2). This explains the Fund’s involvement of other donors in the preparation of the Policy Framework Papers for borrowing countries. According to Korner, the IMF’s seal of approval indicates to the creditors that a government is prepared to carry out austerity policies that guarantee debt repayment. Since, therefore, the Fund’s main objective is centred on debt repayment to creditors, its programmes
are more focused on short-term balance of payments with a view to enhance a country’s ability to repay loans than on poverty alleviation.

The impact of World Bank and IMF Reform Polices

The World Bank and IMF lending policies are premised on the assumption that the economic problems of developing countries (DCs) have their root cause in the structural imbalances and in the policies that aim at offsetting them including excessive state intervention in the economy and prevailing parastatal monopolies (Vernengo, 2006). However, by portraying DCs’ problems from this perspective, the Bretton Woods Institutions attempt to divert or ignore the historical realities. Firstly, much of DCs’ economic ills have their origin in legacies of colonial history of monocultural exports, stifling of the industrial base, rigid social structures and the entire form of integration in the world market economy (Korner et al op. cit.). Secondly, SCDR (1995) argues that DCs economic problems may be attributed to policies of conservative political parties in the United States of America in 1979 and Britain in 981. In the view of SCDR (1995) governments in these countries introduced domestic deflationary policies and programmes which led to a reduction in levels of domestic economic activity and employment, resulting in declined demand for DCs’ products. The consequence of this was drastic decline in export products and revenue, forcing most DCs to effect serious budget cuts and resulting in a debt crisis as these countries found themselves in a desperate need for foreign exchange to foster their development programmes or even import industrial goods and other requisite necessities.
As mentioned above, the World Bank and the IMF introduced several lending programmes designed to deal with economic crises besetting developing countries in the 1980s. Between 1987 and 1999, developing country governments borrowing from the IMF participated in ESAF programmes whose features included cuts in government spending and budgetary reform; cutting of social and environmental services; removal of import and internal trade restrictions; removal of price controls; devaluation of currencies; and tight fiscal control of money supply and credit to burn away inflation and raise interest rates; and privatization of state-owned enterprises (UNECA, 1991:12). The main objective of these reform measures, from the perspective of the World Bank and the IMF, was to create conditions for sustained growth, including improved flexibility to adjust to changes in the economic environment. A number of studies (e.g. Baer, 1994; OECD, 2005) indicate that a well implemented ESAF programme has a number of advantages including fiscal adjustments resulting from the selling of public assets leading to government budget deficits turning into surplus; economic efficiency resulting from reduced political interference and exposure to competitive market output; foreign investment leading to increased foreign capital; considerable financial inflows from western governments and international agencies; and fast economic growth resulting from openness to foreign influence and importation of technology for rapid development.

While Pronk (1993) and Olaitan (2005) regard ESAF measures as being necessary in a situation characterised by serious economic mismanagement and where the allocation of resources is not productive or is not in accordance with real development needs, they disagree with the idea that solution to the economic problems of developing countries can be approached through ‘adjustment’. They
contend that the adjustment being referred to is not for enhancing rapid growth or development but rather for accommodating the adverse effects of the external environment. In Pronk’s opinion, the World Bank’s and IMF’s policy focus should, rather than demanding adjustment, have aimed at assisting poor countries by establishing consortia which, for these countries, could have catalysed desperately needed additional finance for their socio-economic development.

Generally, a range of direct and indirect benefits are claimed to result from participation in programmes sponsored by the IMF and the World Bank. Direct benefits for countries participating in IMF and World Bank sponsored programmes are accelerated economic growth, improved income distribution and poverty reduction (Garuda, 2000; Dicks-Mireaux et al., 2000). Indirect benefits include what is termed as the ‘signalling’ or ‘credibility’ effect whereby adoption of IMF and World Bank programmes has increased credibility of the borrowing country in terms of the goals it proclaims to have and the means to achieve them; and the so-called ‘credentialing’ effect which has enabled the participating countries to borrow from commercial banks (Conway, 1994; Bird, 2002).

However, a number of studies (e.g. Przeworski and Vreeland, 2000; Hutchison, 2001; Barro and Lee, 2003; Easterly, 2003; and Dreher, 2004) conclude that participation in IMF and World Bank programmes lowers growth of GDP and aggravates unequal income distribution. For example, the participation of Argentina, Turkey and Brazil in IMF and World Bank programmes has resulted in stalled growth, massive job losses and, for Argentina, unsustainable debt that has sent the country into history’s biggest default. Three reasons have been advanced for poor growth among countries participating in IMF and World Bank
programmes (Dreher and Vaubel, 2001; Bird and Rowlands, 2003; Boockmann and Dreher 2003). First, participation in IMF and World Bank programmes increases government dependence on borrowing and promotes laxity in exploring additional avenues for generating revenue. Since IMF and World Bank programmes are positively associated with aid flows, participation in these programmes has created a tendency among governments to regard aid and loan funds as economic insurance cover and have consequently become excessively lax, lowering their precautions against impending crises. The result has been that such countries have found themselves experiencing economic and social problems which, in the absence of insurance-induced laxity, they could have taken appropriate measures to avoid. Second, IMF and World Bank programmes erode government leaders’ incentive to successfully implement reform policies whose initial choice they have not participated. Third, based on lack of participation in choosing reform policies, there has been a tendency to pursue inappropriate policies longer than governments would otherwise do.

North (2003:60) contends that when imposing their reform policies on developing countries, the World Bank and the IMF do not take into account the economic and social conditions that had influenced governments to adopt the public sector-centred policies pursued by these countries. As a consequence, IMF and Bank policies and programmes have reduced most of the countries that adopted them to pauper states. UNECA (1991) agrees, pointing out that when each of the World Bank’s and the IMF’s adjustment prescriptions is examined independently, its possible negative impact on the socio-economic development of a country’s population can be seen. In the view of UNECA, many of the policy prescriptions of
the IMF are ‘double-edged swords’ whose advantages are easily offset by their disadvantages, as illustrated below.

**Cuts in government expenditure**

UNECA (1991) argues that although this policy may, in some cases, be necessary, what often occurs is that it is the social sectors of education, health, housing which become the focus of such cuts, rather than for example the military. In fact government cuts from social sector often go into expanding the military. Consequently, reduction in government expenditure leads to considerable trauma for the majority of the population as they confront some economic and social insecurity from which they were hitherto insulated under the old system (Stiglitz, 2004). North concurs with this view, arguing that

*The reductions in public sector spending and cuts in subsidies ... destroyed whatever little safety net that existed for the poor...increased the cost of education and health care....reduced capabilities to pursue environmental and social goals and forced small businesses and farmers to sell out* (North, 2003:62).

**External trade liberalization**

UNCTAD (2004) state that trade liberalisation in poor countries has enabled these countries to generate foreign exchange through increase in exports. In addition, imports facilitated by trade liberalization have led to an increase in the utility of the lowly paid consumer, by reducing the time spent in hunting for commodities or queuing for them (Lipton and Sach, 1990). However, Santos-Paulino and Thirlwall (2004) contend that increased imports by poor countries through trade liberalizations have not only resulted in increased trade imbalances but have resulted in sharp decline in income (GDP) of most underdeveloped economies. Moreover, liberalisation of trade has transformed the countries concerned into dumping grounds for cheap and often adulterated products from industrialised
countries. Furthermore, industrialized countries with excess commodities, including food items, have taken advantage of liberalised trade to export commodities at reduced prices to countries which are undergoing the adjustment programme. This measure has not only undermined local infant industries which produce similar goods but has also ensured that developing countries would not develop self reliance in commodity production or make any advancement in industrial development.

Although Ederington et al. (2004) state that trade liberalization does not exacerbate the building up of pollution havens in less developed partner countries, a report by UNEP (2005) suggests the contrary. According to UNEP, trade liberalisation has led to export to developing countries of pesticides whose misuse and overuse has resulted not only in declining agricultural production but also in increased health problems. Trade liberalization has also lead to ‘aggressive competition within the local market’, resulting in over-exploitation of resources and increased waste emissions, and aggravating environmental degradation and resource depletion (UNEP, 2005).

**Devaluation of Currencies**

The IMF’s stated aim of currency devaluations in developing countries is to control the demand side of the economy with a view to achieve low inflation and promote balance of payments sustainability (UNECA, 1991:13). It is further argued that this policy would render exports cheaper while making imports expensive, influence people from the countries undergoing reforms to sell more products and purchase less foreign goods, and attract foreigners to goods produced by the devaluing countries. Generally, currency devaluation was expected to promote competition
and stimulate economic growth (Glick and Rose 1998.) However, Kasa (1998) argues that developing countries that have effected currency devaluation have experienced a general economic recession due to various reasons including the rising cost of imported intermediate inputs; rising domestic prices; eroded purchasing power of money; declined aggregate demand; and inadequate regulation.

Furthermore, most developing economies, especially those in Africa, are import-dependent and have to rely on importation of such goods as fuel, spare parts, agricultural inputs which become expensive as a result of devaluation. The devaluation argument also overlooks the fact that most developed economies usually fix tariffs and quotas limiting the amounts goods to be imported, besides fixing prices for such goods in convertible currencies (UNECA, 1991). The consequence of this is that goods from developing economies cannot necessarily increase in export volume or fetch more foreign exchange simply because devaluation has rendered them cheaper in foreign markets. In UNECA’s view, devaluation has influenced the abnormal allocation of scarce resources in and led to increased capital flight from developing countries rather than stimulating their growth. UNECA (1991:17) contends that while the World Bank and the IMF continued to reap super profits from the poor, borrowing countries slowly but effectively lost their ability to plan for their own future.

Privatisation

When promoting privatisation policy in developing countries, market enthusiasts at the IMF and the World Bank argued that state-owned enterprises (SEO) are inefficient and, therefore, selling them off to the private sector would promote
growth. Citing the rationale given by the World Bank for privatisation Kessler and Alexander, (2004) point out that private sector development (PSD) is expected to reduce poverty through accelerated growth, increased capital investment in services used by poor people, improved quality and expanded access and providing governments with fiscal space to focus on social spending. However, Easterly (2001) argues that while the World Bank enthusiastically supports privatisation and provides a superficial account of what the policy is supposed to achieve in relation to poverty reduction, the Bank does not provide a strategy on how this could occur. In this regard, the Bank’s support for privatisation and its contribution to poverty reduction becomes more rhetoric than reality. Kessler and Alexander (2004) argue further that while efficiency is important in measuring economic performance, it should not outweigh goals of equity, affordability and universal access to social services. While the costs of a poorly performing state sector are given prominence, the anticipated private sector does not provide a convincing strategy for the problems which public ownership itself was intended to resolve.

The IMF and World Bank promote privatisation and urge developing countries to implement the programme as a means of raising revenue from the sale of parastatals, raising tax revenue on the profits from the privatised enterprise, avoiding support for loss-making enterprises, improving performance of enterprises for superior results, and contributing to poverty eradication (Easterly, 2001). However, Self (1993; 2000) argues that privatisation in Britain not only failed to fulfil these expectations but also produced a number of negative effects including loss of tax payers money through under-pricing of public assets; loss of
accountability among privatised firms; loss of future profitable revenue; and failure to achieve in social and environmental goals. In addition, privatisation has resulted in labour being thrown out of employment as a result of the need by competitive market firms to meet targeted profits (UNECA, 1991). This has not only produced misery among unemployed people but has also added a strain on governments in terms of increased crime and other vices as the unemployed seek ways of attracting attention to their plight. Rather than contributing to poverty eradication in developing countries, the main objective of privatisation appears to be short-term financial gain intended to enable developing countries borrowing from the two IFIs to repay their debts (Easterly, 2001).

Generally, Killick (1995) argues that since the main interest of the IMF and World Bank is loan repayment, their sponsored programmes have paid more attention to the domestic political environment than economic growth. Although the Fund’s and the Bank’s policies emphasise ‘growth’ and ‘poverty reduction’, suggesting a long-term development strategy, these policies are more focused on loan repayment, and deal mainly with stabilisation programmes that address short-term balance of payments problems aimed at enhancing government ability ‘to repay the Fund’ (IMF, 2005), than on promoting long-term growth strategies.

The replacement of ESAF with PRGF suggests that even the IMF and the World Bank appear to have recognised the limitation of their stabilisation programme. PRGF introduced in November 1999 is aimed at ensuring that IMF and World Bank programmes in developing countries focus on a ‘new commitment to fight poverty’ rather than simply addressing short-term balance of payment deficits (IMF, 2001c). However, Meltzer (2005) contends that while the IMF created PRGF
to address growth and poverty issues in developing countries, the Fund does not have the expertise to tackle economic development and poverty reduction in these countries. This contention is supported by the argument that the programmes pursued by countries under the PRGF do not in fact address the underlying and fundamental problems that supposedly created the desire of the IMF and the World Bank to introduce PRGF as a shift towards a stronger involvement in poverty reduction and growth (Bird, 2004). Bird argues that the Fund and the Bank initiated PRGF to promote growth and fight poverty without spelling out parameters that would define the relationship between economic growth and poverty reduction. For example, the IMF still insists on macroeconomic stabilisation as a pre-condition for economic growth, and on economic growth being a precondition for sustained poverty reduction. While economic stabilisation can be easily defined and attained, economic growth and poverty reduction pose much more challenging problems due to the absence of scientific consensus on their causes and therefore on the appropriate policies needed to help achieve them (Bird, 2004).

In the absence of a universally agreed indicator of poverty, it is difficulty to determine whether poverty is rising or falling across countries under the PRGF (Deaton, 2002). Even if growth was to have a positive impact on poverty, not all groups from amongst the poor would benefit from it in the absence of a properly designed mechanism to facilitate this objective (Demery, 2000). Moreover, countries pursuing programmes under the PRGF are obliged to repay loans with interest, with repayments made semi-annually and ending ten years after disbursement (Bird, 2004). This implies that governments would be more focused on meeting loan repayment than on measures aimed at poverty reduction. There
also arises the question of sustainability of the poverty reduction programme after the end of the IMF and World Bank support period. Without further support, the short run costs will make it more difficult for governments to continue to implement and sustain appropriate long term poverty reduction programmes (Bird, 2004).

Commenting further on the impact of IMF and World Bank policies in the Third World, Bond (2005) contends that these countries part with USD 340bn annually to western countries as repayment for servicing a USD 2.2tn debt. In his view the amount repatriated is eight times the G8 countries annual development aid budget. In addition to financial repatriation, adjustment policies have also led to depletion of assets such as forests and mineral resources resulting in suffering of millions of people in developing countries as a result of the impact of pollution. Coghill and Woodward pursue this argument further contending that huge public debts shouldered by the people of third world countries, as a result of borrowing from the IMF and World Bank, would be bearable if such funds had resulted in increased consumption levels and improved standards of living. But, in their view, such funds have only fuelled corruption as corrupt third world leaders compete in building up their personal accounts in Swiss banks (Coghill and Woodward, 2006:87).

World Bank (2003) and IMF (2004b) acknowledge the fact that economic reforms in most developing countries have failed to raise the resource base of these countries. This failure, according to the IMF, is due to lack of clear intermediate objectives and ‘the benchmarks against which to measure progress in terms of changes in domestic policy processes in each country’(IMF, 2004b). Failure in IMF and World Bank programmes has made it difficult for developing countries, many
of which are highly indebted, to meet their political obligations including expansion of education and health services, nutrition programmes and improved water facilities and shelter for the poor (Sahn, 1996). Birdsall and Londono (1997) state that the Bank should, since McNamara’s presidency, have learnt a lesson that economic growth alone is not a sufficient criterion for poverty reduction. In her view, the three pillars of the Bank’s strategy for lending to developing countries during 1960s and 1970s were acceleration of economic growth, provision of basic social services to the poor and the creation of social safety nets. The fact that poverty still persists among recipient countries of the Bank loans indicates that promoting economic growth without addressing pertinent issues such as inequality does not lead to poverty reduction.

Weller (2000) advises that if the World Bank and the IMF are to promote and improve the standard of living among people in developing countries, the policies of the World Bank and IMF should change and focus mainly on promoting more grants than loans to developing countries to reduce their burden of international loan repayments, encouraging internal development aimed at reducing overdependence on external capital flows, encouraging and facilitating the design and implementation of effective capital control, requiring adherence to labour and environmental standards, increasing democratic participation by granting developing countries more say in the Bank’s and IMFs policies and designing mechanisms to facilitate fair distribution of resources, not only within poor countries but also between poor and rich nations.
Conclusion

The creation of both IMF and World Bank was aimed more at currency stabilisation and growth among developed countries than promoting economic growth in developing countries. Placing an increasing emphasis on economic growth of developing countries came years later, after it was realised that economic growth of these countries could expand opportunities for the IMF and the World Bank to create returns for their share holders. The IMF and World Bank’s approach to developing countries could, therefore, be seen in the context of a rich person assisting a poor person financially to enable the poor person to create opportunities that would be exploited for the benefit of the rich person. In order to ensure the creation of opportunities that would suit the IMF and World Bank objectives in developing countries, the Fund and the Bank apply the conditionality to be met by governments intending to borrow money from them. The conditionality serves as a mechanism that propels the economy of developing countries towards the direction which, in the opinion of the Fund and the Bank, would optimize the exploitation of the economies of developing countries.

The main focus of the IMF and World Bank conditionality is the reduction of government’s involvement in the economy which implies a reduction of the public sector. The cuts in government spending, cutting of social and environmental services, removal of subsidy on essential items, removal of import and internal trade restrictions, and removal of price controls, signal the destruction of public sector characteristics whose main focus is to cushion the poor against the pangs of poverty. While cuts in government spending on services and subsidy would promote government’s ability to repay loans with interest, removal of price
controls would ensure that whatever little income people make is spent on purchasing goods and services produced by foreign private firms, whose market entry in developing countries is facilitated by removal of internal trade restrictions, to increase their share of profits from the economies of these countries. The IMF and World Bank poverty reduction in developing countries under PRSP and PRGF programme can also be understood as enabling the poor people in developing countries to achieve a level of financial ability to purchase and consume foreign-dominated commercial and industrial production.

The IMF and World Bank acknowledge the fact that their jointly supported PRSP and PRGF programmes have failed to improve living standards among the majority of the poor people in developing countries. This failure has been attributed to a number of reasons including the IMF and the Bank lacking an appropriate definition of poverty as well as expertise in addressing growth and poverty issues in developing countries; promoting overdependence on aid among poor nations; denying poor nations a say in the Fund’s and the Bank’s policies; and lacking a strategy that promotes fair distribution of resources in developing. Moreover, PRSP and PRGF programme implementation is still tied up with the IMF and the World Bank conditionality that focuses on stabilisation and improvement in balance of payments whose main focus is loan repayment (Bird, 2004). Paradoxically, therefore, the mechanisms evolved to translate the objectives of the PRSP and PRGF into reality negate the very essence of the programme itself.
CHAPTER SEVEN

Financial Sector Reform: Privatisation of the National Bank of Commerce

Introduction

In Chapter One, we set out to investigate why Tanzania choice of privatisation as a strategy for reforming its public enterprises, the considerations that were taken into account in making the choice, the theory that helps to explain the choice and lessons to be learnt from the Tanzania experience. This chapter examines the privatisation of the country’s major commercial bank, the National Bank of Commerce (NBC). A study on NBC's privatisation is influenced by the fact that banks play a critical role in any country’s economic development (Xu, 2000; Thorsten and Levin, 2001; Graff, 2002; Prasad et al, 2003; Boyd and Champ, 2006; Losano-vivas and Pastor, 2006).

The chapter provides a brief discussion on the foundations of the banking sector in the country and looks at the role of banks in development. This is followed by a discussion on liberalisation of the financial sector and the entry of foreign banks. The final section focuses on the liberalisation of Tanzania financial sector and the scope and management of the NBC’s privatisation process.

Foundations of the banking system in Tanzania

To understand the current banking practice in Tanzania, there is a need to examine the two major periods, colonial and the socialist, that have provided the foundations for the banking system in the country.
Pre-independence banking system

After the British had defeated Germany in WWI and took possession of the country in 1919, commercial banking in Tanzania was granted to three commercial banks of British origin, the Barclays Bank D.C.O, the National and Grindlays Bank and the Standard Bank. These banks, which became commonly known as ‘the big three’, dominated the commercial banking system in the country until 1950. After 1950, commercial banks from India, Pakistan and the Netherlands opened branches in the capital city Dar es Salaam. All these banks, however, had one common characteristic in that they were branches of multinational banking corporations and had their operating policies dictated from abroad (Lwiza and Nwanko, 2002).

A notable legal feature in this era of banking is the Credit to Natives (Restriction) Ordinance of 1923 which until 1947 restricted African peasants from obtaining loans from financial institutions or from private business agencies unless they were licensed to do so by the colonial government (Mlay et al., 2002). While native Africans were denied access to financial credit, efforts were made to induce foreigners to engage in large scale mechanised farming with financial support from existing financial institutions. Sosovele (1999) argues that mechanised agriculture gained support from financial institutions as it was seen to lead to more bank profits through capital expansion. Denial of financial credits to Africans, therefore, appears to have been a calculated move intended to reduce Africans to mere labourers in large plantations owned by foreigners who had access to large amounts of credit. When credit facilities were made available to Africans, they were accompanied by stringent and restrictive conditions including delivering to the banks, as collateral for bank lending, land title deeds which did not exist in Tanzania at the time (Kironde, 1995).
Post-independence banking system

Banking before the Arusha Declaration, 1961-1967

After independence the government realised that the main interest of the foreign banks was profit maximization (URT, 1977b). Given the colonial mode of production from which the country was emerging, most of the modern sector of the economy was dominated either by Europeans or Asians to whom most loan facilities were made available. Where credit facilities existed for local people, they were accessed by the ‘local notables’, such as the local chiefs and petty traders, and in small amounts that would not facilitate any meaningful investments. With this realisation, the government initiated a policy whose objective was to establish and operate indigenous banks that would respond to the needs of the country’s traditional economy.

In 1964 the government established the National Cooperative Bank (NCB) whose main aim was to facilitate agricultural credit to Africans (Caselli, 1975:201). This was followed in 1965 by the Tanzania Commercial Bank whose role was to ‘ensure that the government plays a much more vigorous role in the commercial sector of the economy ...(through) a bank owned and controlled by the government' (URT, 1964:7). In the same year a central bank, the Bank of Tanzania (BOT), was established as a government’s banker not only responsible for the domestic monetary system but also to regulate the financial activities of the commercial banks and ‘enable the government to control effectively the country’s monetary policies’ (URT, 1977b). However, these measures did not lead to the desired government control of financial policies. The British banks, the ‘big three’, which by 1964 controlled 83 percent of the Tanzanian financial market, determined most of the financial policies related to interest rates, exchange rates and customer care
(Kimei, 1987). This prompted the government to initiate further control measures (see below).

**The banking system after the Arusha Declaration, 1967-1991**

The promulgation of the Arusha Declaration on 5 February 1967 (see Chapter Four) reversed the free-market policies that were pursued by Tanzania after independence (Lwiza and Nwanko, 2002:40). On 6 February 1967, all the nine commercial banks that operated privately in the country were nationalised and placed under direct state ownership. On the same day, the National Bank of Commerce was established by the National Bank of Commerce (Establishment and Vesting of Assets and Liabilities) Act No. 1 of 1967, to take over all the functions of the nationalised banks (URT, 1977b). At the time of nationalisation, the government accused the existing commercial banking system of concentrating domestic credit on the foreign trade sector; allocating extremely low levels of finance to the domestic sector; strict and discriminatory loan security arrangements; scanty efforts in the mobilisation of local savings; export of capital from the country for investments abroad; foreign dependence on metropolitan head offices; and lack of effective financial support, contributing towards government deficits (URT, 1977b).

Along with the NBC, other state-owned commercial banks that remained in Tanzania after nationalisation and which constituted the country’s banking system were the NCB whose main role was to service the rural based co-operatives, and the People’s Bank of Zanzibar (PBZ), whose operations were limited only to Zanzibar.
Five reasons have been advanced by scholars (see La Porta, et al 2002; Dinc, 2002; Yeyat, et al, 2005) to account for governments in least developed countries nationalising and acquiring ownership of banks. Firstly, the measure is intended to enable the government to maintain the safety and soundness of the banking system because bank failures may have far reaching economic and social externalities. Secondly, it enable the government to develop certain industries considered as being strategic to the development of the country but which are financially unprofitable to private banks. It is assumed that a government-directed and controlled financial system would enhance subsequent financial development, promote the efficient allocation of resources and stimulate growth and productivity. Thirdly, it enables the government to develop financial and banking services that can be easily accessed by populations of isolated areas. Fourthly, ownership of banks guarantees government’s easy access to lending aimed at financing elections. Fifthly, state-owned banks have a tendency of loaning out money to government and not to exert pressure to have the loaned money repaid.

Following nationalisation, the role of the NBC was explained (see URT, 1977b) as including mobilisation of domestic savings for national development; provision of maximum services to the peasants and workers through an expanded network of branches and agencies throughout the country; and provision of working capital to various sectors of the economy. In addition, it would finance foreign-oriented production activities to promote increased foreign exchange earnings; implement government fiscal and monetary policies; provide facilities for transfer of funds between persons and/or firms; and provide consultancy on investment and export promotion, trustee and executor services, and various information related to trade through status reports.
Soon after starting business as a state-owned bank, the NBC was hit by a wave of problems as expatriate staff was withdrawn by the nationalised banks and its foreign assets were frozen. After some time, however, the NBC gained stability, and along with the NCB, began to branch out into new fields and some earnest competition began between the two banks (Caselli, 1975:203). This resulted in the government being ‘criticised’ for letting its socialist financial institutions operate on the basis of competition which was characteristic of capitalism (Loxley, 1970). The criticism prompted the government in 1970 to abolish the NCB, transferring all its activities to the NBC and leaving the country with only two commercial banks, the NBC on the mainland and the PBZ in Zanzibar.

In 1984 the government re-introduced the co-operative bank it had abolished fourteen years earlier, after realising that the effectiveness of the NBC in micro-financing was not as had been anticipated (Kimei, 1987). The new bank was named the Co-operative and Rural Development Bank (CRDB) and was, apart from its main role of serving co-operatives and rural-based enterprises, mandated to provide banking services to individuals and companies. However, the NBC remained the dominant bank and by 1991 it had become the largest commercial bank, with assets totalling 13 times those of the CRDB which had only 11 branches and one agency countrywide (Rutihinda, 1992). With a total of 203 branches and 237 agencies across the country, the NBC enjoyed ‘a market share of 92 percent of all deposits mobilised by all-deposit-taking institutions’ (Lwiza and Nwanko, 2002).

Lwiza and Nwanko summarise the limitations of the banking system shortly before the introduction of financial sector reforms in Tanzania as including limited
competition which effectively turned the banking sector into a *de facto* sellers’
market; determination of interest and exchange rates by government resulting in
bank depositors experiencing negative real interest rates; and increased
government and political interference in the managerial and operation decisions of
the banks; political rather than market determination decisions for the location of
bank branches; limited choice by bank customers of financial products and
services; long credit processing periods; undercapitalisation due to state
ownership, resulting in unhealthy financial situations and non-performing
portfolios; and lack of adequate managerial, financial, banking and marketing
know-how (Lwiza and Nwanko, 2002:40-41).

Although Lwiza and Nwanko (2002) welcome the introduction of financial reforms
as a panacea to the banking problems in Tanzania, Honohan (1997) and
Dautmond, Le Gall and Leroux, (2004) argue that the banking crises that hit
developing countries, including Tanzania, in the 1980s were in fact a world wide
phenomenon and were attributed to a number of factors including banks’ volatile
operating environment characterised by limited diversification; susceptibility of
the economies to exogenous shocks such as unfavourable terms of trade,
international interest rates and real exchange rates; weaknesses in macroeconomic
policy making; shortcomings in institutional frameworks; and volatility in the
growth and inflation rates. In addition, bank crises are triggered by excessive and
unwise lending; the mismatch between bank assets and liabilities; rigidity to
change; heavy government involvement; weak accounting, disclosure and legal
frameworks; and lack of or distorted incentives for owners, managers and bank
depositors. In view of these authors, therefore, banking sector problems in
developing countries can only be solved by measures addressing both domestic and external factors.

Financial sector reform and privatisation of public banks

The need for financial sector reforms

Liberalisation of the financial sector has been premised on the assumption that without a fundamental reform on the sector, a country’s overall economic reform objectives would fail since financial development has an important bearing on economic growth (Nwanko, 1997; Lwiza and Nwanko, 2002: 1; Xu, 2002: 332). This view is echoed by a number of studies (see for example, Barajas et al, 2000; Clarke, Cull and Peria, 2001) which reveal that on a general level financial liberalisation may be directly and indirectly beneficial to the economy by encouraging the participation of foreign banks which inject new capital into the economy; promoting competition; enhancing efficiency; improving access to technology and management expertise; lowering intermediation costs; improving imports and exports; and improving loan quality and services.

However, there has been widespread debate against financial sector liberalisation and its effects on the economy in developing countries. Nyawata and Bird (2004) regard as fallacy the argument that financial liberalisation promotes or improves economic performance. This view is supported by Stiglitz (1994) and Demirgüç-Kunt and Detragiache (1998), arguing that financial liberalisation may lead to financial fragility resulting in negative economic growth as banking crises are more likely to occur in countries that have liberalised their financial systems compared to those that have not. Temu and Due (2000:691) pursue this further, contending that the contribution of financial reform to the national economy does not
automatically result from the mere existence of a liberalised financial market. In their view, this contribution would require the evolution of a sound policy mechanism to facilitate and ensure the establishment of a competitive environment and the strengthening of the existing banking institutions; reinforcement of the regulatory system; and putting in place an effective supervisory mechanism. Regarding sound financial policies, Helleiner (1998) contends that many developing countries lack the capacity and the expertise to formulate and effectively implement appropriate policies to deal with liberalised financial markets. Due to lax financial supervision, poor corporate governance and the complex international financial systems, developing countries cannot afford to make hasty decisions towards financial sector reforms without taking appropriate measures to ensure such reforms work in the interest of the domestic economy (Lall, 1999).

Demonstrating that financial reform measures do not work in every environment, recent studies by Burki and Niazi (2003) in Pakistan and Akyuz and Boratan (2006) in Turkey reveal that a comprehensive programme of financial liberalisation introduced in these countries with the support of the IMF have failed to deliver the promised results. Mattoo (2000) and Young and Vogel (2005) contend that in most developing countries, financial sector reform has been equated with privatisation of state-owned retail banks (SORBs), resulting in the termination of rural financial services provided by the privatised banks. Following closure of rural branches no concrete measures appear to be put in place ‘to take advantage of the SORBs’ assets to develop successful rural and microfinance institutions’ (Young and Vogel, 2005:3). Wenner (2002) and Zeller (2003) agree, contending that closure of rural branches by privatised banks and the reluctance of
private banks to operate in rural areas have resulted in a sharp decline in the supply of formal rural and agricultural credit. In their view, this measure has undermined the supply of agricultural inputs, marketing of agricultural produce and provision of credit previously given by state-run commercial banks, leading to negative economic growth, food insecurity and retarded efforts in poverty reduction. Ironically, poverty reduction-oriented economic growth is supposedly the core rationale for structural adjustment and financial reform programmes in developing countries (see Chapter Four).

This view is supported by Honohan (2004) who contends that financial reforms in developing countries have focused on commercial banking aimed at promoting commerce and export trade, ignoring the role of ‘micro credit and micro-financing’ in the economic development of these countries. In his view, less than 1 percent of the population in these countries was able to access micro-credit and microfinancing and the total amount of loans available for micro-credit and microfinance was about 1 percent of broad money supply. Based on various evaluations on microfinance, the UN General Assembly designated 2005 as the International Year of Micro-credit and called upon governments, the United Nations system, relevant non-governmental organisations, civil society, the private sector, and the media to join hands, not only in raising the profile of the micro-credit and microfinance, but also in building the capacity required for the efficient and effective performance of this sector. According to Kofi Anan, UN Secretary general, ‘micro-finance has proved its value in many developing countries as a weapon against poverty and hunger (and)...can change people’s lives for the better—especially the lives of those who need it’ (UN, 2004a). This statement supports the view that a well developed and strengthened rural finance enhances
the capacity for production of materials and resources required for accelerated industrial production and sustainable development in the developing world (Doner and Hershberg, 1999; Wani et al, 2003).

**Foreign Banks participation in a liberalised financial market**

There are various views on the participation of foreign banks in liberalised financial market. While some advocate the entry of foreign banks to foster financial reform objectives, others hold that such objectives can still be achieved without the participation of foreign banks and that the presence of these banks may be detrimental to the economy.

The IMF (2000c:165) argues that foreign banks are more efficient compared to local banks. In the opinion of the Fund, foreign banks improve the availability of financial services by introducing new sources not available in the country; improving the quality and price of the existing services; forcing domestic banks to introduce improvements to meet the growing competition in the financial market; increasing capital inflow; promoting transfer of technology and managerial skills through expatriate banking personnel; and improving the expertise of the local staff through understudy of the expatriate staff, on-the-job training as well as exposure to long-term training. UNCTAD supports this argument, stating that structural reforms would succeed in developing countries if foreign banks are allowed to operate and exercise firm control of the financial market because local banks 'do not have the expertise to provide ...corporate services required by foreign investors or fully service international transactions’(UNCTAD, 2002:14). However, both IMF and UNCTAD are silent about the role of banks in assisting agrarian societies in their rural development effort and poverty eradication.
The presence of foreign banks, however, is contested on grounds that such presence may produce adverse effects on the banking environment (Barajas, et al, 2000; Di Patti and Dell’Ariccia, 2004). Some limitations of foreign banks in a liberalised financial market include their tendency to ‘cream off’ the best clients; concentrate services in urban areas; back down on lending to traditional rural economies; influence a deterioration of loan quality; and ‘shy away’ when economic conditions of the host country deteriorate (Dautmond, Le Gall and Leroux, 2004; Cetorelli and Strahan, 2006).

It is also argued that the contribution of foreign banks to such aspects as technology transfer and skill development appears to be a generalised statement. For example, van Horen (2006) reveals that 27 percent of the foreign banks operating in most developing countries are owned by banks from other developing countries. This raises serious questions on the magnitude and quality of technology and skill transfer in that the developing countries from which such banks originate are themselves in acute need of banking technology and managerial know-how (Inkpen and Beamish, 1997; Sadowiski and Rajneesh, 2002). Helleiner (1998) refutes claims of increased capital inflow resulting from participation of foreign banks, arguing that in fact, increased participation of foreign banks in these countries has widened and expanded their integration in global financial and capital markets resulting in greater capital flight and exposing these countries to more external shocks than ever before.

**Tanzania Financial liberalisation and privatisation of the NBC**

As a prelude to the privatisation of state banks in 1990, President Ali Hassan Mwinyi appointed the World Bank sponsored Presidential Commission to inquire
into the problems of the financial sector in the country. In its report submitted to
the President in January 1991, the Commission argued that the public banks were
inefficient and recommended the ‘restructuring and modernisation of banks’ not
only to ‘foster competition’ but also to make them responsive to customer needs
(Kimei, 1994; Nyagetela and Tarimo, 1997). Following these recommendations, a
process was initiated by the government with a view to liberalise the financial
sector to facilitate the investment and operation of private banks, and specifically
foreign banks, in the country; and the privatisation of state banks, mainly the of
NBC.

In February 1991, Parliament passed the Banking and Financial Institutions Act No
12 whose main aims were to consolidate the law relating to banking activities; to
harmonise the operations of all financial institutions in Tanzania; to mobilise
domestic and foreign investments; and to regulate credit operations and provide
other matters incidental to or connected with those objectives (BFIA, 1991). This
law, assented by President Ali Hassan Mwinyi on 5 August 1991, set conditions for
entry into or exiting the banking industry in Tanzania. Apart from generally
dealing with licensing as well as regulating for ‘safe and sound’ operations of the
country’s banking and financial institutions, the law provided for foreign banks to
invest and operate banking business in Tanzania. Some sections in this Act deserve
special attention as they provide the criteria for licensing private banks to operate
in Tanzania.

For example, section 4(2) and section 5(1) of the Act grant the BOT the sole
authority of issuing a banking licence to ‘any person intending to undertake
banking business’ in Tanzania upon receiving and considering an application from
that ‘person’. Section 7(3) provides aspects to be considered by the BOT for issuing
a licence as including the validity of the documents submitted; the financial status and history of the applicant; the character and experience in banking; the adequacy of capital structure; the convenience and needs of the community to be served; the intended operations; and the intended lending policies and the extent to which they are designed to promote economic activities in the rural sector. Section 13(1) set the minimum core capital required to undertake banking business in Tanzania at TZS 1bn or ‘a lesser amount as the (Finance) Minister may prescribe’. It is shown later that a new Act was put in place to replace BFIA 1991 as it proved inadequate in addressing the country’s financial market. For example, the TZS 1bn set as the minimum capital required to operate banking business in Tanzania was decided without considering the rate of inflation in the country.

Following financial liberalisation, a number of foreign banks began to invest in the country. The first banks to open up a branch in Dar es Salaam included the Standard Chartered Bank (1993); Meridian Biao Bank (1993); Citibank (1995); and Stanbic Bank, a subsidiary of the Standard Bank of South Africa, (1995). In 1996, the state-owned CRDB was restructured and recapitalised by the government selling part of its shares to the bank’s employees and part of the shares to DANIDA from Denmark. The performance of CRDB following this mode of privatisation is discussed later in the chapter. Table 7.1 shows some of the foreign banks, and their countries of origin, that had invested in Tanzania by 1999.

**Table 7.1: Some of the foreign banks operating in Tanzania between 1993 and 1999**

<table>
<thead>
<tr>
<th>Name of bank</th>
<th>Country of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Bank (T) Ltd</td>
<td>UK</td>
</tr>
<tr>
<td>City Bank (T) Ltd</td>
<td>USA</td>
</tr>
<tr>
<td>Greenland Bank (T) Ltd*</td>
<td>Uganda</td>
</tr>
<tr>
<td>Internal Bank of Malaysia (T) Ltd</td>
<td>Malaysia</td>
</tr>
</tbody>
</table>
By 2004, the number of commercial banks operating in the country had grown to 26 and 5 non-bank financial institutions also existed.

**The Restructuring of the National Bank of Commerce (NBC)**

In a press conference held in Dar es Salaam on 23 June 1997, the World Bank Resident Mission Representative in Tanzania, Mr Ron Brigish, noted that the Bank supported Tanzania’s initiative on public sector reform through enhanced privatisation and civil service reform. He pointed out further that the Bank’s Board of Directors had approved USD 125m towards supporting ‘selected’ policy actions in the country and USD 75m or 60 per cent of the approved amount would specifically support the restructuring of the NBC (Guardian, 26/6/97). USD 25m or 33 percent of the amount set aside for the restructuring of the NBC was released during the 1997/98 financial year, underscoring the urgency with which the World Bank wanted to complete the restructuring of the NBC. It is important to note that during this time, the government was also negotiating a loan of USD 160m from the Bank toward budgetary support. However, the World Bank issued two recommendations towards full privatisation of the NBC to be implemented by the government of Tanzania, before the loan was released. These included the assigning of a foreign consultant to enhance NBC’s debt collection before the restructuring was undertaken; and a three-fold split of the NBC into the Inter-trade
Bank, to be based in major cities, a Regional Bank to operate in regional centres, and a Microfinance Bank to be based in rural district headquarters.

On the first recommendation, the government contracted a US-based consulting firm, MacArthur and Baker International (MBI) to assist in NBC debt collection. The terms of the contract signed between the NBC and MBI on 15 May 1997 included that the firm would collect TZS 3.2bn for the NBC and would be paid asset management fees totalling TZS 2.5bn (i.e. an equivalent of 78 percent of the total debt collected). An advance payment of TZS 625m was required by the contractor and the remaining (TAS 1,875m) would be paid in four equal instalments. Additionally, MBI was entitled to 50 percent of the monthly collections as operating costs. The consequence of this contract was disastrous for the NBC. For example, in July 1997 MBI was paid a total of TZS 410m for collecting TZS 22m and in August the firm was paid TZS 488m for collecting TAS 95m. For two months, therefore, NBC had paid a total of TZS 898m but had realised only TZS 117m. This contract was described by the government’s own newspaper an ‘unreasonable agreement’ which ‘no sane person would approve’ (Daily News, 24/9/1997). A legal expert supports this view, arguing that either the contract was signed under duress or by novices in contractual issues or under the influence of corruption (BPI.1, 25/2/2005).

As for the second World Bank recommendation, President Benjamin Mkapa appointed a ten-person Steering Committee to expedite the split of the NBC into three separate banks. In the view of one of the Steering Committee members, the government wanted the split completed as soon as possible ‘to smoothen negotiations with the World Bank’ (BPI.2, 13/12/2004).
The first person to come out openly against the proposed restructuring was Julius Nyerere, the former president and the architect of the nationalisation that resulted in the establishment of the NBC in 1967. In June 1997, the former president approached World Bank officials in Washington DC to demand the suspension of the NBC restructuring and its subsequent divesture until the Tanzanian public was consulted on the matter. He recommended that the government should collect people’s views on the NBC’s restructuring before proceeding with its implementation. Confronting the World Bank rather than the Tanzanian government suggests that Nyerere identified the Bank to be the source of the problem. However, it is indicated in Chapter Four that during nationalisation of banks in 1967 when Nyerere was President of Tanzania, the Tanzanian people were not consulted nor were their views collected. That the former president wanted the people to be consulted before the NBC was restructured confirms the argument that when power elites vacate office they become wary of their successors, especially in relation to the power and privileges they had themselves enjoyed while in office (McComick, 2001).

Nyerere was concerned that the proposed restructuring of the NBC would undermine rural banking which had been an important dimension of the public commercial bank’s operations. This view was opposed by the University of Dar es Salaam economists, arguing that the split would enable the NBC, in its new format, to reach small holders because a significant portion of it would be involved in microfinance activities (Guardian, 26/7/1997). In their view, it was unreasonable for the government to continue supporting the NBC while there were other essential sectors of the economy that were in need of government support which it had failed to provide. However, a prominent Opposition Member of Parliament
(MP) wondered why the academics were against the NBC being supported by the government while remaining silent on the fact that the survival of the University of Dar es Salaam, a parastatal similar to the NBC, depended entirely on support from the government (BPI.18, 9/2/2005).

In what appeared to be a response to Nyerere’s opposition to restructuring the NBC, President Mkapa chose two strategic institutions, the Roman Catholic Church and the Tanzania Peoples Defence Forces (TPDF) to explain the government’s position on the matter. Addressing the Roman Catholic Bishops Conference and the TPDF Annual General Conference on different occasions in June 1997, the President refuted as baseless claims that the decision to restructure and subsequently privatise NBC resulted from pressure exerted by donors and international financial institutions. The President is reported to have said that ‘the decision, either because of misinformation or some ill feelings, has raised a strong debate as if I am selling parastatals because of donor pressure’ (Guardian, 12/6/1997). The choice of the two audiences by the President to explain government position on NBC was very significant. Seventy percent of the Tanzanian population belong to the Roman Catholic Church. If the bishops supported the government’s decision, they would easily mobilise their flocks to support it as well. Also, in Africa where armed coup d’etats has been a major threat to politicians, choosing to persuade the men in arms on the NBC privatisation was not a bad strategy.

Addressing the TPDF meeting, President Mkapa outlined the reasons for privatising the NBC as including its bad business reputation; massive recapitalisation from the government amounting to TZS 198bn over the four years
between 1991 and end of 1995; increased interest rates; decreased customer accounts; and the bank’s losses absorbing 9 percent of the GDP. However, when addressing the Bishops’ conference, the President gave different figures on NBC noting that in 1995 alone, the government had spent TZS 240bn for NBC’s recapitalisation. The President informed the clerics that ‘this huge financial commitment would have been channelled to social services’ if the government was not supporting the NBC. The discrepancy in figures for NBC recapitalisation given to the two audiences indicates that the government was making a deliberate effort to mislead its own people with regard to the liquidity of the NBC. This observation is rendered credible by the fact that relevant information on NBC was supplied to the President by the Ministry of Finance which was the bank’s parent ministry. Given this fact, the figures given to both the army men and the Bishops should have been consistent.

According to a senior banking official, there were concerted efforts by the government and its organs to discredit the performance of the NBC and use it to justify the bank’s privatisation (PBI.14, 6/3/2005). This argument is reinforced by the BOT Governor’s address to the Business Council of Tanzania on the issue of NBC privatisation. Providing a justification for the privatisation, the BOT Governor pointed out that the NBC was so insolvent that to extricate it would require a pile of TZS 1000 paper currency notes equivalent to 18 times the height of Mt. Kilimanjaro, rising to 5895m above sea level. This measure, apart from courting the public to support government resolve to privatise the NBC, was also intended to kill the NBC by persuading its potential customers to distance themselves from it, and persuading those with accounts in the bank to shift them to the private banks (Mukandara, 1998). BOT Act (1995) provides as one of the BOT duties as the
supervision of banking operations, and had for years been involved in preparing NBC’s technical reports (Guardian, 12/6/1997). Portraying the NBC as a ‘dying’ bank was, therefore, tantamount to saying the BOT had failed in its supervisory role granted by law.

Ironically, however, while the BOT Governor was drumming up the insolvent status of the NBC, a foreign bank named Meridian Biao Bank (MBB) was reportedly experiencing financial and operational problems. To counter these reports, the same BOT Governor issued a press release published in all major newspapers to defend the liquidity status of the bank and encourage its customers to cultivate confidence in the bank. Four months later, MBB became completely insolvent and its administration was placed under BOT receivership under section 43 of the BFIA No 12, 1991. Subsequently, MBB was in September 1997 sold to the Standard Bank Group of South Africa. The factors attributed to MBB’s collapse include poor financial management and inability of its shareholders to inject more capital in the bank to cover the heavy losses sustained by the bank which eventually lost USD 30m of depositors’ money (ARB, 2000). Soon after, another foreign bank, the Greenland Bank, wound up business in Tanzania on liquidity and operational grounds. This suggests that failing in banking business is not only a question of whether or not a commercial bank is public, private or foreign owned.

Although huge losses had reportedly justified the planned privatisation of the NBC, the bank’s performance portrayed a different picture. Following the financial sector liberalisation, NBC had rationalised itself to promote efficiency and its ability to face competition in the financial market, including retrenchment of 3200 of excess staff nationwide; closure of 14 regional offices; and closure of 34 rural branches
countrywide. These measures resulted in TZS 8.6bn profit realised by the bank in December 1996. The contradiction between political statements about NBC’s dismal performance and the reality on the ground confirms the argument by Grindle and Thomas that power elites are capable of distorting reality in order to push in ‘preferred solutions’ for their own good (Grindle and Thomas, 1991:9). This observation is further reinforced by the fact that immediately after his retirement in 1998 the former BOT Governor whose statements about the NBC indicated he was in favour of private banks went on to establish his own bank.

Notwithstanding various views in favour of NBC’s restructuring, most people in the country shared Nyerere’s concerns. A group of citizens who felt that the proposed NBC split was against national interest organised and convened a meeting at the Economic and Social Research Foundation (ESRF) in Dar es Salaam and discussed the pros and cons of the World Bank recommendation. The group’s discussions culminated in a letter to the President requesting him to postpone the proposed restructuring for three months to allow an open and more careful discussion on the matter before the government adopted a final decision. The President responded by appointing four of the group members to the NBC restructuring Steering Committee, increasing its membership to fourteen. The President also conveyed to the Steering Committee the views of the opposing group with instructions to discuss them and submit the overall recommendations to him.

The Steering Committee submitted a report to the government recommending a two-fold split that would result in two banks. The first bank was named the NBC (1997) Ltd, and was charged with the responsibility of catering for big business investments. The second was named the National Micro-finance Bank (NMB) and
its role was to cater for small deposits as well as lending to farmers. These recommendations were accepted by the government and the Steering Committee was directed to immediately embark on working out details for implementation. After the task to split the NBC was completed, three of the four opposing members who had been appointed to join the Steering Committee were appointed to the Boards of the two banks, a measure that was interpreted by one political scientist as an attempt to divide the opposing group beside silencing the four (BPI.13, 24/2/2005)

One Steering Committee member revealed that there was in fact no fundamental difference between the Committee’s recommendations and the World Bank proposal, apart from dropping the proposed ‘Regional Bank’ from the split (PBI.3, 14/12/2004). What the World Bank had recommended as the role of the Inter-trade Bank was what the role of the new NBC became. According to this source, the terms of reference guiding the functions of the Committee indicated that they were drafted with the views of the World Bank in mind. This observation was reaffirmed by a senior official in government stating that the Steering Committee’s recommendations and the government’s acceptance of the two-way split option had reflected what was perceived as the position of the ‘people who matter’ at the World Bank and would make it easier to attract aid (PBI.10, 8/2/2005). A complete alteration or rejection of the World Bank recommendations would have compounded or delayed negotiations between the government and the Bank.

On 20 July 1997, a full Cabinet meeting issued a statement saying the banks that result from the split of the NBC would be government banks. In this respect, the government would sale some shares to the new investor(s) and the remaining
would be sold to the Tanzanian people. In September 30 1997, the split of the NBC into NBC (1997) Ltd and NMB was finalised when the parliament passed the NBC (1997) Ltd Incorporation Act No 12 formally establishing the NBC (1997) Ltd. The new NBC (1997) Ltd inherited the former NBC headquarters and 34 branches located strategically in major cities and regional centres as well as retaining ‘big customer’ accounts. The NMB was required to transfer 30,000 ‘big customer’ accounts to the NBC (1997) Ltd, making the latter start with an estimated TZS 237bn worth of deposits. The NMB began with 700,000 ‘small customers’ spread in its network of 104 branches located in major towns, regional centres and a wide representation of branches in rural areas.

The decision to split the NBC made news headlines (see Table 7.2), reflecting mixed feelings across the country. For example, it was strongly felt that the President had been misled about the NBC incurring losses in its operations. Table 7.1 shows that for almost a whole year in 1997, the NBC became a centre of controversy, pitting the government against its own people. In spite of all the arguments against the NBC restructuring, the President stood his ground in defence of government decision to restructure the bank.

Another institution to defy public opinion against NBC restructuring was the World Bank which issued a statement, immediately after the NBC was split, hailing the government for the decision and welcoming the split as ‘a positive step in the (NBC) privatisation process’ (Guardian, 5/10/1997). This indicates that the World Bank’s main objective of recommending the restructuring of the NBC was to have it privatised. A senior government official disclosed that the World Bank’s underlying reason for the split of the NBC was that investors would be more attracted to
purchase the mainly urban-based NBC (1997) Ltd whose role was focused on big business investments, than they would have been to purchase NBC in its original format consisting of numerous rural-based branches (PBI.11, 22/2/2005).

Table 7.2: News Headlines on NBC Privatisation Between January and December 1997

<table>
<thead>
<tr>
<th>News Paper</th>
<th>Headline</th>
<th>Date</th>
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<tr>
<td>Nipashe</td>
<td>NBC kupata hasara: Rais Kadanganywa (President misled about NBC making losses)</td>
<td>14/02/97</td>
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<tr>
<td>Sunday Observer</td>
<td>Breaking up NBC will weaken banks</td>
<td>16/03/97</td>
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<tr>
<td>The Guardian</td>
<td>Impending NBC Privatisation sparks reactions: Workers file suit at High Court.</td>
<td>28/05/97</td>
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<tr>
<td>Financial Times</td>
<td>Pay NBC debts and leave it alone: MPs urge government.</td>
<td>11/06/97</td>
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<tr>
<td>The Guardian</td>
<td>NBC split on despite Nyerere’s intervention.</td>
<td>11/06/97</td>
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<tr>
<td>The Guardian</td>
<td>Decision to privatise NBC stands, says (President) Mkapa.</td>
<td>12/06/97</td>
</tr>
<tr>
<td>The Guardian</td>
<td>Financing NBC Split: World Bank now sets conditions.</td>
<td>24/06/97</td>
</tr>
<tr>
<td>The Guardian</td>
<td>Economists applaud NBC split, sale</td>
<td>26/7/97</td>
</tr>
<tr>
<td>Daily News</td>
<td>World Bank hails NBC split</td>
<td>05/10/97</td>
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<tr>
<td>Financial Times</td>
<td>New NBC and NMB: Is sustainability assured?</td>
<td>08/10/97</td>
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Following the NBC split, the World Bank released USD 50m (TZS 30bn) towards the country’s structural adjustment credit. To impress the World Bank Daniel Yona, the Tanzanian Finance Minister, issued a statement in December 1997 indicating that the government would support NBC (1997) Ltd by ‘ensuring that the firm operates profitably’ and vowed to keep government intervention out of the new bank’s operations. The Minister disclosed that 70 per cent of the 1000 NBC shares worth TZS 1m each would be sold to a ‘strategic’ investor while 30 percent would be sold to the public. While a ‘strategic’ investor was being sought, the government created an organ it called NBC Holdings Ltd to manage the 300 public NBC shares. Until the time of this study, the government had yet to sell to the public the 30 percent shares it had retained after selling the NBC. Two other
significant features may be identified in the Minister’s statement. First, the government stated that it would keep out of the new bank’s operations, something it had failed to do in 30 years of NBC’s existence. Second, it was silent about the National Microfinance Bank which, to most ordinary Tanzanians, was considered the ‘people’s bank’.

Upon the split, the government mandated the PSRC to scout for a ‘strategic investor’ in the NBC. On 30 July 1998 PSRC floated tenders for the purchase of 70 percent of the NBC’s shares and gave bidders up to 30 November 1998 to submit their tender applications. A senior official with the PSRC, noted that immediately the tenders were floated, lobbying for the purchase began in earnest (PBI.4, 15.12/2004). This source recalled, for example, that in October 1998 a South African development bank, the Amalgamated Bank of South Africa (ABSA), established in 1983 dispatched three officials to Tanzania ‘to introduce’ themselves to the Tanzanian government. A senior official who participated in the talks between the government and ABSA emissaries disclosed that after the talks promises were exchanged and the officials from ABSA Group were informed that the government would support the Group’s initiatives to invest in the country ‘because the Group’s bank services were badly needed by Tanzania’s public and private sectors to speed up socio-economic development’ (BPI.9, 8/2/2005).

According to PSRC, 205 financial institutions worldwide were informed of the government’s intention to sell the NBC. Tenders closed on 30 November 1998 and on 1 December 1998 four bidders were announced by the PSRC: Tanzania Chamber of Commerce, Industry and Agriculture; First Adili Bank (Tanzania); Stanbic Bank (South Africa); and Barclays Bank, D.C.O. (UK). A notable absence among the
bidders was ABSA. The four bidders represented only 2 percent of the 205 financial institutions worldwide who had been notified of the government’s intention to sell the NBC. In the view of a policy analyst, this poor response may be explained by the fact that while the government was announcing its intention to relinquish the bank it had created through nationalisation in 1967, the country’s constitution retained a clause that portrays Tanzania as a socialist country with the major means of production being under government control (see also Chapter Four). The poor response to the government’s invitation, therefore, was a result of major firms doubting the government’s commitment to distance itself from ownership of business enterprises through subsequent nationalisations (BPI.11, 22/2/2005).

After the PSRC had examined the expressions of interest from the four bidders, the Commission announced that they had all failed to meet undisclosed conditions. Consequently, interested firms were given until 30 January 1999 to submit their bids. The second round of tendering also brought in four bidders: First Adili Bank; Barclays Bank D.C.O.; Stanbic Bank; and ABSA. On 7 February 1999 the Cabinet picked ABSA winner of the tender. Although some bidders had offered lucrative terms for NBC compared to ABSA’s TZS 17.4bn bid, PSRC explained that selling the bank was different from selling a used car whereby the price offered is all that matters. PSRC would not disclose the specific criteria that were employed in selecting the winning bidder but stated that the crucial factors considered were services to be rendered, disposal of existing assets and the fate of the bank’s workforce. Consequent to the PSRC’s lack of transparency in the sale of NBC shares, John Cheyo, the United Democratic Party (UPD) Opposition Leader contended that the process of privatising the public commercial bank was carried out in a manner that ‘smells’ of corruption and bribery (Guardian, 2/5/1999).
ABSA’s selection to purchase the NBC may be seen to reflect three major forces. Firstly, at the time of the bank’s divesture, the NBC was owed TZS 150bn by debtors who included government ministries, businessmen, politicians, their families and close associates (Financial Times, February, 1999). Collection of the bank’s loans from debtors had proved difficult as 75 percent of the defaulters had acquired court injunction orders restraining seizure and subsequent auction of their property to repay their outstanding loans. A leading opposition party politician contends that given the outstanding loans they owed the NBC, the political elites were looking for a buyer with whom to easily strike a deal to cover up their debts and, therefore, had during the initial talks with ABSA officials consummated such a deal (BPI.16, 12/3/2005).

This observation is rendered credible by three facts disclosed by a senior banker (BPI.14, 6/3/2005). First, the fact that ABSA did not bid in the first round, when it had shown interest in the NBC by sending emissaries to meet government officials, indicates that there had been a ‘gentleman’s agreement’ to defer its application until the second round to camouflage the existence of any prior deal between the two parties. Secondly, the fact that no compelling reasons were given by PSRC for the disqualification of the first round bidders and that ABSA was picked on its first application in the second round suggests that the bank was ‘asked’ to wait until other bidders’ weaknesses could be revealed before submitting its application. Finally, after the sale of the 70 NBC shares was consummated, one of the three ABSA Group officials who had participated in the talks with the Tanzania government officials was appointed the new Executive Director of NBC (1997) Ltd. In the opinion of a prominent CCM MP, this appointment was intended to ensure
that the ‘deal’, whatever it was, between the political elites and ABSA was in safe hands (*BPI.17*, 22/3/2005). This point is supported by a revelation by a senior Finance Officer in the NBC that the bank was privatised without any its debts owed by the ‘big shots’ in government being paid (*BPI.15*, 18/3/2005).

Concurrent with the NBC privatisation process President Benjamin Mkapa, jointly with the First Lady Mrs Anna Mkapa, registered a private company in 1999 called ANBEN (AN for Anna and BEN for Benjamin) Limited, and listed themselves as sole directors and entrepreneurs (see THISDAY, 2007). According to THISDAY, ANBEN applied for USD 500,000 (about TZS 620m) from the NBC and was immediately granted. THISDAY does not indicate that the loan was ever repaid, suggesting that the President decided to privatise the NBC with private gains in mind, and ABSA was deliberately chosen because it could easily facilitate that gain.

The other possible factor influencing the choice of ABSA is discernible from the Memorandum of Understanding (MOU) signed between the government, through its Finance Ministry, and ABSA on 23 July 1999. The MOU consisted of the main text and an appendage. The terms of the sale were that ABSA would pay the Tanzania Government USD 21,834mil (i.e. TZS 17.4bn at 1999 prices) for NBC’s 70 percent shares, and the payment would be effected in foreign currency. In addition, ABSA would inject TZS 12.1bn for the recapitalisation of the NBC. The Appendix stated that while the bank’s privatisation formalities were being finalised between the two parties, there would be a transition period commencing on 2 August 1999 and expiring on 19 November 1999. During this period, ABSA would render to the NBC Interim Management Services without payment but would be entitled to
unspecified ‘compensatory payment for costs incurred’ in the event the sale of the 70 per cent shares aborted.

During the transition period, however, and before the NBC’s ‘privatisation formalities’ were finalised, ABSA sold 20 percent of its would-be NBC shares to the International Finance Company, an affiliate of the World Bank, thus making the World Bank one of the new NBC shareholders. This implies that ABSA no longer considered itself a mere ‘management consultant’ but had already assumed full ownership and control of the NBC. Commenting on this state of affairs, an opposition party MP blamed the CCM government for being inconsiderate and careless when it came to managing public properties (BPI.18, 9/2/2005).

A senior researcher with the ESRF argues that judging from the extent of the World Bank’s initial involvement in the privatisation of the NBC, there is reason to conclude that from the beginning the Bank was not only interested in seeing the NBC privatised but was also looking forward to having a stake in the privatised firm (BPI.12, 22/2/2005). This view may be supported by ABSA’s own acknowledgement on 20 October 2000, that taking over the NBC was the biggest and the most difficult venture undertaken by the Group outside South Africa and would have been impossible without World Bank support in dealing with the Tanzanian government. The acknowledgement further supports the claim by a government official that ABSA was awarded the purchase tender by the government of Tanzania under pressure from the World Bank (BPI.8, 22/2/2005).

Three months after the signing of the MOU between the government and ABSA, the government tabled, under a certificate of urgency, a Bill in Parliament on 6
November 1999 to repeal Act No. 12 of 1997 that established the NBC (1997) Ltd. In Chapter Five, it is shown that a Bill would pass in Parliament without discussion if it was accompanied by a certificate of urgency signed by the President. While Act No 12 was meant to rationalise the NBC in its new format, the new bill proposed to privatise it. Indeed, the government proposed to privatise the NBC when privatisation had already taken place through the signing of the MOU with ABSA. Tabling the Bill, the Finance Minister noted: ‘In accordance with the agreement with the IMF and other donors, the government is obliged to privatise the NBC (1997) Ltd before the end of December 1999’ (Guardian, 9/11/1999). The Minister explained further that if the exercise to privatise the bank would not be completed by the end of 1999, the government would have failed to observe one of the conditions of ESAF and the PRGF from the IMF. The Minister stated that failure or delay to privatise the NBC would not only result in ‘the discontinuation of programmes under the Highly Indebted Poor Countries (HIPC) initiative’ but would also mean that ‘Tanzania will either be delayed or will never get debt relief or could be disqualified from obtaining aid and loans’.

This statement is significant for four reasons: Firstly, it was intended to inform MPs that the decision to privatise the NBC was beyond the control of Parliament and that it had no option but to legislate in favour of privatisation. The Minister was exerting pressure on parliament to rubber-stamp the bank’s sale three months after the government had signed a sales agreement with ABSA. Secondly, the statement signalled that the privatisation of the NBC was being affected as a trade-off for the country’s loans from the IMF and donors. Thirdly, the Minister’s statement contradicts the statement made by the President to the TPDF officers that NBC’s privatisation was not a result of pressure from the IMF or the donors.
Fourthly, the statement is significant as it confirms the argument that policy is not exclusively developed within the public domain (Gardner and Barraclough, 1992:9). According to Gardner and Barraclough, policy is ‘not entirely in the control of government’ and may be a product of forces and situations that are external to the public sphere but which have a strong influence on government decisions.

The Bill was rejected outright by the leader of the opposition arguing that its contents were not in the interest of Tanzanians as the sale of the NBC amounted to ‘the death of peasants’ who relied on the bank for loans to purchase farm inputs and implements (Guardian, 22/11/1999). The Opposition Leader described the privatisation of the NBC as ‘stage managed’ and ‘smelling of bribery’, an observation supported by the World Bank stating that high-level corruption was involved in privatisation arrangements and the process was ‘handled in a non-transparent fashion’ (World Bank, 1998a).

Although the World Bank pointed an accusing finger at the government concerning the manner privatisation was being carried out, the majority of MPs, including those from the ruling party, castigated the IMF and the World Bank for imposing unworkable policies in Tanzania. They argued that contending that NBC’s privatisation was ‘suicidal’ as it amounted to privatising the Tanzanian farmers and small scale entrepreneurs. The MPs argued that privatising the NBC was tantamount to placing Tanzania’s economy on the brink of collapse as private banks would not finance the majority of peasant farmers and co-operative unions as the NBC. Most of the MPs argued that the country was not ready to privatise the NBC since no concrete measures have been taken to guarantee that the strategy
was beneficial to the people of Tanzania. The MPs blamed the government for the problems suffered by the NBC and urged it (government) to pay the debts it owed the bank and refrain from interfering with its performance. They stated that if the NBC was repaid all the money it was owed and left alone to do business, it would operate profitably. They also argued that the reasons that precipitated the nationalisation of banks in 1967 were still relevant.

On 7 November 1999, however, the CCM MPs convened in camera as a Committee of the Party under the chairmanship of President Mkapa, as Party Chairman, to discuss the fate of the NBC. CCM applies this procedure whenever there appears to be a deadlock regarding the passage of an important policy in parliament (see Chap. Five). When Parliament resumed the following day, there were only sporadic discussions on the matter from opposition MPs. Winding up discussions of the Bill, the Minister for Finance explained that the government would see to it that the South African bank operated the NBC in the national interest because ‘we are a sovereign state and can disagree on some of the issues dictated by the external financial institutions’. This implied that while the NBC was sold on the basis of directives from external financial institutions, the government would not let it operate fully as a private commercial entity. It was also a retraction of the Minister’s earlier press conference statement that the government would not interfere with the running of the NBC in its new format. On 8 November 1999, the Parliament finally endorsed the Bill as the NBC (1997) Ltd Incorporation Act No 16 of 1999, formally declaring the demise of the giant public bank and handed it over to the ABSA group of South Africa, without the latter having paid a single cent to the Tanzanian government.
Upon being granted the right of ownership of the NBC, ABSA’s Executive Director, Mr Alwyn Noeth, wrote a letter to the PSRC Executive Chairman on 2 December 1999 disowning the Memorandum of Understanding signed between ABSA and the government and demanded a re-negotiation of the deal. ABSA’s letter to the PSRC stated in part: ‘In view of the unacceptable results of our Due Diligence Review of the NBC (1997) Ltd, and the resulting unacceptable lower return on investment, we have ...to renegotiate the price offered by ourselves in respect of the acquisition of a 70 percent stake in the NBC...We will not continue with the acquisition of the NBC (1997) Ltd unless the major shares were sold to us at TZS 15bn in local currency’. ABSA was stating it would ‘not continue with the acquisition of the NBC’ when the Group had already taken a major decision as owner by selling 20 percent of the 70 percent shares of the NBC to the World Bank. Other terms spelt out in ABSA’s letter, for which the government was given seven days to implement, included:

a) A review and amendment of the Land Act within one year ‘...to ensure that the rights and procedures in connection with the taking of security of and the foreclosure on land become bankable to the reasonable satisfaction of the ABSA Group’.

b) PSRC should be obliged to meet the costs of the retrenchment of some of the NBC (1997) Ltd’s 1100 strong staff, and ‘...any amounts which may be paid by the NBC to these staff (should) be refunded by the PSRC within 30 days ..., failure of which such outstanding amounts are to bear interest on a daily basis at the prime interest rate which the NBC charges its best clients plus three percent’. 
c) ABSA group should be informed and ‘regularly updated’ on the progress of all court cases concerning NBC (1997) Ltd that are dealt with by the Attorney General’s office. NBC (shall) intervene, at government expense, in any legal proceeding which their Attorney General has failed to defend appropriately...

Commenting on (a) above, BPI.1 observed that ABSA’s concern was mainly addressed to two sections of the Tanzanian Land Act 1999 including, Section 4(1) which stipulates that all ‘land in Tanzania shall continue to be public land and shall remain vested in the President as a Trustee for and on behalf of the citizens of Tanzania’; and Section 20 which prohibits the occupation of land in Tanzania by non-citizens. With land being in public domain and foreigners being prohibited from land ownership, ABSA could not seize land that could be used as collateral for bank loans in the event such loans were not re-paid (BPI.1, 25/2/2005). In his view, ABSA’s demand had wider implications as it was meant to force the government to change the country’s land laws to enable foreigners to secure and own land in Tanzania. ABSA’s demands and ultimatum confirm the argument that business firms tend to apply threats to influence government policy in their interest (Grossman and Helpman, 1991; Scholl, 2003).

The government received ABSA’s conditions on 9th December 1999, the day the country was celebrating its 38th independence anniversary. Reacting to ABSA’s ultimatum John Cheyo, the Shadow Minister for Finance and Parliamentary Public Accounts Committee chairperson demanded an outright deportation of the ABSA managers for blackmailing the country and trampling in its sovereignty (Guardian, 10/10/1999).
BPI.13 argues that ABSA’s choice of the country’s independence anniversary to present its demands to the government was significant in that it signalled to government leaders that the country’s independence and sovereignty were at the mercy of donors, international financiers and multinational corporations. Having signed with the government a sales contract which was enforceable in court, ABSA would not simply issue conditions to a sovereign state without expecting firm compliance. Thus, ABSA’s demands should be seen in the light of two related facts. First, the Group’s demands revolved around the whole question of NBC’s privatisation which was being propelled by the World Bank. The Group was confident that the government could not dare to terminate the contract and reverse its World Bank-induced decision to privatise the NBC. Second, the World Bank owned 20 percent of the NBC’s shares. In this context, the government could not ‘fight’ ABSA’s demands without such a fight also involving the World Bank as a shareholder (BPI.13, 24/2/ 2005).

These views are reinforced by the fact that after receiving ABSA’s letter, Finance Minister Daniel Yona called a press conference before which he declared that ABSA’s letter was ‘disturbing’ because:

There are legal complications which will arise if the government decides not to sell the bank. A law to facilitate the sale is in force. So the government is unlikely to have an alternative option apart from selling the bank on more on less terms stated in the letter (Guardian, 10/12/1999).

The law referred to by the minister was the NBC Incorporation Act No. 16 of 1999, which repealed Act No 12 of 1997 and which specifically, mentioned ABSA as the new NBC (1997) Ltd investor. ABSA’s withdrawal from the acquisition of the NBC would require a resubmission of another bill to parliament to change the investor’s name before any other investor could be found for the sale to take place. While the
next parliamentary session would take place in February 2000, the World Bank required NBC privatisation to be completed by 31 December 1999 if the country was to access any loans from the Bank.

In addition, the government was aware that substantial problems had afflicted the NBC since ABSA took over the interim management of the bank. For example, Dr Harisson Mwakyembe, one of the four members from the group which was opposed to the NBC privatisation and who was appointed a member of the NBC (1997) Ltd Board, had repeatedly voiced dissatisfaction with the manner the NBC was being operated. Among the irregularities included advancement of TZS 215m (USD 215,000) loans to two members of the Board; payment of USD 20,000 to an NGO owned by the Minister for Finance; payment of the equivalent of South African Rand 1.9m every month to fictitious South African workers; charging aromatherapy services for senior ABSA staff and their families at a local Health and Beauty Spa to the NBC ‘local staff training’ vote; and charging of school fees for the children of top ABSA management in South Africa to the same vote. ‘Since the sale was not yet consummated and ABSA was merely providing interim management services to the NBC, the behaviour of the Group’s managers amounted to a deliberate sabotage of the NBC which, in view of the prevailing circumstances, was still a public bank’ (BPI.7, 14/2/2005).

The most significant irregularity, however, was the one reported by Mr. Augustine Mrema, Chairperson of the opposition Tanzania Labour Party (TLP), involving USD 30m that was transferred from the NBC to the ABSA headquarters in South Africa (Daily News, 30/9/2000). The ABSA management in the NBC acknowledged the amount but said it was ‘a normal computer generated miss-post’.
However, immediately following Mrema’s revelation, the ABSA management applied and was granted a court injunction order against release of any information about the NBC unless such information was authorised by the NBC’s interim management. Moreover, Dr. Mwakyembe, suspected of disclosing information to the public, was subsequently forced to resign from the NBC Board.

In his resignation letter, Mwakyembe noted:

*I complained to the government regarding the numerous problems in the NBC operations in good faith to remove the rot in this important financial institution ... I leave the bank knowing I have done my responsibility as a citizen of Tanzania by notifying all necessary authorities regarding the illegality of actions in the bank* (East African, 22/9/2003).

Soon after his resignation, Dr Mwakyembe was ‘elected’ by CCM members of Parliament to the East African Parliament, the legislative institution for the East African Community comprising of member states from the East African region, a move that was interpreted as an attempt to not only silence him but also completely ‘banish’ him from being close to the country’s banking environment (BPI.13, 24/2/2005).

In the context of the above scenario, therefore, the government was aware that a re-submission to parliament of the privatisation bill would have created uproar from the opposition parties, backed by civil society.

**NBC sale renegotiated**

On 12 December 1999, the government dispatched a three-person team, comprising of the BOT Governor, the PSRC Executive Chairperson and a legal expert from Mkono and Co. Advocates, to South Africa to negotiate with ABSA on the latter’s demands. Following the negotiation, a formal agreement to sell the NBC to ABSA was signed on 20 December 1999 with the government conceding to sell
the NBC at TZS 15bn to be paid in local currency, and to compensate for the retrenchment of 733 NBC workers. BPI.13 from the University of Dar es Salaam argues that the results of the renegotiation were expected in the light of two facts. Firstly, by dispatching a team to negotiate with ABSA in South Africa, the state not only proved its willingness to meet ABSA’s demands but also the extent it had allowed itself to be pushed around by the investor. Secondly, the team constituted by the government for the job comprised of people whose statements and actions had indicated that they were opposed to the existence of the NBC in its public format. For example, the team included the BOT Governor who on two occasions had issued statements calling for the extermination of the public commercial bank (BPI.13, 24/2/2005).

The government completed the sale of 70 percent NBC shares to ABSA on 28 February 2000. Three years later, an MP demanded an explanation from the government on PSRC’s report dated 30 June 2003 that ‘since ABSA acquired the NBC (1997) Ltd, PSRC has not received any payment as provided for in the contract’. In reply, the Minister for Finance said that of the TZS 15bn paid to the government by the South African conglomerate, TZS 12bn was re-invested by the government in the NBC to ‘beef up’ its capital, while TZS 3bn was paid to the NBC Holding Corporation which was responsible for managing the government’s 30 percent share in the NBC (1997) Ltd. The Minister’s statement is significant for three reasons. First, it contradicted a disclosure by a senior NBC official that there was no posting in the bank’s books of accounts to indicate the money was ever received by the NBC (BPI.15, 18/3/2005). Secondly, it contradicted earlier government statements which portrayed ABSA as a reputable and financially sound organisation, capable of running the NBC (see Daily News, 6/10/1998),
because it implies that NBC was not in fact sold to ABSA on the basis of the latter’s financial capability to recapitalise and modernise the NBC. Finally, it contradicted PSRC’s statement (see above) that ABSA was to recapitalise the NBC by injecting TZS 12.1bn into the bank.

The Minister’s statement was further contradicted by ABSA’s press release issued on 28 February 2000 stating that the Group was not obliged to pay the TZS 15bn it owed the Tanzanian government because NBC was owed the same amount by the government through NMB. The Minister’s statement contradicted yet BOT’s statement issued in March 2000 in response to ABSA being owed by NMB, indicating that TZS 15bn must be paid in full by ABSA from the Group’s own resources ‘because settlement of dues from NMB and other debtors was part of NBC (1997) Ltd restructuring’ (Guardian, 1/3/2000). Commenting on the ensuing mix up and contradictions, a prominent MP with CHADEMA argues that ‘what appears to have happened is that the ABSA Group had paid the TZS 15bn it was entitled to pay but the money was distributed among and pocketed by state bureaucrats’ (BPI.18, 9/2/2005). According to this informant, the statements were merely meant to confuse the Tanzanian public as to who was telling the truth.

An additional development about the sale of the NBC relates to its workers. The Memorandum of Understanding signed between the government and ABSA had provided that the 1,100 strong NBC workforce would automatically become NBC (1997) Ltd employees. This influenced the workers to believe that the new investor would guarantee their employment. However, upon assuming the interim management of the NBC, ABSA deployed 25 of its South African-based bank staff to take up all senior managerial positions of the NBC, replacing their Tanzanian
counterparts who were either re-deployed to the lower ranks or retrenched. ABSA also refused to guarantee employment for all the 1100 NBC workers, demanding that 300 should be retrenched on government expenses. This prompted the workers to lodge application with the High Court of Tanzania on 28 May 1999, seeking to block the impending NBC privatisation until their employment status, including terminal benefits in the event of retrenchment, was clarified. However, on 14 September 1999, their petition (Civil Applications Nos 52/99 and 58/99) was withdrawn on their behalf by the Tanzania Union of Industrial and Commercial Workers (TUICO) after the Prime Minister Frederick Sumaye had on 7 July 1999 issued a statement saying that the government would sack all the NBC workers unless the court case was withdrawn because the President ‘was losing patience’ over NBC privatisation.

A senior official with the President’s Office (Planning and Privatisation) argues that the exclusion of Tanzanians from top management had a hidden agenda. Some of those relegated to junior positions were very senior and experienced managers whose input would be useful in the performance of the new bank given that they have been with the NBC for quite a long time and understood the Tanzanian banking environment better than the new managers from South Africa (*BPI*, 8/3/2005). According to this source, the exclusion of Tanzanians from the decision making hierarchy implied that the new management could make and implement any decisions without any interference from their local counterparts.

The removal of locals from the top management also confirms the view (see above) that the government had picked ABSA as NBC’s new investor with a specific objective in mind, and the assumption by the South African managers of all top
management positions in the bank was meant to guarantee the fruition of that objective without the locals being ‘in the picture’ about what was going on. For example, a source from within the NBC noted that apart from the ABSA managers paying Rand 1.9m monthly to ghost workers who were not known to the Board of Directors, they turned down a TZS 2.3bn offer from CATS Tanzania Limited to purchase the NBC’s five storey Foreign Branch building and sold it instead to a South African firm for TZS 1.8bn (BPI, 15/1/2005). The source argued further that although the privatisation of NBC in 1999 was justified on the grounds that the bank was losing money, the new NBC had in fact registered a loss of TZS 30bn as at 30 September 2003 largely on account of mismanagement and sabotage.

Privatisation of the National Microfinance Bank (NMB)

As pointed out above the NMB, created on 1 October by the National Microfinance Bank Ltd Incorporation Act No 22 of 1997 following the split of the NBC, started with 700,000 customers. Some the main objectives of establishing the NMB were to assist rural small holders through issuance of loans; provide financial support to businesspersons with low capital; extend financial and other assistance to those engaged in small scale economic projects; help low income people to build creditworthiness and self-finance business expansion, education, housing and other key requirements of life; and promote equity by helping the working poor people to lift themselves out of poverty (URT, 1997). These objectives indicate that NMB was to play a key role in promoting agricultural production, is the backbone of the country’s economy. However, while the government was keen to support the NBC (1997) Ltd (see above), the Prime Minister stated on 22 January, 1999 that the government was intending to maximize ‘donor financial support directed into the sector to put in place a policy framework to guide sustainable micro-finance
institutions’. This indicates that two years after the establishment of the NMB the government did not have a clear policy for micro financing. A long serving CCM MP noted that the government had neglected the NMB to the extent that twelve months after the split of the NBC, the NMB faced a host of organisational and operational problems, including not only failing to start offering adequate commercial and development services to its clients but also not introducing micro lending schemes (BPI.17, 8/2/2005).

In July 1999 the government contracted a United States-based consultancy firm named Development Alternative Initiative (DAI) to manage the NMB. To pay for the services of the consultant, the government borrowed money from the World Bank on condition that the bank would be privatised within two years. Interestingly, while the World Bank demanded that the NBC (1997) Ltd be privatised immediately after the split, it provided a three-year time frame (until 2001) for the NMB to be privatised. A BPI.7 at the Institute of Finance Management (IFM) argues that since, in the opinion of the World Bank, one of the factors that had contributed to the problems of the NBC was its rural branch network, the World Bank could not demand an immediate privatisation of the rural focused NMB. It had to give the NMB time to prove whether or not rural-based financial institutions in Tanzania could be profitable under improved management (BPI.7, 16/2/2005). However, this source was critical of the fact that the NMB was expected to become profitable without being given a sound financial basis. Under normal circumstances, the source argues, the Treasury should have floated tenders for the purchase of government bonds in order to raise capital for the NMB with a view to making it competitive in the new financial market.
NMB’s financial stability was, however, boosted by the Savings and Credit Cooperatives (SACCOs) which opened savings accounts with the bank, enlarging its base of savings. The SACCOs, which focused on lending, mobilisation of savings and financial management at the local level, resulted from the amendment of the cooperative Act in 1991 leading to the restructuring of the co-operative movement. By 2001, the number of registered SACCOs in the country had grown to 646 with a total of TZS 17bn in deposits and shares from 130,000 members (Randhawa and Gallardo, 2003). Through SACCOs’ savings and other accounts, NMB’s deposits stood at TZS 70bn at end of 1999, demonstrating that the bank could stand on its own feet and that the micro-financing was a lucrative business.

Steps towards the privatisation of NMB began when on 5 April 2000 the IMF announced that it had approved USD 181.5m to support the Tanzania government’s three year (2000-2002) economic programme on condition that the latter would ‘make further rapid progress in completing the transition to the private sector economy...(through) transfer of most of the larger parastatals’ (IMF, 2000a). This approval was followed by a letter dated 18 July 2000 from the Tanzania government to the IMF stating that preparation for recapitalisation and privatisation of the NMB was in progress and that its privatisation strategy would be completed by March 2001. This ‘strategy’ was translated into action when in March 2001 PSRC engaged an external consultant with World Bank support to evaluate the market value and existing activities of the NMB; assess NBM business potential; and identify an option for NMB privatisation. According to the PSRC, the consultant recommended the privatisation of the NMB by selling 70 per cent of government shares either to a single ‘strategic’ investor or to a bank-led consortium that would have Board and Management control of the bank.
After receiving the consultant’s report, the government started issuing statements about the dismal performance and the poor liquidity situation of the NMB. This, according to one Member of Parliament, was an attempt by the government to apply similar tactics it had used in the NBC privatisation in order to create ‘a conducive environment’ towards NMB privatisation (BPI.18, 9/2/2005). Indeed, the government tabled in Parliament in February 2003 a Bill to sell 70 percent of NMB shares. The Minister for Finance noted that NMB was a loss making bank, with only 11 out of its 108 branches being profitable and that the bank received a monthly subsidy of TZS 4.5bn from the government to meet its operational costs. The Bill was unanimously rejected by Parliament on the grounds that it was illogical to privatise a financial institution that was established for the purpose of servicing the ordinary Tanzanian population. On the basis of strong opposition from MPs, the government was forced to temporarily withdraw the Bill from parliament on 14 February 2003.

Addressing a May Day rally in 2003, however, President Mkapa insisted on privatising the NMB because the government was tired of ‘bearing the burden, taking care of the dying bank’ (Guardian, 2/5/2003). The President stated the reasons for NMB privatisation as including that the bank had not been registered on account of its liquidity problems and was operating under a Memorandum of Understanding guaranteed by the Bank of Tanzania; had so far survived on government subsidy; and should be privatised to raise capital required to enable it ‘stand on its own’. The President noted further that although Parastatal Pension Institutions in the country had expressed interest in buying shares in the NMB, ‘the bank should be sold to a foreign investor to give it more international expression and exposure’. A Senior Union Official argues,
Most of the workers in the country are minimum wage earners and regard NMB as ‘their bank’ to which they rely for their savings and loans. The President deliberately chose the occasion to inform these workers that the NMB was a ‘dying bank’ and in privatising it the government was, in fact, taking a decisive measure to rescue their savings and, therefore, needed the support of all workers (BPI.19, 26/3/2005).

The Parliamentary Committee on Finance and Economic Affairs attempted to establish what was going on at the NMB by making a ‘surprise’ visit to the bank’s Headquarters in Dar es Salaam in June 2003. The Committee was informed by the NMB management that NMB had never received any subsidy from the government; and that within a period of three years (2000-2002) the bank had registered TZS 27bn in profit. A banker with the NMB (BPI.14, 6/3/2005) states that this disclosure was interpreted as a rebuttal to the President’s May Day speech and consequently, the NMB Executive Director Mr. James Nehmer (an American from DAI Consulting) was summoned by the PSRC and told to renounce his statement and support the government’s position. According to this source, Mr. Nehmer refused arguing that under American laws, telling lies is a criminal offence. Following this refusal, the NMB boss was forced to resign on 2 July 2003 and ordered to leave the country. Soon after, the President sacked the entire NMB Board of Directors.

In November 2003, the NMB privatisation Bill was, for the second time, tabled in Parliament with amendments including that only 49 percent, instead of 70 percent, of the NMB shares would be sold to a consortium of investors from within and outside the country; 21 per cent of the shares would be sold to Tanzanian individuals; and 30 per cent of the shares would be retained by the government. This time the MPs approved it. BPI.13 from the University of Dar es Salaam argues that this change of heart by the MPs can be understood in the light of the public
offer of 21 per cent NMB shares which to most of the MPs presented a good opportunity of having a stake in the NMB (BPI.13, 24/2/2005). The source argues further that in a poor developing country like Tanzania with over 51 per cent of the population living below poverty line, there would be few individuals capable of purchasing shares in privatised firms beside the power elites themselves.

According to the Tanzania Bankers’ Association (2006:9), the NMB became the most profitable bank in Tanzania in 2004 and 2005, with a profit margin after tax of TZS 18bn (2004) and TZS 26bn (2005). Despite this impressive performance of the bank, NMB privatisation was completed on 30 September 2005 when the government sold 49 percent of its NMB shares to Rabobank of Netherlands for USD 29m (about TZS 33bn). This was more than twice the amount ABSA was supposed to pay for the 70 percent of NBC shares, which it did not pay. The sale of the profit making NMB to a foreign bank confirms the argument by Ballati that in disposing off public assets through privatisation, the public bureaucracy had orchestrated an appearance of loss making, even when the opposite was the case, in order to promote their own personal gain through the sale (Ballati, 2001).

**Direct Sale and Direct Local-foreign Partnership Contrasted**

In 1996 the CRDB, which was also state-owned and enjoying only 18 percent of the market share compared to 92 percent of the NBC, became the first public bank in the country to be privatised when the government sold its shares to local individuals, mostly the bank’s workers (42 per cent), Danida Investment Fund (28 per cent) and the remaining 30 per cent to co-operatives and domestic companies. This mode of privatisation was influenced by a number of factors including the government regarding the CRDB as of less value compared to the NBC; its desire to
silence critics on its subsequent decision to sell the NBC to foreigners; and to prove that only banks sold wholly to and managed by foreigners can operate efficiently. (BPI.8, 2/2/2005) The new bank was renamed CRDB (1996) Bank Ltd (hereinafter referred to as CRDB Bank). The benefits of this privatisation approach are illustrated by the performance of CRDB.

Within a period of three years (1996-1999), the CRDB Bank had registered a remarkable performance. For example, while the NBC (1997) Ltd, under foreign management, had reportedly suffered a loss of TZS 30bn in 2000, CRDB Bank under a purely local management had registered a profit of TZS 2bn in the same year. Table 7.3 below reveals that CRDB Bank has continued to be a well-performing commercial bank thereafter. In 1999, it became the first bank in Tanzania to have a fully computerised branch network and linked by satellite communications. In 2004, the bank won the Euro Money Award as the best bank in Tanzania, beating 26 commercial banks operating in Tanzania, most of which are foreign-owned, including NBC (1997) Ltd, Citibank, Standard Chartered Bank, Barclays Bank and Stanbic Bank, to name a few.

Table 7.3 also reveals that in 2005 CRDB Bank doubled its profit compared to 2004. While the NBC has experienced a series of industrial unrest resulting in strikes and sabotage as workers felt that they have been ‘sold’ with the bank, CRDB Bank has been stable as employees holding its shares regard the bank as their own property. The fact that co-operatives are also the bank’s shareholders has led CRDB Bank to play an active role in lending to small scale and rural-based enterprises. For example, in 2004, CRDB Bank took a deliberate step to incorporate a subsidiary dedicated to fostering the bank’s lending to small and medium enterprises (SMEs).
The performance of this bank tends to reinforce the argument that the poor performance of SOEs, including banks, has mainly been attributed to political interference and mismanagement (Chen, 2005; Uddin, and Tsamenyi, 2005). This implies that once these impediments were removed, the banks would operate profitably.

Table 7.3 CRDB (1996) Ltd performances, 2004-2005

<table>
<thead>
<tr>
<th>Item</th>
<th>2004 (Amount in TZS Millions)</th>
<th>2005(Amount TZS Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer deposits</td>
<td>423,589</td>
<td>653,589</td>
</tr>
<tr>
<td>Net change in customer deposits</td>
<td>92,458</td>
<td>230,099</td>
</tr>
<tr>
<td>Tax paid</td>
<td>4,005</td>
<td>6,756</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>9,352</td>
<td>18,680</td>
</tr>
<tr>
<td>Net interest income</td>
<td>22,952</td>
<td>33,731</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>997</td>
<td>1,381</td>
</tr>
<tr>
<td>Total shareholders fund</td>
<td>27,581</td>
<td>44,777</td>
</tr>
<tr>
<td>Return to shareholders capital</td>
<td>33.91%</td>
<td>41.72%</td>
</tr>
</tbody>
</table>

Source: Compiled from Financial statements of CRDB (1996) Ltd.

**Conclusion**

This chapter has endeavoured to show that Tanzania’s choice of financial reform policy, leading to privatisation of the state-owned commercial banks in the 1990, was influenced by three main factors: Firstly, the choice of policy was made on the basis of pressure, directives and recommendations from the IMF and the World Bank. Secondly, the choice of policy was influenced by a coalition of foreign interests looking for ways to exploit the Tanzanian financial market. Many of this advocacy coalition’s members, including the World Bank, eventually became the
beneficiaries of the country’s liberalised and privatised financial market. Thirdly, the choice of policy was influenced by corruption and the desire by state bureaucrats to capitalize on the privatisation process to enrich themselves.

Although the government chose to privatise the NBC through a direct sale to the South African banking group, there are other approaches that should have been considered in reforming the country’s financial sector. The first approach should have been to liberalise the financial sector to promote competition in the sector without necessarily privatising the existing public banks. The second approach, in addition to liberalisation, should have been to privatise the public banks through the direct local-foreign partnership whereby the government sells its public shares to both the local people and the strategic investor. Apart from enabling the citizens to own and manage the banking business, this form of privatisation enables the country to access foreign investment capital, markets, technology and management expertise required in enhancing the efficiency of banks (Miller, 2000). The success recorded by CRDB attests to the fact that this approach should have been adopted for all the state banks if the country’s desired privatisation objectives were to be realised.
CHAPTER EIGHT

Liberalising Telecommunications: Privatisation of the Tanzania Telecommunications Company Limited

Introduction

This chapter presents a second case study on Tanzania’s policy reforms, examining the liberalisation and privatisation of Tanzania’s Telecommunications sector. As indicated by a number of studies (see Dickenson, 1977; Hudson, 1984; Madden and Savage, 2000; Dutta, 2001; Mbarika, 2002; ITU, 2006), there is a link between telecommunications and economic development. In addition to facilitating a smooth flow of information required to influence and transform existing economic and social relationships, telecommunications promote investments, enhance organisational and work performance, support competition, and influence co-ordination of production as well as the marketing of products and services. On the basis of its critical role in economic development, there is a need to examine how liberalisation and privatisation policy in Tanzania’s telecommunications sector was initiated and carried out.

The initial sections of chapter provide a brief discussion on the development of the telecommunications sector in Tanzania and the relevance of liberalisation, privatisation and regulation in the telecommunications sector. The latter sections examine the main factors precipitating Tanzania’s liberalisation of the telecommunications sector and the process of privatising Tanzania Telecommunications Company Limited (TTCL) in 2001.
Telecommunications Development in Tanzania: A Brief background

UNESCO (2007) regards telecommunication as the electronic process that enables communication across distances, large and small, from one sender to another. Although this study will make reference to such electronic processes as internet and data paging, the term telecommunication will refer mainly to telephone and cellular phone services.

The present day Telecommunications sector in Tanzania traces its history to 1933 when three independent Postal, Telegraph and Telephone networks, in the then British colonies of Tanganyika, Kenya and Uganda were amalgamated to form the East African Posts and Telegraph Company (EAPTC). In 1948 the East African High Commission (EAHC) was created to regulate, control and promote cooperation between the three colonies in specific areas of economic and scientific services, and the EAPTC fell under EAHC’s regulation and control (Morris, 2006). In 1951, economic entities that were self financing, including posts and telegraphs, were restructured and granted more autonomy to operate as monopoly organizations. The EAPTC was renamed the East African Posts and Telecommunications Administration (EAPTA) and charged with the provision, development and coordination of postal and telecommunications infrastructure and services within the East African region.

After Tanganyika became independent in 1961, the East African Common Service Organization (EASCO) was created to oversee the coordination of the common services that had been handled by the EAHC. The EAPTA was renamed the East African Posts and Telecommunications (EAP&T) and a Postmaster General (PMG)
was appointed to head it. In 1967, the year Tanzania declared itself socialist and initiated a wave of nationalizations, a new regional organization was established and named the East African Community (EAC) to work towards a unified integration of the East African region, besides carrying on the operations of the EACSO, including the EAP&T which became known as the East African Posts and Telecommunications Corporation (Umbricht, 1988). However, the EAC disintegrated in 1977 necessitating the formation in Tanzania, Kenya and Uganda of separate Posts and Telecommunications establishments. Tanzania formed the Tanzania Posts and Telecommunications Corporation (TPTC) on 3 February 1978, which operated as a posts and telecommunications monopoly.

From the foregoing, it can be seen that unlike in other sectors, such as banking, where nationalisation of existing entities resulted in the formation of monopolistic organisations, the monopoly enjoyed by the TPTC after the collapse of the EAC was based on the Posts and Telecommunications structure whose foundations were initiated and put in place by the British colonial administration since 1948. This monopoly was seen as an essential element towards developing the uniformity in postal and telecommunications infrastructure and service quality as well as harmonizing telecommunications tariffs (Morris, 2006). The monopoly enjoyed by TPTC was sustained until 1993 when initiatives were introduced to unbundle TPTC, liberalize the telecommunications sector and subsequently privatise the existing public utility.

**Liberalisation, privatisation and regulation in the telecommunications sector**

ITU (2006) points out that since 1996 most countries in the developing world, and particularly those in Africa, have recognised the important role of
telecommunications in their economies and have more than doubled efforts to expand the sector in terms of infrastructure and services. Due to the capital-intensive nature of the industry and the inability of developing countries to meet infrastructure development requirements in the sector, most of them saw the need to liberalise the sector as a means of attracting foreign investors’ capital, managerial skills and technology (Guislain and Qiang, 2006). In some developing countries, however, telecommunication sector liberalisation was introduced as a condition for accessing loans from the IMF and the World Bank.

Mattoo (2000) sees more benefits in a liberalised telecommunications market and urges developing countries to liberalise the sector if they wish to rapidly promote their socio-economic development. Due to increase in demand and the inability of developing countries to afford the expensive telecommunication infrastructure, liberalisation would enable these countries’ telecommunication sectors to reap the potential gains resulting from developing infrastructure (Hodge, 2000). In Hoge’s view, these gains include enhanced competition, forcing providers to lower prices; promoting efficiency and improving profitability; promoting innovation in the industry; increased trade with other countries; creation of more jobs; transforming the telecommunications into a high-tech industry; and facilitating transfer of high technology, know-how and improved management.

Liberalisation of the telecommunications sectors in developing countries has witnessed a rush by foreign private operators to invest in telecommunications, especially in cellular networks (UN, 2004b). This rush has led to increased and expanded investments, raising world revenue in the sector from USD 517bn in 1996
to USD 1,216bn in 2005 (ITU, 2006), and resulting in telecommunication service revenue accounting for a rising percentage of GDP in most countries.

Studies on telecommunications investments (see Abugre and Thomas, 1998; ITU, 2006) reveal that despite its low per capita incomes, Africa has been the major focus for large telecommunication investments from the west in 1990s. Three reasons account for the upsurge of foreign investments in Africa’s telecommunications sector, the continents’ populations recognising the important role played by telecommunications in socio-economic development; African governments’ recognition of the need to involve private sector participation in telecommunication to enhance efficiency and expand accessibility; and foreign investors’ ‘scramble’ for the continent’s ‘immense and fertile market’, following the introduction of telecommunication market liberalisation (Jerome, 1999).

ITU (1999) reports that most of the revenue generated from investments in telecommunication since 1990 has been from mobile cellular services. In 1990, for example, the number of mobile service subscribers around the world was 11 million. This number made a tremendous upsurge to 300 million subscribers in 1998, an averaged annual increase of over 36 million subscribers, most of them being in the developing world. The rush to invest in cellular networks has been due to the cost effectiveness of cellular networks and ‘a generally more liberal’ attitude of governments towards this new technology (Guislain and Qiang, 2006:15). ITU (1999) argues that ‘rampant demand’ in developing countries account for the expansion of mobile service, despite being dearer compared to fixed-line telephony. In the view of ITU (1999), the factors influencing this demand include that a mobile user directly dials a handset owner; the cordless portable handset
enables the user to be reached anywhere any time, within the provider’s network coverage; and compared to fixed-line telephony, the mobile cellular typically offers a greater variety of options in terms of features and tariffs. These features, and the promptness with which a customer gets connected to the existing mobile service network compared to fixed-line telephone service, have influenced rapid growth in mobile market, leading to more and more investments in the mobile phone industry (Jain, 2001; Lapuerta et al, 2003).

Hodge (2000) cautions, however, that despite the benefits realised from liberalisation in telecommunication, liberalisation policy choice should focus on accomplishing social objectives including promoting universal and affordable telecommunication services, accommodating the needs of local communities and disadvantaged groups; encouraging the ownership and control of telecommunications by local people; promoting the development of human resources; and promoting small, medium and micro-enterprises within the telecommunications industry. Pursuing similar views, Mattoo (2000) argues that for liberalisation in telecommunication to bear desired results, emphasis should be focused on introducing competition, whereby existing public fixed-line networks would compete with cellular, internet, satellite and cable, rather than on changing ownership of the existing public facilities; and introducing regulation to remedy market failure. Auriol (2005) contends that while liberalisation may be introduced to promote competition, the incumbent state-owned telecommunications operator should remain in public ownership to compete with private operators in the open market. In his view, this would ensure even distribution of telecommunication services in the country, as private investors in the sector tend to promote uneven distribution mostly favouring metropolitan areas.
The European Commission (EC, 1999) and Hodge (2001) outline a number of potential problems resulting from liberalisation of the telecommunication sector as including disputes among operators attempting to dominate the market; anti-trust cases; retention of payments related to Public Switched Telephone Network (PSTN) for mobile-to-fixed and fixed- to-mobile calls; long distance carrier switching costs; interconnection access, quality and pricing; and quality of service. In their view, anti-competitive practices may result from the incumbent using the position of controlling the PSTN to exploit new entrants in the market through interconnection charges, while new entrants in possession of advanced, compared to the incumbent’s obsolete, technology may attempt to throw the incumbent out of the market.

Liberalisation and privatisation are distinct policies and can be independently implemented (Newbery, 2004). However, in most developing countries telecommunication sector liberalisation has been accompanied by governments privatising the existing state-owned telecommunication monopolies, transferring them mainly to foreign investors. Privatisation of such public utilities has been justified on the basis of problems of efficiency, accountability, investment and technological upgrading, managerial autonomy and political interference (Hodge, 2000). Privatisation has, therefore, been regarded as a means of not only increasing the rates of productivity, capitalisation and profitability but also of enhancing efficiency and promoting service quality. However, a study by Durant, Legge and Moussios (1998) on British Telecoms reveals that though capitalisation had increased following privatisation, the measure had resulted in loss of 100,000 jobs, a deteriorated service quality, diminished corporate responsibility and increased service tariffs due to service providers’ quest for higher profitability.
Market exposure through privatisation, therefore, does not necessarily improve labour productivity or enhance efficiency in privatised telecommunication firms.

Makhaya and Roberts (2003) point out that problems resulting from liberalisation and privatisation in telecommunication sector can be addressed through the introduction of regulation. This view is shared by GIPI (2002) who argue that liberalisation should start with the establishment of a competent and skilled regulator to promote the development of the market place and the market entry of new players; guard against anti-competitive practices; ensure that the benefits of competition are passed over to consumers; and create an environment that protects the interests of consumers, providers and investors. To operate effectively, the regulating agency must be autonomous; have a legal and functional independence from network operators and service and equipment providers; and employ procedures that guarantee impartiality for all participants in the telecommunications market (see also WTO, 1997; Cowhey and Klimenko, 2000).

Furthermore, the regulator must have freedom from political pressure and interference; a separate budget and the ability to hire and fire its own employees; adequate funding, expert staff and the necessary support resources; and identified authority and procedures for making and enforcing decisions on licensing, interconnection, leased lines, tariffs, numbering, frequencies, universal services, and granting non-discriminatory rights of ways (GIPI, 2002).

However, Levi-Faur (2003) regards regulations as a paradox, arguing that liberalisation and privatisation are aimed at ‘shrinking’ the state and minimising its control of the economy. In his view, regulations and the existence of the state-controlled regulatory agencies reinforce rather than diminish state control of the economy. Besides, he argues that designing effective regulatory rules to promote
competition in telecommunication requires not only immense competence in legal matters but also sound administrative capacities and extensive technological and economic experience. Cheng (2003) echoes scepticism on developing countries’ ability to develop regulatory rules and become effective regulators in a liberalised and privatised telecommunications sector if such countries have failed to efficiently operate their public sector telecommunications due to lack of know-how and expertise. As a matter of fact, regulatory governance is, to most developing countries, a product of post-privatisation and, therefore, a relatively new concept which is not yet well conceived (Cook, et al, 2003). In addition to policy makers in developing countries lacking proper understanding of regulation, many aspects of the telecommunication business are too intricate to be effectively regulated and monitored (Stern and Holder, 1999). Some of these aspects include determining how fast the telecom environment is changing; and the unforseen factors that limit the performance of telecommunications firms against set targets (Abdala, 2000).

Levy and Spiller (1996) argue that the manner in which a country’s institutions and systems interact makes it difficult for regulation to solve the problems resulting from liberalisation and privatisation in telecommunications. For example, a system of governance may have a competent parliamentary system to produce good regulations and a strong judicial system to provide safeguards that encourage investments, protect property rights and the rights of consumers. However, it may have a weak and corrupt bureaucracy that cannot effectively enforce the existing regulations. In such a situation, the mere existence of regulation is not a magic wand in solving operational problems in a liberalised telecommunication sector. Unless, therefore, a country’s governance institutions are strong and efficiently
functioning, regulations and privatisation alone cannot make a country attain its desired development objectives.

The World Bank (1999) acknowledges the existence of weak regulatory systems and structures in developing countries resulting out of the general level of development pertaining to these countries. However, the Bank insists that reforms in telecommunications should not be ‘delayed’ to await the placement of a strong regulator. Despite problems that may accompany reform in telecommunications in the absence of a strong regulator, the Bank feels that such anticipated problems should not be an excuse for not introducing reforms in the sector, but should in fact be seen as providing a vital ‘recipe’ for developing effective regulation.

Summing up his general observation on liberalisation, Urey (1995) contends that the ongoing liberalisation of telecommunications, which in most developing countries was preceded by country-wide economic reforms, is associated with global capitalism and should be seen as enhancing the process by which institutions of capitalism are integrated into the capitalist world economy. In his view, telecommunication liberalisation is a facility that lubricates capitalist expansion by facilitating the globalisation of both production and marketing for large corporations.

**Liberalisation and privatization in the Tanzanian Telecommunications sector**

This section explores the liberalization of telecommunication sector in Tanzania and the entry of foreign private telecom providers. It also provides details on the
privatization process of the Tanzania Telecommunications Company Limited (TTCL) and concludes with the factors leading to its re-nationalisation in 2005.

**Telecom sector liberalisation and entry of private operators**

Telecommunications policy reform in Tanzania can be traced to May 1985 when the country hosted the World Telecommunications Development Conference (WTDC) in Arusha, following which a declaration was issued urging world governments to introduce reforms in the telecommunications sector as a strategy to ensure availability of ‘a telephone within easy reach’ of every person by the early part of 21st century (ITU, 1985). The timing of this conference in Tanzania coincided with the country’s efforts to negotiate loans with the IMF to facilitate the country’s economic recovery programme (see Chapter Four). As one of the conditions for Tanzania to access loans from the Fund the IMF, jointly with the World Bank, pushed for reforms intended to separate the operative from the regulative responsibilities; liberalise various market segments; limit the involvement of the public sector; introduce competition; and enhance efficiency in the Tanzanian telecom sector (Sachs, 1988; Nielinger, 2004).

In 1991, the government introduced a special reform project called the Telecommunication Restructuring Project (TRP) and received a total of USD 212.7m to finance it. The project financiers were the World Bank (USD 77.5m), African Development Bank (USD 41.4m), Swedish International Development Agency (USD 34.5m), the European Union (USD 30.5m), the Kuwait Fund (USD 13.5m), Japanese International Development Agency (USD 9.2m) and the Danish International Development Agency (USD 6.0m) (UNECA, 1996). The major aim of TRP was to limit government’s role in the sector by setting up a sector policy;
establishing a politically independent regulatory body; commercializing and corporatizing TPTC to operate with a market orientation; legalizing and fostering the involvement of private companies in basic and value-added services; and rehabilitating and expanding the country’s telecommunications network.

The results of this project began to emerge in March 1992 when the government, through a Memorandum of Understanding (MOU) signed between the Ministry of Telecommunications and Transport and TPTC, stated its willingness to limit its involvement in the activities of the sector. Under the MOU, TPTC was to operate on a commercial basis with a view to improve the efficiency, quality, financial viability and customer responsiveness of its operations and ensure that it became financially self-reliant (UNECA, 1996). However, rather than letting the TPTC operate in its original form, the government tabled three Bills in Parliament which were passed in 1993 as the Tanzania Communication Commission Act, the Tanzania Telecommunication Company (Incorporation) Act and the Tanzania Posts Corporation Act. These laws split the TPTC into three entities including the Tanzania Communication Commission (TCC), the Tanzania Telecommunications Company Limited (TTCL), and the Tanzania Posts Corporation (TPC), and effectively ended the monopoly of the TPTC as a telecommunication services provider and regulator.

The Tanzania Communication Commission (TCC), established under the Tanzania Communications Commission Act No.18 of 1993 became operational on 1 January 1994. It is managed by a Director-General appointed by the President while its six commissioners are appointed by the Minister for Communications and Transport. The main functions of the Commission, as per its enabling Act, include licensing telecommunications and postal services; promoting and regulating competition;
allocating and managing frequencies; regulating tariffs; enforcing communications law and policy; arbitrating operator disputes; managing service quality; and regulating systems interconnection. Upon becoming operational, TCC began to exert its authority, issuing a number of directives including that every telecommunication provider should operate on a TCC issued license and adopt digital rather than analogue technology. The regulator also divided the country into four service zones including coastal, central, northern and southern highlands and allowed a maximum of two service providers in each. The logic behind this division was to promote an equitable distribution of telecommunication services in the country and avoid concentration of services in particular areas, especially the capital city.

The establishment of a body such as the TCC as an ‘independent’ body to regulate activities in the telecommunications sector under a market-oriented structure is supported by Bennell (2004), who regards such agencies as necessary in a liberalised economy to regulate competition and protect consumers from monopoly abuses resulting from collusion between operators. However, despite the important role the TCC was supposedly established to play, its commissioners were not appointed until four years later. This allowed the Minister for Communications and Transport to continue serving as the sector’s regulator. Soon after their appointment in 1998, the commissioners were dismissed over a licensing dispute between TCC and Mobitel (see below). However, the government’s reluctance to empower the regulatory agency it had established, and its continued involvement in the sector support the argument that the concept of a limited government is not easy to attain in emerging economies due to the unwillingness of government
leaders to relinquish control of important sector activities that serve their self interest (Cargill and Parker, 2001).

The Tanzania Telecommunication Company (Incorporation) Bill was drafted by a government committee chaired by Prof Mgombelo (a former electronics professor at the University of Dar es Salaam), with technical assistance provided by the World Bank, and was passed by parliament as the Tanzania Telecommunication Company Incorporation Act of 1993. The Act designated the TTCL functions as including developing and operating telecommunications service within and outside the Country; operating or taking over the business assets and liabilities of the former TPTC in relation to the provision of Telecommunications systems and services; and providing all incidental services which are necessary and proper for the purpose of the Company. TTCL became operational on 1 January 1994, offering services in customer premises equipment; data services; interconnection to cellular and other licensed telecom operators; leased lines to cellular and internet service providers; payphone services; PSTN telephony services (domestic and international) and associated value added services; and telephone directory services. The enabling Act granted a monopoly to TTCL to enjoy a ten-year period of exclusivity in basic and fixed services on mainland Tanzania, except in rural areas where other investors were encouraged to set up local services to be connected into the TTCL’s national network (UNECA, 1996). However, this exclusivity did not include Zanzibar where the Zanzibar Telecoms Limited (ZANTEL), a venture between the Zanzibar government, STET International of Netherlands and local investors, was licensed to compete with TTCL in providing basic services in the isles part of the United Republic of Tanzania.
In all other services, including mobile cellular services, terminal equipment and related services, and non-basic services, the Act provided for competition by allowing other providers to operate in the market. For example, in the data services field Datel, a joint venture between TTCL, Nexus-IBA International of Italy, Telecom of France and Telenor of Norway, was licensed to provide internet connectivity and data communication services nationwide. Three major suppliers (NEC of Japan, Alcatel of France and Erickson of Sweden) were licensed to supply terminal equipment while Siemens of Germany and Motorola of USA were licensed to operate in the switches market as well as the radio interface for cellular services.

However, it is in mobile cellular services where major investments have mainly been focused. Towards the end of 1993, the Luxemburg-based pan-African mobile company, Millicom International Cellular (MIC) Tanzania Ltd, became the first operator to be granted a mobile analogue concession to provide services in Dar es Salaam and Zanzibar, under the service name Mobitel, by the Ministry of Communications and Transport. Operating on a joint venture basis with TTCL which held 49 percent of the shares, Mobitel started business in 1994 with high tariffs and charging both incoming and outgoing calls in foreign exchange (US Dollars). Charging calls in US dollars and the fact that a mobile hand set was sold at TSZ 800,000 (about forty times the minimum wage at the time) led most Tanzanians to regard mobile cellular service as a luxury they could not access easily. As a consequence, only the rich section of the Tanzanian population was able to access the mobile cellular services offered by Mobitel. However, this trend changed a bit when a second operator, the USA-based TRI Telecommunications Inc, operating from Malaysia, entered the Tanzanian mobile cellular service market in 1995 and was licensed as Tritel Tanzania Limited. The new operator installed a
Global System of Mobile communication (GSM) supplied by Siemens, the German electronic giant, capturing a sizeable market of the country’s mobile industry. The entry of Tritel introduced some competition in the mobile cellular business, forcing Mobitel to lower its tariffs by 60 percent.

From the time it became operational, Mobitel entered into a protracted wrangle with TCC. As pointed out above, Mobitel became operational a year before TTC came into being. For this reason, its operations were approved by the Minister who served as the sector’s regulator. At this stage, there were no ‘service zones’ and Mobitel was granted unlimited spectrum. In this regard, when TTC attempted to exert its control on the provider, including demanding that Mobitel apply for a new licence as well as being required to operate on a zonal basis, the provider saw this as unnecessary encroachment on its operations. Since Mobitel was in possession of the licence that had been issued by the Minister who was more powerful than TCC (the regulator is accountable to the Minister), the provider refused to recognise the powers of the TCC. In 1998, the TCC Director General (TTCDG) moved in to close down Mobitel’s radio telephone operation in order to re-issue the operator with a new license that granted a limited spectrum based on a ‘service zone’. Mobitel rushed to court and obtained a court injunction order restraining the regulator from carrying out its decision. The matter was settled out-of-court by the Attorney-General who ruled in favour of Mobitel. However, the TTCDG refused to be a signatory to the agreement for three reasons, sensing that the ruling was corruptly motivated; seeing TCC’s authority as being politically undermined; and regarding the Attorney-General (also a presidential appointee) as of equal status with the TTCDG and, therefore, ‘destitute of authority’ to dictate terms. TCC’s wrangle with the investor and its Director General’s refusal to sign the government-brokered
agreement were interpreted by the President as ‘a go-slow’ on the Commission’s performance, prompting the President to dismiss the Director General and subsequently sack all the TCC Commissioners.

Mobitel and Tritel continued to dominate the local cellular market. However, with only two players in mobile phone services, competition was far from being effective. Despite the fall in tariffs resulting from competition, most Tanzanians still felt that mobile cellular service was for the affluent, as evidenced by the fact that by 1998 the two companies had registered only 37,900 subscribers out of a population of about 30 million people. To boost the mobile service industry, improve the operating efficiency of the providers, make the service affordable and attract more investors in the sector, Tanzania decided in January 1999 to join Inmarsat, the London-based global mobile satellite organisation, becoming its newest member country and its 15th African country. Inmarsat, established in 1979, is an international organisation that provides mobile satellite communications worldwide. Being a member of the European Satellite Operators Association (ESOA), Inmarsat is availed with a wide array of digital communication technologies that enhance communication efficiency by transmitting multiple channels over larger areas as well as re-using spectrum from various orbital positions (ESOA, 2007). Upon joining, Tanzania nominated TTCL to become the country’s Inmarsat signatory.

Joining the Inmarsat prompted other mobile service providers to apply for licences in the country. In December 1999, for example, the South African based Voice Data Communication (Vodacom), owned jointly by Telkom of South Africa and Vodafone of England, submitted its application and was granted a license to provide mobile phone services in Tanzania. Vodacom became fully operational in
August 2000, deploying modern digital technology that linked the country through a vast network of towers, and charging its services in local currency rather than in US dollars as had been the case with Mobitel. The entry of Vodacom brought real competition in the Tanzanian mobile phone industry in that within its first year of business, the operator had registered 82,000 subscribers in the country, increasing the number to 2.1 million by early 2006.

By end of 2006, the number of mobile cellular service providers had grown to five including Mobitel, Tritel and Vodacom, Zantel and Celtel (see below), with a subscriber population of 5.8 million. However, despite TTC’s earlier initiative to create ‘service zones’ in the country, these providers have focused on the country’s urban population, particularly in the capital city, Dar es salaam where services are concentrated. This concentration has raised Dar es salaam’s tele-density from 2.0 in 1992 to 3.0 in 2000 while in the rest of the country tele-density remains at 1992 levels of 0.05 (ITU, 2006).

**Privatisation of TTCL**

Preparation for TTCL privatisation began in 1998 when two separate teams of consultants were sent to Tanzania under World Bank sponsorship. The first team consisted of consultants from NM Rothschild, a UK-based investment bank company, to advise Tanzania’s PSRC on TTCL privatisation, including identifying and selecting a ‘suitable’ strategic investor. The second team of consultants was based at the Ministry of Communications and Transport to assist the ministry with regard to the staffing matters at the TTCL. The reason for the second team’s work was the assumption that public firms are usually overstaffed and, therefore, have to ‘shed excess staff’ if they desire to attract strategic investors (Clements, 1992;
Nombela, 2001). The team was also to advise the government on terminal benefits for the anticipated lay-off workers. It recommended retrenchment of 1,659 of the company’s 4,600 employees prior to the entry of the strategic partner that had been planned for 30 June, 1999 (World Bank, 1998b).

On 13 July 1999 the government of Tanzania lamented, in its letter of intent submitted to the IMF describing the policies it intended to implement during 1999/2002 in the context of its request for financial assistance from the Fund, that its IMF brokered structural policy implementation had fallen behind schedule in a number of ‘key respects’. One of these ‘key respects’ was the failure in February 1999 to issue an invitation to bid for TTCL, due to a pre-privatisation audit of the firm that was completed in May 1999. The IMF had announced a package of USD 181m to support Tanzania’s three-year 1999/2000 economic programme on condition that ‘key parastatals’, including TTCL, were transferred to the private sector. In its letter, therefore, the government provided indicative structural targets under the Third Annual ESAF Arrangement, July-December 1999, showing that bidding invitation had been issued in June 1999 and the winning bidder would be selected in October 1999.

The ‘audit’ the government was referring to was performed on TTCL by the London based Price Waterhouse Coopers which the government commissioned to audit TTCL’s performance prior to its privatisation. The audit was an essential aspect in the public firm’s privatisation as it provided a clear picture of its financial performance and its liquidity status for the benefit of the investor as well as the government. The audit was prompted by the prevailing assumption that public firms are indeed inefficient and often operate on losses (Bennet and Johnson,
1979). However, in its audit report, Price Waterhouse Coopers revealed that for the period ending in the third quarter of 1998, TTCL had made a profit of TZS 10bn. TTCL’s continued profitability was attributed to a number of improvements that had since 1997 transformed it from a loss making firm to a profit making one (SIDA, 2001).

The commissioning of an external auditor was disputed by one Member of Parliament (MP) arguing that over the years TTCL accounts had been audited by the Tanzania Audit Corporation and the firm’s financial report for 1997/98 was available (TPI.11, 8/2/2005). In his opinion, it revealed the extent Third World countries cannot trust their own experts in carrying out important national assignments. However, it appears the government preferred a report from a neutral and internationally reputable auditing firm to use it as a bargaining tool with the would-be strategic investor because a neutral auditor’s report might cultivate the investor’s confidence compared to one produced locally by a state-owned auditing firm.

PSRC had outlined the planned mode of privatisation, declaring that the government intended to sell 35 percent of its TTCL shares to a strategic foreign investor. This sale would be followed by a further sale of 29 per cent of the remaining public shares to TTCL employees (5 percent), national financial institutions (10 percent) and international financial institutions (14 percent). The remaining 36 percent would be retained by the government.

Following the production of an audit report on TTCL in May 1999, the actual privatisation process began on 29 June 1999 when PSRC launched the tender
invitation by sending letters to 120 organisations world wide to participate in the purchase of 35 percent of TTCL shares. Moreover, PSRC placed advertisements in international and local press and on its own website, inviting telecom companies and financial institutions world wide to express interest in the acquisition of shares in TTCL. Twenty nine firms responded by expressing interest in participating in TTCL’s share purchase. However, out of the twenty nine expressions of interest, only nine firms actually submitted their pre-qualification documents to PSRC which eventually picked six pre-qualified firms which were a consortium of Mobile Systems International (MSI) of Netherlands and Detecon of Germany (MSI/Detecon); an Indian consortium of Mahanagar Telephone Nigain Limited (MTNL), Telecommunications Consultants India Limited (TCIL) and Videsh Sanchar Nigain Limited (VSNL); Mauritius Telecom of Mauritius; Mobile Telephone Networks (MTN) of South Africa; SaskTel of Canada; and a consortium of Vodacom of South Africa and WorldTel.

Before submitting tender applications to PSRC, all the six pre-qualifiers with their expert teams visited Tanzania to carry out their own initial due diligence of TTCL. Howson (2003) regards due diligence as a process involving the assessment of risks and opportunities of a proposed acquisition transaction with a view to reduce the risk and avoid problems of post-transaction. A firm’s due diligence, therefore, focuses on such important aspects as evaluation of its business potential, profitability, and market value before an investor arrives at a decision about the price he has to offer for its acquisition. Following the conclusion of due diligence in November 1999, PSRC invited the six pre-qualifiers to submit their tender applications and gave them until end of December 1999 to do so. In its invitation to tender, PSRC disclosed that bidder selection criteria would be the price offered,
total number of new connections to be undertaken by 31 December 2003 and acceptance of the transaction document by PSRC. Three pre-qualifiers including the Indian consortium, Mauritius Telecom and MTC of South Africa decided to withdraw from submitting their bids to PSRC. A senior member of the PSRC claimed that during due diligence exercise, these pre-qualifiers had ‘sensed’ that bidder selection would not be done in a transparent manner, following intermittent closed door meetings between MSI/Detecon team and government officials (TPI.2, 27/12/2004). This left three firms, MSI/Detecon, SaskTel and Vodacom/WorldTel, to tender for the purchase of 35 percent of TTCL shares.

On 26 May 2000, five months after the closure of tender applications, PSRC performed the official opening of financial bids for TTCL, declaring the occasion as ‘a milestone in the privatisation of the TTCL’. Why it had taken PSRC so much time to open the tender bids when the government had ‘assured’ the IMF that a strategic investor would have been known by October 1999, leaves room for speculation. A Senior Official in the Ministry of Finance stated that the five-month period had enabled PSRC to ‘look into’ the financial bids of various tenderers and disclose the information to MSI/Detecon who then ‘fixed’ their own bid above those of other bidders (TPI.3, 2/1/2005). In view of this informant, the ‘tender opening ceremony was simply aimed at impressing on the bidders and everyone else that transparency was applied in getting the winning bidder when, in fact, PSRC had opened and re-sealed the bids’. The length of time that it took PSRC to open the tenders creates room for suspicion that some ‘dubious dealing’ occurred between the government and one of the bidders. The financial bids of the three bidders were as shown in Table 8.1 below.
Table 8.1 Financial Bids for TTCL

<table>
<thead>
<tr>
<th>Bidding Company</th>
<th>Bid Price (Millions)</th>
<th>Rollout Amount (i.e. Line Connections)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSI/Detecon</td>
<td>USD 120</td>
<td>810,000</td>
</tr>
<tr>
<td>Vodacom/WorldTel</td>
<td>USD 66</td>
<td>850,000</td>
</tr>
<tr>
<td>SaskTel</td>
<td>USD 60.5</td>
<td>575,000</td>
</tr>
</tbody>
</table>

Based on PSRC’s selection criteria, the government picked the consortium of MSI and Detecon as the winning bidder on 26 June 2000, ending a six month period of speculation. Apart from the bid price the government picked MSI/Detecon because the consortium was operating telcom networks in 13 African countries and would, therefore, bring this regional experience to Tanzania and ‘help TTCL play a significant role in the further development of the telecommunications sector in Tanzania’ (PSRC, 2001b). MSI, whose main shareholders are shown in Table 8.2 below and include the World Bank, has cellular services and internet service provision (ISP) as its main business focus. Its main cellular arm in Africa is Celtel International (see below). Detecon is a German company engaged on consulting projects and operating on a world wide basis in the fields of telecommunications and information management. Its 51 percent shares are held by Germany based banks including Deutche Bank AG; Dresdner Bank AG; and Bau-und Handelsbank. The remaining 49 percent shares are held by a German Telecommunication Company, the Deuche Telecom AG.

Negotiations between PSRC and the new TTCL investor on handover modalities began on 25 September 2000. However, by December 2000 an agreement between the two parties had not been signed.
Table 8.2 MSI Main Shareholders

<table>
<thead>
<tr>
<th>Shareholder*</th>
<th>Origin/Incorporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Development Group</td>
<td>UK</td>
</tr>
<tr>
<td>International Finance Company</td>
<td>World Bank</td>
</tr>
<tr>
<td>WorldTel</td>
<td>International Telecom Union</td>
</tr>
<tr>
<td>AIG Infrastructure Fund</td>
<td>USA</td>
</tr>
<tr>
<td>(AIG Global Investment Group)</td>
<td></td>
</tr>
<tr>
<td>Citigroup</td>
<td>USA</td>
</tr>
<tr>
<td>GE Capital, (General Electric)</td>
<td>USA</td>
</tr>
<tr>
<td>Mitsui</td>
<td>Japan</td>
</tr>
<tr>
<td>Bessemer Venture Partners</td>
<td>USA</td>
</tr>
<tr>
<td>Palio Telecom</td>
<td>Switzerland</td>
</tr>
<tr>
<td></td>
<td>Italy</td>
</tr>
</tbody>
</table>

Source: Compiled from PSRC Records dated, 28 February 2001.
* Information on shareholders’ equity unavailable.

The Minister of State (President’s Office) responsible for planning and privatisation, Dr Abdallah Kighoda, visited the PSRC on 5 December 2000. He challenged PSRC with regard to prolonged negotiations with investors. The Minister noted that lengthy negotiations may be a disincentive to prospective investors who were willing and ready to invest their capital in the country. He directed PSRC to take stock of the extent privatisation has contributed to the country’s economic recovery and poverty reduction process. He stated that it would be useless to continue with the pace of privatisation if the contribution to socio-economic development of those firms that have already been privatised left a lot to be desired. The Minister noted that the telecom sector was so important to the economy that its privatisation process should be ‘planned and executed with great care’. He then raised some questions to be addressed by the PSRC including the extent the country’s privatisation environment was conducive for investments to both the local and the foreign investors; and what laws were in place to guide
private investments, particularly investors’ failure to meet the commitments agreed between them and the government.

According to a Political Scientist at the University of Dar es alaam, the Minister’s visit to the PSRC at the time when the Commission was negotiating with the TTCL investor demonstrated the extent the government was impatient with the pace of TTCL privatisation, and was meant to exert pressure on the Commission to expedite the firm’s privatisation process (TPI.4, 24/2/2005). In his view, the economic and legal issues of privatisation raised by the Minister were out of context in the sense that PSRC, whose duty is to co-ordinate the privatisation process, was not the appropriate organ to address them. He argued, for example, that the Minister, whose portfolio included economic planning and privatisation, was responsible for telling Tanzanians whether or not privatisation contributed to the country’s economic recovery and poverty eradication. He further stated that it was the responsibility of the government to ensure that privatisation and investments co-ordinating agencies, such as the PSRC and Tanzania Investments Centre (TIC) respectively, effectively operated on the basis of a proper legal framework to guide privatisation and the performance of private investments in the country. He contended that nearly 90 percent of public firms had been privatised, yet the Minister was directing PSRC to examine if the country’s privatisation environment was conducive for private investments and to work out a legal framework to guide private investment activities, such as dealing with investors who breach agreements between them and the government. He concluded that the issues raised by the Minister indicate the extent the government was ill prepared in executing privatisation and private investments promotion policies.
In what appears to be a coordinated response to the minister’s remarks, MSI and Detecon issued a joint statement read by Terry Rhodes, MSI Deputy Chief Executive Officer, on 7 December 2000 stating that the consortium had reached an agreement with the government of Tanzania to pay USD 120m to acquire 35 percent of TTCL. The statement acknowledged that the contest for the acquisition of shares in TTCL had attracted world class bidders from Europe, North America and Africa, implying that by winning the bid, it was the best choice for Tanzania and that failure by the consortium to meet its commitments in TTCL would deny the people of Tanzania the services of world class telecom companies that had not secured the tender. MSI/Detecon stated further that the consortium was bringing to Tanzania ‘world class’ management and technology that would make TTCL one of the best telecoms companies in the world and enable Tanzania to advance in the information society of the twenty-first century (PSRC, 2000a).

The agreement between MSI/Detecon and the government of Tanzania was finally signed on 26 February 2001. The main aspects of this agreement included that the investor would pay USD 120m for acquiring 35 percent shares in TTCL; acquire board and management control of the firm upon full payment; invest a total of USD 900m over ten years in infrastructure development; and install 800,000 subscriber lines with a roll out plan of 200,000 fixed lines per year in four years. The consortium made an initial payment of USD 60m and 31 December 2001 was set as the deadline for the second instalment of USD 60m to be fully paid. In view of the Memorandum of Understanding (MOU), the strategic partner would, in the event he defaulted on the second instalment, lose the first instalment of USD 60m and the strategic partner’s share would revert to the government. However, PSRC stated that this would not happen as the consortium ‘has valuable experience,
excellent skills and adequate resources which would enable TTCL to strengthen its financial performance, improve customer relations’ and rapidly expand services to Tanzanians (PSRC, 2000c).

Before full payment was effected as per the agreement, the official handover of TTCL to MSI/Detecon consortium was held at the Sheraton Hotel, Dar es salaam, on 28 February 2001. In his handover speech, Prof Mark Mwandosya, Minister for Communications and Transport, noted that the handover was ‘a historic step and a revolution to the (telecoms) industry’ (PSRC, 2001b). The official handover meant that the strategic investor not only acquired the 35 percent of TTCL but also acquired board and management control of the firm, having paid a half price of USD 120m. Although the government retained 65 percent of TTCL, control of board and management of the company by the strategic investor implied that the majority shareholder had little say in regard to TTCL’s financial and strategic investment policy decisions.

Soon after the handover ceremony, a strategic decision was made by TCC in favour of TTCL. This involved issuing to TTCL five new business licenses including fixed telephony services; cellular; data communication; radio paging; and internet service provision (ISP). The latter licence was aimed at enabling TTCL to provide individuals and companies’ access to the internet and other related services such as website building and virtual hosting. A Financial Expert at the Institute of Finance Management (IFM) argued that what TCC did not realise was the fact the issuance of licences to TTCL for a variety of business activities would enable the strategic investor to focus mainly on those aspects of telecommunication business which would appear to him more financially rewarding than others. In his view, ‘the
issuance of five licences posed a conflict of interest between the government and the investor in that while the former desired more investments in fixed telephony services, the latter’s investment decisions would be guided by economic rationality’ (TPI.5, 12/2/2005).

TTCL was also granted a four year exclusivity period in fixed and basic services in order ‘to give it time to improve its financial performance as well as relations with its customers’ (PSRC, 2001b). In other words, TTCL in its privatised form was granted a four year extended monopoly during which time no other providers would be allowed to compete with it in fixed and basic services. ‘If the aim of privatisation is to promote competition and improve the efficient performance of the firm, the exclusivity period granted to TTCL negated the whole meaning and undermined the need to maximise benefits accruing from privatisation’ (TPT.6, 29/1/2005).

One year following the handover, a two man delegation from the strategic investor paid ‘a courtesy visit’ to the Prime Minister Frederick Sumaye in Dodoma on 1 February 2001 in what was interpreted by an Opposition Party MP as a thanks giving gimmick (PTI.4, 16/1/2005). During the meeting attended also by Prof Mark Mwandosya, Minister for Communications and Transport, Dr Abdallah Kighoda, Minister of State, President’s Office (Planning and Privatisation), Dr Maua Daftari, Deputy Minister for Communications and Transport, and Mr John Rubambe, PSRC Chairman, the strategic investor ‘reassured’ the Prime Minister of their commitment to invest and modernise TTCL. A Senior Government Official who accompanied the ministers but was not allowed to participate in the meeting observed, without divulging further details, that it was in that meeting that the fate
of TTCL was sealed, implying that any future decisions to the company’s good or detriment should be linked to this particular meeting (*TPI.8*, 21/2/2005).

Following the meeting in Dodoma between the government and the strategic investor, contradictions in relation to the sale of the public firm’s 35 percent shares began to emerge. Firstly, with regard to the payment by the strategic investor of USD 60m, the government stated that it did not receive the money but instead it was paid directly to TTCL in the form of a capital increase. This was contrary to earlier statements by PSRC that the government would be directly paid USD 120m as the price for releasing 35 percent of TTCL to the strategic investor. Secondly, MSI/Detecom initiated its own internal audit of the company’s financial performance and stated that the second instalment would not be paid until the result of this ‘new audit’ was known. When the ‘results’ of the audit became known, the strategic investor made a statement disputing an earlier audit report by Price Waterhouse Coopers that portrayed TTCL as a profit making firm. Consequent to its own ‘findings’ the consortium stated that it would not pay the remaining USD 60m instalment arguing that TTCL was in fact a loss making company and the report by Price Waterhouse was wrong to portray it otherwise.

Commenting on this development, a Law Expert at the University of Dar es Salaam observed that in normal circumstances, an investor who has already signed an enforceable contractual agreement with the government and is a minority shareholder in a joint venture with the government country cannot behave in the manner exhibited by MSI/Detecom (*TPI.9*, 25/2/2005). He argued that the consortium had initially accepted as correct the audit report by Price Waterhouse; had already carried out due diligence of the company and concluded that TTCL was
worth USD 120m before submitting its bid; and had signed an agreement that was already in place. In his opinion, the government had two options, either to reverse the contract at the strategic investor’s costs or reduce the sale of shares, commensurate with the amount of money already paid, from 35 per cent to 17.5 per cent. ‘The fact that none of these options were considered indicates that there was some kind of insipid and fraudulent collusion between the government and the investor to defraud the Tanzanian people’ (TPI.9, 25/2/2005).

This view was supported by an opposition party leader who wondered how the sale of TTCL shares could produce similar results as the National Bank of Commerce (see Chap. Seven), as if both sales had been stage managed. He argued that in both cases the investors paid ‘courtesy calls’ to government leaders; refused to pay the actual sum of money they had contractually agreed to pay; the money paid was allegedly ploughed back into the firms; and the so-called investors were granted total control of the firms without having paid a penny into the country’s treasury. Exemplifying TTCL, he wondered why the government had to re-invest USD 60m in the company while the strategic investor had made a commitment to invest USD 90m yearly for ten years towards TTCL’s improvement. In his view, this uncalled for ‘re-investment’ amounted to blatant ‘embezzlement’ of public funds. He argued further that having ‘paid’ only half of the negotiated price, and therefore, owning only 17.5 percent of the total shares, the investor should not have been granted full authority to control and manage TTCL. Giving his overall assessment the opposition leader compared TTCL privatisation process with that of the NBC and concluded that the government leaders ‘had either colluded with the investors to sabotage public firms or were such a naive lot that they did not deserve to lead the country in the current climate of globalisation’ (TPI.10, 8/2/2005).
The Opposition Leader’s concern about public officials colluding with investors to sabotage public firms was corroborated by a Senior Manager at the TTCL who said that there is ‘no record in TTCL’s financial transactions to indicate that the TZS 60m amount was ever received by the company’ (TPI.11, 26/2/2005).

Following the release of MSI/Detecom’s report, however, the government issued a statement to the effect that Price Waterhouse Coopers’ audit report was a correct assessment of TTCL’s performance by an independent body and, therefore, should be respected. In view of this, the government insisted that it should be paid the remaining USD 60m as per Memorandum of Understanding. On 28 May 2002, MSI/Detecom filed and obtained a court injunction from the Commercial Division of the London High Court, restraining the Tanzanian government from making any further moves to secure the second instalment for TTCL shares. The injunction order was served to the PSRC, the Treasury Registrar and the Attorney General on 1 July 2002. The Attorney General, Andrew Chenge, simply dismissed it as invalid, arguing that since TTCL was a Tanzanian registered company, a court injunction for any course should be sought locally. In the absence of a ruling by a local court, the injunction order served by MSI/Detecom would not hinder the government from implementing its agreement with the strategic investor.

Soon after the issue concerning payment default by MSI/Detecom was made public, the transport workers’ union COTWU issued a statement expressing their confidence in President Benjamin Mkapa and appealing to him to rescue the people of Tanzania from ‘the blackmail they have been subjected to’ (Guardian, 10/11/2002). COTWU also demanded an immediate halt on the partial
privatisation of TTCL and requested the President to immediately remove Prof Mwandosya from the Ministry of Communications and Transport for a number of reasons including allegedly advising the President poorly on the privatisation of TTCL; mishandling the TTCL privatisation process; failing to protect national interests; and maintaining a low profile in the controversy surrounding the sale of TTCL. Other issues raised by COTWU include that Prof Mwandosya’s daughter was being sponsored by MSI/Detecom to undertake postgraduate study in South Africa, a measure the Union regarded as a kickback to Mwandosya for safeguarding the investor’s interests in TTCL; and that the strategic investor had forced an outspoken TTCL director, Mr Jonas Kilimbe, to a ‘pre-mature retirement’ by paying him TZS 95m calculated on the basis of 60 years of retirement age while the director was aged 50 years.

Following COTWU’s revelation regarding the TZS 95m retirement benefits paid to one of the directors, the Prevention of Corruption Bureau (PCB) intervened through a letter to the TTCL Managing Director, Mr Fred Van Voort from MSI, demanding reasons for the payment. In PCB’s analysis, the payment amounted to a bribe and it had intended to establish whether or not the director had been bought to side with the investor in the on-going wrangle with the government regarding procurement procedures. However, the anti-corruption body was silent on charges of possible bribery to Minister Mwandosya.

Prof Mwandosya defended himself, attributing the TTCL debacle to ‘globalisation which has made it easy for international con men to masquerade as credible investors while their main intention is to swindle unsuspecting poor people in developing countries’. Mwandosya’s observation was echoed by John Rubambe
(the PSRC Chairperson) while addressing the Commonwealth Investors Conference in Dar es Salaam on 10 September 2001, when he voiced concern that the country’s privatisation effort has been derailed by some self-seeking investors who lack genuineness and are hypocrites in their approach to commitments. However, a political scientist at the University of Dar es Salaam, where Minister Mwandosya had also served as a professor of electrical engineering, challenged the Minister’s excuse, contending that COWTU had been right to demand his outright removal from the Ministry of Communications and Transport for failing to protect national interests (TPI.4, 24/2/2005). In his view, the poor people of Tanzania had confidently entrusted Prof Mwandosya with leadership responsibility on the belief that in his enlightened capacity he would protect their collective interests by identifying and wading off any international economic marauders. He further argued that globalisation behind which the Minister had excused himself has in fact transformed the world into a small village, making it easy for anyone to secure information any time on virtually everything, including what he referred to as ‘international con men’.

While the wrangle between the government and the investor over TTCL payment was still unsettled, the investor brokered a partnership agreement between TTCL and an international cellular firm, named Celtel International, to establish a subsidiary cellular company called Celtel Tanzania Limited in October 2002. Key shareholders in Celtel International include IFC (World Bank); WorldTel; Zephyr Management; Standard Bank; AIG Infrastructure Fund; Citigroup; Capital International; Commonwealth Development Corporation; Actis; DEG; FMO; Bessemen; and Alba (IFC, 2005). TTCL held 49 percent shares in the new company while the remaining 51 percent were held by Celtel International. However, as a
subsidiary of TTCL, Celtel Tanzania operated on a cellular license issued by TCC to TTCL, with its major financial and investment decisions being undertaken by the strategic investor in the TTCL. Celtel Tanzania launched a new prepaid product called Xcelarator and vigorously embarked on providing cellular services in the country, using TTCL connectivity network. By utilising the TTCL platform, Celtel Tanzania was able to evade paying to TCC the mandatory TZS 3bn annual interconnection fee to which other cellular service providers are subjected (Guardian, 30/1/2004).

Following the establishment of Celtel Tanzania, the government realised that the aim of MSI/Detecom was to kill TTCL’s fixed telephony services. Although the management had approved TZS 79.9m for modernisation and expansion of TTCL’s networks, nothing appeared to have been done on the 2001/2002 rollout plan of 200,000 lines as per the agreement. Rather than improving TTCL, the investor was deploying part of its budget to expand into new activities not permitted under the contract, including spending USD 16m to launch Celtel Tanzania and launching its cellular business in the Sudan, Kenya and Uganda (TPI.12, 22/2/2005). According to this informant, the launching of new activities by the investor using TTCL resources indicates that the government had lied about TTCL being insolvent. The investor had also plundered the country’s International Gateway (satellite), that Tanzania had launched on the mainland in 1970s to service 120 countries around the world, and transferred all its 60 international routes to Zanzibar. The justification provided for pulling down the satellite was that TTCL was losing USD 500,000 monthly through large scale fraud perpetrated by international carriers and lengthy payment circles. However, ‘the justification was simply a cover-up in
that the TTCL gateway equipment was in fact transferred to countries other than Zanzibar (TPI.12, 22/2/2005).

Faced with this situation, the government dispatched a delegation, headed by the Permanent Secretary in the Ministry of Communications and Transport, to Ghana to study how the Ghanaian authorities had handled a telecom investor named Western Tele-systems (Westel) after the latter had failed to meet network expansion targets as stipulated in the privatisation contract. In its report, the delegation indicated that the National Communications Authority of Ghana had on 26 September 2001 fined Westel USD 71.1m for failing to meet its minimum operational commitments as contractually agreed. The team recommended similar measures against MSI/Detecom for failure to honour its contractual obligations with the government. The government forwarded the team’s recommendations to the Tanzania Communications Commission which imposed a fine of USD 7.7m on the investor. However, rather than paying the fine, the consortium decided to sell its 35 per cent shares in TTCL to Celtel International and Mr Fred Van Voort quit TTCL as Chief Executive Officer on 10 December 2002.

Upon acquiring TTCL, Celtel International appointed Dr Salim Ahmed Salim, a distinguished Tanzanian diplomat, to its Board of Directors. A Policy Analyst in the government saw the appointment of Dr Salim, who had served as the country’s Prime Minister, Tanzania’s ambassador to the United Nations and twelve years as Organisation for African Unity (OAU) Secretary General, as intended to boost the investor’s image in the eyes of the Tanzanian public, showing the company was serving Tanzania’s interests. In his view, ‘Dr Salim was also intended to serve as an
important link between the investor and the government on matters that promoted
the investor’s interests’ (TPI.13, 24/2/2005).

While the government and the strategic investor had a standoff in their dispute
over TTCL payment, the latter’s operations continued to suffer in that no banks
were willing to extend loans to the company (TPI.13, 24/2/2005). The government
explained its inability to take stern measures against the investor on the basis of
the need to give confidence to investors already in Tanzania as well as sending the
‘right signals’ to would-be investors intending to come to Tanzania. However, a
Senior Official in the Ministry of Finance argued that the ‘right signals’ were in fact
proof to the IMF and the World Bank that the government was committed to
implementing the conditionality imposed for accessing loans from the two
institutions (TPI.3, 2/1/2005). In his view, the government’s ‘softened’ attitude in
dealing with the investor was influenced by the fact that it was aware that the
World Bank had actually bought TTCL by proxy. He disclosed that the USD 120m
that were intended for the purchase of 35 percent of TTCL 2001 was given to MSI
by the World Bank, with the additional USD 117m being provided in 2003 to
promote Celtel Tanzania’s operations. In his view, the World Bank had, therefore,
used MSI to indirectly own shares in TTCL, given also the fact that the Bank is a
key shareholder in MSI and Celtel International.

The government and the investor decided on 20 February 2003 to end their
dispute over TTCL out of court, to avoid expenses incurred in legal fees. However, a
legal expert explained that dispute settlement out of court would save the
government the embarrassment of having the full details on TTCL sale being
known to the public (TPI.9, 25/2/2005). During out of court negotiations, the
investor offered to pay USD 20m instead of the remaining USD 60m, an offer the government rejected. Both parties then agreed that Mr John Ellison of the London-based International Chartered Accountants Association (ICAA) should look into the dispute and provide an independent assessment of the TTCL’s accounts for year 2000; and the findings of the independent assessment would be binding to both. The assessor was given six months to complete his job, starting July 2003. Reacting to the new audit requirement, the chairman of the Parliamentary Economic and Finance Committee, Njelu Kassaka (MP), said that he was not aware how the decision to re-audit the accounts was reached. ‘What I know is that the year 2000 TTCL accounts showed a good profit. So the decision for a new expert was uncalled for’ (East African, 5/7/2005). The previous expert, Mr George Fumbuka, who carried out the audit for Price Waterhouse Coopers, said:

> We applied all terms of reference in accounting and the company showed profit in its 2000 accounts. The same accounts were approved by an international accounting firm and the government concurred with them. According to the accounts, the investor is supposed to pay $60 million (Tsh60 billion) being the second tranche. I do not know the motive behind this new development (East African, 5/7/2005).

In a report dated 29 January 2004, Mr Ellison indicated that the government was owed by MSI only USD 5.281m (i.e. USD 4.96m plus an accrued interest of USD 321,000) and not USD 60m. According to the report, TTCL’s gross earnings before interest, corporate income tax, depreciation, amortisation and extra-ordinary items as at 31 December 2000 were TZS 9.129bn against the figure of TZS 31.216bn as revealed by the 31 December 1999 audit. This implied that within one year, TTCL’s performance had dropped by 71 percent and was, therefore, declared as a loss making firm whose 35 percent shares could not fetch a price of USD 120m. Commenting on the new accounts, a Senior Finance Officer in the TTCL contended that MSI had colluded with the company’s internal auditors to ‘doctor’ the firm’s
accounts to the interest of the investor (TPI.11, 26/2/2005). This source revealed that during its four years (i.e. 1997/2000) before privatisation, TTCL had maintained a progressively rising profitability level of TZS 3.4bn (1997); TZS 10.5bn (1998); TZS 11.0bn (1999); and TZS 12.5bn (2000).

The government received from the investor the final payment of USD 5.28m in April 2004 and both parties declared that ‘the dispute is over’. Summing up the saga, a prominent Opposition Leader argued that Tanzania ‘has become an economic laboratory in which unscrupulous investors come to test their skills in investment manoeuvres to make easy money’ (TPI.7, 9/2/2005).

**Re-nationalisation and Re-privatisation of TTCL**

The four year period that was given to the strategic investor to modernise TTCL ended on 22 February 2005. By then, the government realised that instead of modernisation, the TTCL privatisation had in fact led to the decline of the firm’s fixed telephony in favour of the mobile service industry. Although one of the terms of the TTCL share sale agreement was for the investor to install 800,000 lines between 2001 and 2005, the company’s fixed lines had actually dropped by 24 percent from 173,000 in 2001 to 130,000 in 2004. While there has been declining growth in the fixed telephone lines, mobile phone lines had increased from 2,198 in 1995 to 1,942,000 in 2004, an increase of 88,253 percent (East African, 25/10/2005). The number of fixed telephone subscribers had dropped from 96 percent to 7 percent of total subscribers during the same period. The hardest hit areas had been the regions and districts where many fixed telephony users complained about poor service quality and lack of maintenance. Since the agreement had provided for the termination of the contract in the event the
strategic investor fails to fulfil his obligations, the government took steps to this effect.

The government’s resolve to act to salvage TTCL was prompted by the fact that the performance of the firm had deteriorated in terms of its financial and infrastructural status. While the firm’s financial position was worse than it was before privatisation its infrastructure was, apart from being ravaged by the investor, being destroyed by an increasing wave of vandalism. For example, between 2002 and 2004, the company had suffered a loss of USD 2.8m due to vandalism, mostly in the city of Dar es salaam (East African, 3/5/2005). This amount was in addition to the cost of ‘protecting’ the firm’s 38 installations in the city. In view of the East African, vandalism was a result of most people in the country being frustrated and discouraged by the way TTCL was functioning after privatisation. Although most people had resented the manner in which the firm was privatised, they had hoped that privatisation would enhance efficiency and improve service delivery. To their dismay, the company’s performance had become poorer than it was before privatisation.

On 5 August 2005, the government struck an agreement with the strategic investor to separate the activities of Celtel Tanzania Limited from those of TTCL. As pointed out above, Celtel Tanzania had since its inception operated as a subsidiary of TTCL and had expanded its business at the expense of TTCL. The separation, therefore, meant that TTCL and Celtel Tanzania became legally, financially and operationally totally separate companies. The government also withdrew work permits for TTCL’s five senior expatriate managers from Celtel International and replaced them with Tanzanians. These measures signified that TTCL had reverted
to the government which had technically taken over control of the controversy-ridden firm. In order to uplift the company from its financial doldrums, the government decided to sell 25 percent of the shares TTCL held in Celtel Tanzania to Celtel International for USD 28m and injected the funds into TTCL.

However, on 2 February 2007 the government tabled before Parliament a plan which the Parliament approved for SaskTel International of Canada to take over the management of TTCL for a period of three years. Tabling the plan, the government stated the same reasons it gave when selling TTCL to MSI/Detecon, to help TTCL operate more efficiently in the prevailing free market economy through improvement in its financial, commercial and technical performance. A day before the plan was brought to Parliament, the Telecommunication Workers Union of Tanzania (TEWUTA) issued a statement threatening to sue the government if it handed over the management of TTCL to SaskTel and requested parliament to reject the plan (Guardian, 1/1/2007).

TEWUTA further stated that SaskTel, which had in 2001 offered to purchase 35 percent of TTCL shares for USD 60.5m and lost to MSI/Detecon, was in April 2004 offered a three-month contract worth USD 650,000 by the government to complete a network infrastructure project for TTCL but failed to deliver desirable results. According to TEWUTA there was no point for the government to contract a foreign firm to manage TTCL when, under Tanzanian managers, TTCL had shown signs of recovery from the four-year damage caused by its former investors, MSI/Detecon. In TEWUTA’s view, the proposed three-year government contract with SaskTel to run TTCL had an element of corruption and the Union asked the state-run Prevention of Corruption Bureau (PCB) to investigate the matter.
However, the three-year management contract was signed between the government and SaskTel on 16 May 2007 and TTCL was officially handed over to SaskTel on 1 July 2007.

**Conclusion**

This Chapter has revealed that the liberalisation of the telecom sector in Tanzania, leading to the privatisation of TTCL was, as in the banking sector (see Chap Seven), planned and executed under pressure from the IMF and the World Bank. Although the liberalisation granted TTCL monopoly in the basic and fixed telephone services, it provided for entry of foreign private operators in mobile cellular and other non-basic services. The entry of mobile cellular services meant that TTCL monopoly was ‘cosmetic’ in the sense that customer tastes shifted from fixed telephony to mobile phones despite the latter service being more expensive compared to the former. Although the entry of other telecommunication service providers under liberalisation had achieved the objective of promoting competition in the sector, the IMF and the World Bank still wanted the government to privatise TTCL.

As in the case of banking, the liberalisation and privatisation of the Tanzanian telecom sector was also influenced by the coalition of countries and businesses that were interested in exploiting the country’s telecoms market. It is revealed in the Chapter (see Table 8.3) that almost the same countries and institutions that had financed the restructuring of the telecoms sector in Tanzania had in fact become the beneficiaries of the country’s telecoms market. It is, therefore, argued on this basis that when sponsoring the telecoms restructuring programme, the donors and institutions had steered the policy in the direction that would advantage them in exploiting the country’s telecommunication market.
Having examined in this chapter the considerations influencing the privatisation of the TTCL, the next chapter provides the description and analysis of the third case study involving the privatisation of the Tanzania Electric Supply Company Limited. As explained in chapter Two, materials from the three cases will provide the basis for a comparative case analysis that will facilitate the drawing of logical conclusions.
CHAPTER NINE

Electricity Sector Reform in Tanzania: The Privatisation of Tanzania Electric Supply Company (TANESCO)

Introduction

This chapter presents a third case study on Tanzania’s policy reforms. The crucial role played by electricity in the social and economic development of society is well documented in various literatures (see Myllyntaus, 1991; Nathan, 1998; Wilkinson and Hill, 2000; Steiner, 2001; Pineau, 2002). Electricity is described as ‘the lifeblood’ and one of the ‘building blocks’ of modern society in the sense that apart from being a vital service to the economy, at the root of all productivity improvement, it is ‘an important final good consumed by households’ (Steiner, 2001:43). In this regard, it is one of the sectors in which reform has to be carefully considered.

Unlike in the banking and telecommunication sectors in Tanzania in which privatisation has been realised, the electricity (power) sector has only been liberalised to allow independent power producers (IPPs) and the public power utility, Tanzania Electric Supply Company (TANESCO), is still the monopoly supplier of electricity in the country. However, in 2002 the firm was placed under a management contractor as ‘a run-up to TANESCO divesture and privatisation’ (World Bank, 2001b). Basu (1994) argues that placing a public enterprise on management contract prior to divesture is a form of privatisation. The chapter,
therefore, intends to examine the factors precipitating the power sector liberalisation and the privatisation decision.

Electricity Development in Tanzania: A Brief background

Electricity in Tanzania traces its origin to 1922 when the East African Power and Lighting (EAPL), a privately owned company, was established in Kenya. In 1931, following the installation of Tanganyika’s first hydro capacity at the Pangani falls in the country’s north east, the EAPL extended its electricity supply to Tanganyika by establishing a company known as Tanganyika Electric Supply Company Limited to supply power in areas surrounding the power plant. In the same year, another privately owned company, Dar es Salaam Electric Supply Company Limited (DANESCO), was established to serve the country’s major towns. Although other small hydro stations were later established in Moshi, Iringa and Mbeya, most of the country’s power needs at the time were supplied by thermal stations (Pollock, 1960). However, this power supply trend has since changed (see below).

In 1964, the EAPL sold its majority stockholding in TANESCO to the government of Tanzania which also acquired DANESCO. The government then merged the two companies to form the Tanzania Electric Supply Company (hereinafter referred to as TANESCO). When taking over TANESCO, the government explained that the aim was to ‘correct private sector inability to increase access to electricity by the majority of the population’ (Marandu, 2002:978). The state-owned power utility assumed a vertically integrated model (see Fig. 9.1) responsible for generation, transmission, distribution and marketing of electricity in the country. TANESCO was also charged with the responsibility of supplying power to Zanzibar. Although
Zanzibar now has its own power utility, the State Fuel and Power Corporation (SFPC), the bulk of its power is still supplied by TANESCO.

**Figure 9.1: TANESCO’s Vertically Integrated Monopoly Model**

![Diagram of TANESCO's vertically integrated monopoly model]

Source: Created by the researcher on the basis of TANESCO’s vertical arrangement.

Tanzania’s current installed capacity is 951MW of electricity which is generated from two main sources. 561 MW is generated from hydro plants (see Table 9.1), out of an estimated potential of 4700 MW, while 390 MW is generated from thermal plants (DEA, 2005). The effectiveness of TANESCO’s hydropower plants depends on weather conditions. During wet seasons, production of electricity satisfies national demand which stands at 340 MW per day. In dry seasons, water in reservoirs falls below the levels required to run the turbines, adversely affecting
electricity supply and leading to prolonged load-shedding throughout the country. The high cost and limited availability of fuel needed to run thermal plants makes them less efficient and reliable in electricity generation. Consequently, the effective contribution of diesel plants to electricity generation is only 35 MW although the installed capacity of these plants connected to the national grid is 80 MW. From generation, power is transmitted through TANESCO’s transmission and sub-transmission networks comprising of about 13,000 km of 220KV, 132KV, 66KV and 11KV lines.

Table 9.1: TANESCO Hydropower Plants

<table>
<thead>
<tr>
<th>Hydropower Plants</th>
<th>Installed Capacity (MW)</th>
<th>Effective Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kidatu</td>
<td>204</td>
<td>204</td>
</tr>
<tr>
<td>Kihansi</td>
<td>190</td>
<td>180</td>
</tr>
<tr>
<td>Mtera</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>New Pangani Falls</td>
<td>68</td>
<td>66</td>
</tr>
<tr>
<td>Hale</td>
<td>21</td>
<td>17</td>
</tr>
<tr>
<td>Nyumba ya Mungu</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>561</strong></td>
<td><strong>555</strong></td>
</tr>
</tbody>
</table>


TANESCO’s vertically integrated monopoly model was a result of government intervention to run the power sector in the 1960s. The intervention, whose objective was to ‘correct private sector inefficiency’, focused on ‘harnessing’ electricity supply to the majority of the population. Katyega (2004) states that between 1974 and mid 1980s, TANESCO delivered ‘efficient results from its operations’ but its performance declined towards the end of 1980s. In his view, TANESCO’s declining performance in the 1980s cannot be divorced from the general dismal performance of the country’s economy at the time. By 1990, the firm was accused of unsatisfactory performance in terms of low access to electricity by the people, long lags in electricity connection as well as electricity
billing, non-payment for services by customers, high tariffs, and inability to finance further investment in the electricity sector (Marandu, 2002).

The need for reform in electricity sector

A number of studies have examined the factors influencing reform in the electricity sector, especially in developing countries. Jamasb et al (2005) point out, for example, that these may be categorised as ideological and economic, as well as success stories emanating from other countries in which reform has been undertaken. Bacon and Besant-Jones (2001) and Kennedy (2002) outline the specific driving forces behind electricity sector liberalisation and privatisation as including poor performance of state-owned electricity suppliers in terms of high cost; inadequate expansion of access and unreliable supply; inability of the public sector to meet investments and maintenance requirements; exposure to foreign capital; rapid changes and advancement in electricity technology; need to overcome budget deficits through removal of electricity subsidies; need to generate government revenue through sale of electricity assets; and pressure from international financial institutions (IFIs) and donor agencies. The benefits of reform include keeping ‘politicisation’ out of the electricity supply business; providing opportunities for citizens to purchase power utility’s shares through capital markets; enhancing entrepreneurial thinking and increasing transparency of actions; increased capital inflow through private investments; promoting efficient allocation of resources through competition; promoting consumer choice; and promoting efficiency which enhances performance and profitability and provides the incentive ‘to keep retail prices as low as possible’ (Meek, 1998:100; Kiesling, 2003).
Bacon and Besant-Jones (2001) provide three approaches through which reform in the electricity sector can be undertaken. These are liberalisation to promote competition by allowing independent power producers (IPPs) to produce and sell electricity to the existing public power utility; restructuring the industry to unbundle the incumbent into generation, transmission and distribution without necessarily privatising it; and privatisation of the unbundled generators and suppliers (split-privatisation). Joskow and Schmalensee, (1983) and Bacon and Besant-Jones (2001) suggest that the latter model is more beneficial compared to other models because, apart from promoting competition, the model enhances efficiency, reduces prices and improves services for the consumer, as competitive firms focus on only one activity. However, Vickers and Yarrow (1988) argue that where there arises a need to reform the electricity sector, the aim should not be ‘changing ownership’ of existing power utility but rather to promote the competition from which most reform benefits are gained.

The World Bank developed a three-tier electricity reform template in 1993 to guide electricity reform efforts ‘around the world’, after making electricity reform a conditionality for borrowing from the Bank (World Bank, 1993; Rufin, 2003). Two main arguments have influenced the Bank’s decision to adopt the ‘split-privatisation’ template. The first is that electricity, like any other commodity, can be ‘produced’ and ‘sold’ more efficiently and cheaply by the private sector compared to the public sector as government intervention leads to wastage of resources and inefficiency resulting from ‘opacity of information’ (Gilbert and Khan, 1996:17). However, Pineau (2002) regards the ‘efficiency’ premise used to promote reform as a paradox because ‘historically development of electricity has always been state-led’ and power sectors have been nationalised on account of the
need to promote efficiency in electricity supply. Kiesling (2003) reveals, for example, that nationalisation of electricity in Britain was premised on consumer protection and power supply security. Greacen and Greacen, (2004: 519) support this view, stating that the formation of state-owned electricity company to promote efficiency was ‘a precondition for Thailand to receive concessionary financing from the World Bank in the 1950s’. In this regard, Beder (2003) sees the ‘efficiency’ argument as ‘unfounded rhetoric’ used by the advocates of the free market to gain and maintain private control of the electricity sector.

Hall (2007) supports this argument, contending that although ‘efficiency’ has been used as a ‘catchword’ to build a case for liberalisation and privatisation, most of those who advocate for liberalisation and privatisation in the power sector are not precise about how greater efficiency in this sector could be achieved. He contends that most advocates of liberalisation and privatisation in electricity focus on the supposed effects on efficiency such as improved service and low tariffs, without addressing the causal factors that underlie poor performance. In his view, efficiency, in the power industry would be determined by addressing four basic aspects including how to improve power generating capacity; improve and maintain a well functioning transmission system; extend the two systems (i.e. generation and transmission) to households and business through a well managed distribution network; and ensure the entire system is affordable and reliable. He argues further that liberalising and privatising the power sector does not create ‘ready made’ answers for efficiency in electricity supply. In his view, improvement in electricity efficiency can still be attained through corporatisation and commercialisation of the existing public power utilities without necessarily undertaking the painful process of liberalisation and privatisation. Moreover, it is
premature to judge emerging economies as being inefficient in electricity production and distribution, comparing them with western Europe and the USA whose economic development spans a couple of centuries.

The second argument influencing World Bank policy is that it is possible to successfully apply the same electricity reform template in any political and economic system, regardless of differences in stages of development, because electricity systems around the world are ‘physically’ and ‘operationally’ similar (Hunt, 2002). However, Yi-Chong (2005) contends that in fact electricity is unlike other commodities in that its production requires a ‘process’ involving the conversion of different forms of energy (e.g. coal, gas, oil, hydro) into power whose consumption takes place at the time of production. Given that electricity cannot be stored or retrieved and the size of the market is determined by instantaneous demand rather than demand over a longer time period, generators cannot simply produce any amount of electricity in excess of the actual demand (Steiner, 2001). Also, compared to other industries, electricity production involves several challenges and obstacles including high initial investment costs; initial low demand; sensitivity to population density in terms of distribution cost per user; difficult financial assessment of electricity benefits; and long-term preliminary period before profitability (Turkey and Anderson, 1977). Given these characteristics and the fact that 90 percent of the population in emerging economies consist of poor people with no ability to finance production and consumption of electricity, governments in developing countries should take a political approach rather than an economic one in providing electricity service to the people (Yi-chong, 2005). According to Yi-Chong, profit seeking private
investors cannot be expected to facilitate government’s objective of universal access to electricity in poor countries.

With regard to public sector inefficiency, Zang et al (2002) state that the decision by government to allocate electricity ‘inefficiently’ (i.e. with prices not relating to marginal costs) is explained by the fact that the need to influence voters motivate public decision makers to focus on electrification on rural areas, enabling as much of the country’s population as possible to access the service. The need of public officials to influence rural voters becomes tantamount to the need to maximise profits that motivate private investors to concentrate provision of electricity on urban areas where incomes are relatively higher.

Commenting on the universal applicability of the World Bank electricity reform template, Hall (1999) and Thomas (2002), contend the generation, transmission and distribution model, introduced in England in the 1980s, has not been adopted ‘anywhere’ in Western Europe. Surrey points out that the model has not been adopted even by England’s closest neighbours, Scotland and Northern Ireland, ‘due to their different system sizes and configurations, histories and political circumstances’ (Surrey, 1996:6). In countries such as the USA (e.g. California), India, Russia, China and Brazil, where the World Bank template has been adopted the result has been acutely negative (Beder, 2005; Yi-Chong, 2005). For example, after Brazil liberalised its power sector to allow foreign private investors in generation and distribution of electricity, consumers began to experience a ‘breakdown’ in the electricity supply system by being charged higher prices than before (Beder, 2005). The breakdown, in Beder's view, resulted from two main factors. The first is that each of the three separate players in the system vies for
maximum profits. The second is that foreign owners tend to repatriate profits and avoid investments in new generation and distribution capacity.

Beder (2005) contends that in most developing countries where privatisation has been introduced in the name of efficiency, the result has been a dramatic reduction of maintenance staff through retrenchment. Such reduction has led to frequent equipment failure, frequent power interruptions and black-outs and skyrocketing power tariffs. He observes further that privatisation of electricity in most countries has witnessed widespread public protests indicating that privatisation in this sector is not something that the people of these countries wanted. He surmises that since electricity is not like pork-bellies to be traded in a market place, it should be controlled and supplied by the state to ensure availability, reliability and affordability. Hall (2007) supports this view and provides five major reasons for doing so. Firstly, the government pays lower interest rates compared to private investors, and therefore, the cost of capital required to generate and transmit electricity is lower. Secondly, development of affordable electricity and other services has been the domain of the public sector which, in principle, is more accountable to the public than the private sector. Thirdly, electricity infrastructure is capital intensive with ‘sunk costs’ and involves natural monopolies such as towers and transmission lines, to the extent that there is little incentive for private investment. Fourthly, in addition to private distributors not wanting to invest private capital in providing electricity to the poor, private power stations are very vulnerable to ‘corrupt deals’ with negative consequences to the consumer. Finally, where privatisation in the electricity sector has been undertaken, it has failed to yield desired results to the poor, apart from providing ‘a conduit for enriching multinationals and corporations’.
Hall (1999) argues that although ‘public benefits’ is the persuasive language used to lure the public into espousing privatisation, the new shareholders in the privatised company become the beneficiaries through increased dividends. In his view, the combined effect of increased dividends to shareholders and collusion with large industrial consumers of electricity is the shift of production costs onto the consumer through higher prices. After privatisation, consumers actually pay more for electricity than before privatisation (Newbery and Politt, 1997). Willner (2003:60) echoes this view, contending that privatisation in electricity generally results in ‘private winners and public losers’. He argues that the public incurs a great loss of benefits to the extent of such loss undermining the cost reduction argument. In this regard, privatisation in electricity cannot be beneficial to the people. Pursuing this argument further Pineau (2002) states that developing countries with traditional economies cannot have electricity provided by private investors whose sole investment motive is profitability. He argues that private companies whose interest is a return to investment have always been a major problem for electricity development than a solution, as they discriminate between who should be supplied with electricity and who should not. The result is that private investors focus on urban areas and neglect rural electrification. In his view, where private companies should be allowed to provide electricity, they should be subjected to strict regulatory mechanisms aimed at promoting trade-offs between the ‘win win’ motive of private investors and national development goals. He notes that even in older economies such as the USA, private electricity providers are not given ‘a free ride’ but operate under the watchful eye of the Federal Energy Regulatory Commission.
Commenting generally on liberalisation and privatisation in the power sector of developing countries, Thomas (2004) concludes that private foreign investment has been a total failure. He attributes the failure to six factors including fluctuating currency values; volatile demand growth, whereby need and supply do not match all the time; political interference from governments to safeguard public interests; corporate incompetence to deal with contingencies in the electricity sector; high costs of competition in electricity supply; and the uniqueness of electricity in that it cannot be bought and stored compared to other commodities. Reform in the power sector has ‘miserably’ failed to promote electrification to the poor in developing countries, especially in Africa (Karekezi, 2002). The World Bank (2004b) acknowledges that difficulties have arisen in the implementation of its policy and that liberalisation and privatisation have not been ‘a perfect solution’ to the problems of power supply in developing countries.

Despite the failures experienced in electricity reforms, Pineau (2002) believes that liberalisation and privatisation in the power sector would still succeed if strong regulatory measures were introduced. Regulation in the sector would deal with investment risks and high cost of competitive electricity; protecting the consumer; safeguarding the environment against impacts resulting from generation; enabling investors to predict future development in the sector; and promoting certainty for investment decisions. Kelly (2003) supports this view, arguing that without a strong regulation and regulator, competition in the electricity market would fail because each player seeks to control and monopolise the market. However, Kennedy (2002) states that for regulation to succeed in the sector, the regulator should have autonomy and should not be financed through government budget; the head of the regulatory agency should not be an appointee of the state executive;
and the regulator should involve the participation of investors in major decision making, including identifying potential areas for stronger regulation.

Guasch and Hahn (1999) and Zang et al (2002) caution that even in a situation where regulation is conducted by a dedicated regulatory body, it has distorting effects on performance in the electricity sector. The introduction of regulation in different countries has produced divergent results, indicating that the effects of regulation on electricity prices and allocative efficiency are ‘unpredictable’. With regard to divergent results produced by regulation in electricity, Kennedy (2002) offers one explanation arguing that such regulation connotes complex judicial decisions which require skill and experience. Apart from regulators in developing countries lacking the necessary skills to execute ‘judicial decisions’, even the courts in most of these countries lack ‘the experience to make detailed judgements necessary on regulatory issues’ (Kennedy, 2002:222).

**Tanzania Power sector liberalisation and entry of private electricity providers**

Liberalisation of the power sector in Tanzania traces its history to 1985 when the IMF included restructuring in the energy sector as one of the conditions to be met by the government of Tanzania for accessing the Fund’s loans (see Chapter Four). The IMF demanded restructuring in the power sector because TANESCO was, in the Fund’s view, ‘inefficient’ and had proved to be a ‘burden’ to the government. The IMF’s decision to include electricity in lending conditions was followed by the World Bank when it declared it would no longer ‘finance power projects where poorly performing and highly polluting utilities and their governments were unwilling to carry out fundamental structural reforms’ (World Bank, 1993:72). Just
before the Bank’s declaration, it had received an USD 300m loan application from the Tanzanian government to finance the implementation of the Lower Kihansi Hydropower Project (LKHP). Before the loan was released, the Bank sent its Senior Power Restructuring Specialist, to ‘advise and assist’ the government of Tanzania in restructuring the country’s power sector.

The result of the World Bank power sector restructuring assistance to Tanzania was the formulation in 1992 of a new electricity industry policy and restructuring framework (revised in October 1999). The policy spelt out the sector’s main objectives as promoting competition in the power sector; increasing sector efficiency to meet electricity demand; accelerating electrification to ensure access by the broadest cross-section of the population; ensuring the long-term economic viability and sustainability of the electricity industry; and reducing public expenditure by transferring to the private capital the commercial risks inherent in electricity investment. To realise these objectives, the policy outlined a number of strategies to be adopted including restructuring and unbundling the present vertically integrated monopoly utility into functional units of generation, transmission and distribution; introducing competition in the sector while safeguarding stakeholders and customer interests through regulation; establishing an independent regulatory agency; and improving efficiency in the distribution system.

This policy change was followed by two important occurrences in the country’s power sector. Firstly, the Kihansi hydropower project financiers, led by the World Bank, released USD 275 for the Kihansi project and implementation of the 180MW project started in July 1994. Secondly, two independent power producers (IPPs),
Songas Limited and Independent Power Tanzania Limited (IPTL), were licensed by the Ministry of Energy and Minerals (MEM) to generate power for sale to the existing public power utility, TANESCO. Songas Limited was created in October 1995 by two Canadian companies, Ocelot International and TransCanada Pipeline Limited, in partnership with the Government of Tanzania, TANESCO and Tanzania Petroleum Development Corporation (TPDC). The aim of the USD 350m project was to implement the Songo Songo Gas to Electricity Project, in Kilwa District of southern Tanzania, by constructing the gas processing facilities on Songo Songo island and the 232 km long pipeline network to transport natural gas to Dar es Salaam where it would be burnt by five gas turbine electricity generators to generate up to 115MW of electricity for the national grid (NG). The project was scheduled for completion in 2004. Ocelot International later changed its name to Pan African Energy. During the initial stages of the project, TransCanada Pipeline Limited sold its project stake to AES Corporation of USA which received a USD250m loan from the International Development Association and the European Investment Bank to finance the project. As the Song Gas project progressed, and in various periods, other investors acquired a stake in it including the World Bank, Canadian Development Corporation (CDC), European Investment Bank (EIB) and Tanzania Development Finance Limited (TDFL). A list of foreign firms which, in one way or another, were involved in the Song Gas project and their countries of origin is provided in Table 9.2 below.
The Independent Power Tanzania Limited (IPTL) emerged in 1995, in the wake of a visit to Malaysia by ruling party (CCM) Secretary General and Minister for Planning, Horace Kolimba in July 1994, during which Tanzania’s power supply problems were discussed between him and the Malaysian government as well as potential Malaysian investors. Following Kolimba’s visit, a seven-man delegation from Mechmar of Malaysia, led by Datuk Bohrudin Majid, visited Tanzania in August 1994 and held discussions with government leaders and TANESCO management. Around this time, a Tanzanian company, VIP Engineering, was registered and entered into a joint-partnership with Mechmar to form IPTL. The
new company began negotiating a Power Purchase Agreement (PPA) with the MEM, culminating in the signing of the Memorandum of Understanding in June 1995. The terms of the agreement included that IPTL would construct a USD 150m power plant at Tegeta, in the outskirts of the city of Dar es Salaam; generate and add to the National Grid (NG) 100MW of electricity, using low speed engine turbines; have the project ready for commissioning by 1998; and be paid by TANESCO USD 4.8m monthly for generating 100MW of electricity over a 20-year period upon becoming operational. It was revealed that VIP Engineering, Tanzania’s IPTL equity holder, ‘is (in fact) owned by a group of senior government and party officials (East African, 5/3/2001).

The signing of the IPTL project was greeted by opposition from the World Bank, arguing that the IPTL’s USD 150 project was too costly and would have a direct bearing on the price of power per unit when operational. The Bank also contended that the cost of the project had been inflated because the estimated cost of installing 1MW of power was USD1m, and, therefore, the true cost of the project would have been USD 100m against USD 150m claimed by IPTL management. However, IPTL investors argued that their actual cost of installing 1MW was USD 1.5m and had, therefore, spent USD 150m to install 10 generators by March 1998. In view of this argument, the World Bank blamed the government of Tanzania for agreeing to be a party to such a project, and henceforth suspended its USD 28m pledge for the Mnazi Bay gas project and threatened to suspend its support for the USD 300m Lower Kihansi Hydropower Project (Guardian, 10/7/2001).

The government, through TANESCO, responded to the World Bank’s displeasure in the project by issuing IPTL a notice of default on 9 April 1998, stating that
without informing TANESCO, IPTL unilaterally decided to substitute medium-speed diesel engines for the slow-speed engines as stipulated in the agreement. In view of the substitution, TANESCO wanted the project cost to be re-negotiated and put its own estimates at USD 90m instead of USD 150m. Following the issuance of the notice of default President Mkapa voiced government support to suspend the agreement, arguing that the government could allow Tanzania’s electricity consumers and the economy to be burdened with extraordinarily high electricity tariffs. IPTL refused to either recognise the suspension or renegotiate the project, arguing that the government was aware of the substitution and that its decision to suspend the project was being influenced by the World Bank. Accusing the Bank’s interference in the agreement, Mr James Rugemalila, the Tanzanian counterpart in the IPTL project stated:

*When IPTL signed a project agreement with the government, the first place we went to look for funds was the World Bank, but the institution denied us funds. And that was not the end. The Bank made sure that we did not get money wherever we went to, and this is because of the Bank’s child-project, Songas Limited (East African, 18/2/1999).*

These sentiments are supported by a number of views and events. Immediately following TANESCO’s issue of its notice of default to IPTL, the IMF representative to Tanzania, Mr Festus Osunsade, issued a statement praising the government’s handling of the IPTL deal because it was ‘a critical factor in resuming talks (with the IMF) on the Enhanced Structural Adjustment Facility (ESAF) suspended in March 1998 on account of the government’s power-supply contract with IPTL’ (*Daily Mail, 20/4/1998*). A Political Scientist at the University of Dar es salaam argues that the notice of default was a result of the government ‘bowing’ to pressure from the World Bank and the IMF. He argues further that in order not to be seen as not being the source of the dispute between TANESCO and IPTL, the
World Bank used its former President Robert MacNamara, now with Transparency International, to raise concern about the IPTL. In his view the Bank opposed the IPTL project for two major reasons including ‘hidden commercial alliance with private investors’; and the Bank disliking a successful example of ‘a blossoming South-South Co-operation’ (EPI.1, 24/2/2005). According to him, the notice of default issued by TANESCO to IPTL was simply ‘a mere “window dressing” intended to cushion the government from World Bank pressure’.

The view about the notice of default being some kind of ‘window dressing’ by the government was echoed by a Senior Official in the MEM who revealed that although the substitution of slow-speed by medium-speed engines was supposedly the reason for the default notice, ‘the substitution decision was in fact negotiated between IPTL, government officials and TANESCO management’ (EPI.2, 14/2/2005). In addition, soon after TANESCO’s issuance of the default notice, and while the matter was yet to be resolved, a delegation from IPTL led by the company’s Chairman, Mr Datuk Bohrudin Majid, held final discussions with government officials on 8 May 1998 on the USD 4.8m monthly power tariff payments to IPTL.

This scenario tends to support Kelsall’s argument that the current political scene in Tanzania is characterised by ‘veranda politics’ in that what is ‘displayed on the shop window’ (i.e. released as official statements) differs from what actually takes place in the ‘smoke-filled official rooms’ (Kelsall, 2002).

Concerning the World Bank’s opposition of the IPTL project, an Economics Professor at Mzumbe University wonders why the Bank ‘acts in double standards’ when dealing with private investments in Tanzania (EPI.3, 29/1/2005). In his view, the project implemented by IPTL for TANESCO had almost a similar cost to
the people of Tanzania as the one implemented by MSI/Detecom for Tanzania Telecommunications Company Limited (TTCL) (see Chapter Eight). He argues that while the Bank raised eyebrows on IPTL, it remained silent when MSI/Detecom was plundering TTCL because MSI/Detecom’s activities appeared to be in the Bank’s interest.

The wrangle between TANESCO and IPTL ended in the High Court of Tanzania when the latter filed in September 1998 a law suit, seeking a monthly damages payment of USD 3.623m from TANESCO, beginning September 1998 until the matter was resolved. The firm alleged that it had incurred a loss of USD 18.115m on account of delays in operationalising the project which was ready for commissioning. The High Court granted IPTL’s petition, prompting TANESCO to seek an appeal with the Court of Appeal. However, before the appeal was lodged, the government ordered TANESCO to refer the matter to the London-based International Centre for the Settlement of Investment Disputes (ICSID) for arbitration. IPTL objected to having ICSID as its arbitrator, preferring the International Chamber of Commerce instead. The independent power company argued that apart from the ICSID operating on the basis of outdated rules, it was an affiliate of the World Bank which had some interest in the dispute. A Senior Official in the MEM pointed out that the idea to refer the matter to the ICSID was ‘vouched’ by the World Bank, through its resident representative in Tanzania (EPI.4, 24/2/2005).

TANESCO prevailed in November 1999 in having its dispute with IPTL arbitrated by the ICSID and paid a TZS 5bn arbitration fee. However, while the dispute was still undecided by the ICSID, a US-based investigation agency called Decision
Strategies Fairfax International (DSFX) (see below) released a report revealing that between 1994 and 1995, the Malaysian company Mechmar’s representatives had paid between USD 20,000 and USD 200,000 to senior TANESCO managers and government officials as inducement for the approval of the IPTL project. In its conclusion, the DSFI report stated:

*Based on testimonial evidence and supporting data...there currently exists circumstantial evidence stoutly suggesting that the IPTL project was planned, approved and implemented pursuant to a pattern of corrupt behaviour at the highest level in government* (*Daily News, 19/2/2001)*.

Commenting on this report, a Senior Official in the MEM stated that DSFX was in fact hired by Acres International, the World Bank sponsored consultants of the MEM, to assess the appropriate cost of the IPTL project for ICSID’s arbitration purposes (*EPI.5*, 14/2/2005). He pointed out further that Acres International, whose role in the MEM included advising on and controlling the functions of the Ministry’s financial department, paid DSFX with the funds borrowed by the government from the World Bank and ‘the money was drawn without the knowledge of the Minister or his Permanent Secretary’. In his view, ‘the decision to conduct an investigation and produce a report, which was immediately made public and its copies distributed to donors, was meant to embarrass the government and at the same time discredit TANESCO to build a case for its privatisation’.

The ICSID ruling issued on 12 July 2001 declared that TANESCO should pay IPTL USD 123m instead of USD150m for the project and a monthly tariff payment of USD 3m (i.e. USD 100,000 per day) instead of USD 4.8m for 20 years whether or not the plant was generating electricity. Providing its overall assessment of the TANESCO-IPTL project, Transparency International (TI) says:
Towards the privatisation of TANESCO

Government efforts to restructure TANESCO became increasingly harnessed after the visit to Tanzania by a European Community team on 30 June 2000. Addressing the Parliamentary Foreign Affairs and International Cooperation Committee, the head of the European Community delegation commented on the electricity sector, citing mismanagement as the main reason TANESCO was performing poorly and went on to recommend privatisation as the only strategy for solving the existing problems, including high tariffs. He attributed TANESCO’s problems to management decisions to build new structures, increase workers salaries and purchase new cars. In its defence, however, TANESCO management issued a statement on 5 July 2000, citing the factors for the public utility’s poor performance as the high cost of investments in the expansion of generation, transmission and distribution; worn out equipment; high fuel prices for thermal plants; currency exchange rate fluctuations; reduction of output in power stations due to depletion of water reserves resulting from uncontrolled irrigation and deforestation along the banks of rivers feeding into hydropower dams; declining water levels in dams due to siltation resulting from uncontrolled farming around dams; and long outstanding bills mainly owed by government and its parastatals. TANESCO argued that given the nature of some of the problems no management, however efficient, could achieve results without support from the government. The factors raised by TANESCO to explain the public utility’s poor performance tend to support the argument by Adhikari and Kirkpatrick (1990) that the causes for poor
performance in electricity are complex and cannot be attributed to a single factor such as ownership or management.

Having been accused of inefficiency, TANESCO issued a three day ultimatum for its debtors, including government which owed TZS 51.5bn in unsettled power bills, to settle their outstanding bills or face a ‘black out’. The government responded that it could not bow to pressure from its own institutions. The government claimed that it was in fact owed by TANESCO a total of TZS 250bn given to the firm for implementation of projects. However, a Director in the MEM explained that this was money given to TANESCO through the government in form of grants and donations (EPI.6, 15/2/2005). In his view, the government’s refusal to settle its power bills created a bad precedent and frustrated TANESCO’s debt collection effort.

Following the departure of the European Union delegation, PSRC began to issue statements regarding government’s resolve to restructure and privatise TANESCO. To build a case for privatisation, the government commissioned an external consultant, the London-based Delloitte Touché and Tohmatsu (hereinafter referred to as Delloitte), in early 2000 to conduct a financial and management review of TANESCO’s operations. In July 2000, Delloitte produced a report detailing operational and managerial weaknesses of TANESCO and recommended the hiring of an external firm to manage the public power utility during the transition phase to privatisation. According to Delloitte, a foreign management firm would enable TANESCO to increase its income by 15 percent to TZS 22bn per year.
In the wake of Delloite’s recommendation, PSRC issued an invitation to tender for Management and Support Services for TANESCO. Eleven firms expressed interest in managing the public utility including Arnelt Consulting (USA); Birks Energy (Sweden); ESB International (Ireland); Eskom Enterprise Pty Ltd (South Africa); IberAfrica (Spain); Eltel Network International (Finland); NRECA International (USA); Vattenfall (Sweden); Net Group Solutions (South Africa); and Revenue Loss Management (South Africa). Following technical evaluation against ‘an agreed set of criteria’, which PSRC would not reveal, six firms were selected for pre-qualification. These were ESB International, Eskom International (Pty Ltd), IberAfrica, NRECA International, Vattenfall and Net Group Solutions. However, before the six short-listed firms could bid, PSRC arranged a ‘pre-bid conference’ on 8 November 2001 to which the bidders were invited to attend. The main objectives of a pre-bid conference include describing the project and its expectations to bidders; generating interest to promote maximum competition among bidders; clarifying items in the bid documents; and generating feedback and advice from bidders. Four firms, Eskom Enterprise (South Africa), Net Group Solutions (South Africa), ESB International (Ireland) and Vattenfall (Sweden) attended this meeting. However, a Senior Official with the PSRC claimed that the firms that appeared to be strong contenders were deliberately excluded from the invitation to attend the pre-bid meeting because PSRC had already made a decision on the preferred contender (*EPI.7*, 15/12/2004).

Bidders were given to 30 November 2001 to submit their bids to PSRC. Meanwhile, the government commissioned the USA-based Stone and Webster Consultants for USD 3m to advise on TANESCO’s restructuring including unbundling the power utility; developing the electricity trading arrangements and the regulatory
environment; developing the approach to improve access to rural electrification; advising on the privatisation of the companies that would result from the ‘unbundling’ process; identifying and developing changes to the required legislation for the restructuring of the electricity sector; and implementation of the approved structure for the sector. Seeking advice on ‘the regulatory environment’ and on ‘the required legislation’ at the end of 2001 implied that since liberalising the power sector in 1992, the government had operated the liberalised power sector without the required legislation or the appropriate regulation.

Upon the expiry of the bid period, three bidders Eskom Enterprise (South Africa), Net Group Solutions (South Africa) and ESB International (Ireland) had submitted their bids. A tug of war erupted between the technocrats in the PSRC and politicians in the MEM on which firm, between Escom Enterprises (Pty) and Net Group Solutions both of South Africa, should be awarded TANESCO’s management contract. PSRC’s choice of Escom Enterprises (Pty) was rejected by the Minister of Energy and Minerals, Edgar Maokola-Majogo, arguing that the choice lacked transparency. Implicitly the Minister preferred Net Group Solutions to Escom Enterprises (Pty). The TANESCO Board of Directors also voiced reservations on the manner in which bidder evaluations were carried out. In the view of one of the directors, the TANESCO Board regarded ESB International of Ireland as a more competent bidder compared to the South African firms.

The tug of war culminated in Net Group Solutions (hereinafter referred to as NGS) from South Africa being declared on 11 December 2001 to have won the contract to run TANESCO. A Management Support Services Contract (MSSC) between the government and the South African firm was signed on 21 December 2001. Under
the terms of the MSSC NGS was required to manage all aspects of the operations, maintenance and expansion of TANESCO; improve TANESCO's financial, commercial and technical performance by applying commercial electric utility management principles; implement a capital investment programme focusing on network rehabilitation, accelerated electrification and interconnections for cross border trading; participate in the pre-privatisation transition activities of TANESCO; and implement the corporate restructuring by ring-fencing the main business units (generation, transmission and distribution). Justifying the hire of NGS, President Benjamin Mkapa stated that TANESCO’s management had failed to deliver and the government could not continue using tax payers’ money to sustain it. The President acknowledged that the government and its various institutions owed TANESCO over USD 50m in unsettled bills.

It was revealed in early 2002 that NGS was a small engineering firm in South Africa and was not capable of running a big organisation like TANESCO (East African, 22/4/2002). According to the East African, Net Group Solutions had a local partner in Tanzania whose owner was President Mkapa’s brother-in-law, and members of the board of directors in the local partner included names of primary school children. Following this revelation by the East African, the Parliamentary Finance and Economic Committee demanded to see TANESCO’s management contract. This demand was rejected by government, arguing that the people had mandated it to perform contractual obligations on their behalf and that it had to be trusted. However, a Senior MEM Official stated that the Tanzanian local company was in fact ‘owned by the President’ (EPI.5, 14/2/2005).
These developments prompted the TANESCO Workers Council (TUICO) to convene a meeting in Dar es Salaam on 20 March 2002 to discuss TANESCO’s privatisation. After the meeting, TUICO issued a statement rejecting government accusation that TANESCO’s management was inefficient, arguing that the government was solely responsible for the problems experienced by the firm. The Council charged that apart from the government not paying power bills, its officials had used TANESCO funds for their personal gain and cited Mr Edgar Maokola-Majogo, Minister for Energy and Minerals as having used TZS 1,320,000 from TANESCO to install an air conditioning system in his private house. In the view of the Council, TANESCO’s performance was only being used as scapegoat to justify privatisation because:

*TANESCO was given the burden of electrifying rural areas to please politicians who used electricity supply to rural areas as a measure of political success when appealing for re-election. Besides, government institutions on the mainland and in Zanzibar have, for years, been supplied with electricity without paying their bills. In return to all these, TANESCO is unjustly accused of being unable to generate profit and, on that basis, the government is giving it to foreigners (East African, 21/3/2002)*

TUICO also raised a number of issues which provided ‘circumstantial evidence’ indicating that the award of tender to NGS was corrupt. Firstly, the Council pointed out that Tanzanian law requires tenders to be floated for 90 days to enable a big number of bidders to submit their bids. In their view, TANESCO tender was floated for 27 days only. Besides, big companies with technical know–how and extensive experience in power supply were ‘sidelined’ in favour of the South Africans. Secondly, after the award of tender to NGS, senior government and PSRC officials had travelled to South Africa where they had received financial ‘kickbacks’ for facilitating the award of tender to the South African firm.
TUICO demanded ‘a golden handshake’ of TZS 80bn and terminal benefits amounting to TZS 2bn to be paid to TANESCO workers before the firm was handed over to the South Africans. The Council argued that if the government was able to pay TZS 60bn to 320 Members of Parliament after every five-year term, paying TZS 80bn to 4,000 workers, some of whom had served the firm for over 30 years, was not a big deal. The government rejected TUICO’s demands, arguing that as the ‘owner’ of the power utility, it had the right to make investment decisions that would benefit the firm. Besides, the government argued that the workers were demanding the power utility to pay them an amount which it could not realise through its operations.

While the workers were haggling with the government, TANESCO announced a ten percent power tariff rise on 1 April 2002. A Senior Manager in TANESCO stated that the rise was affected through pressure from the government in an attempt to discredit the power utility in the eyes of the public as well as silencing the firm’s workers (EPI.8, 18/2/2005). He explained that normally, TANESCO would issue a press release to announce and justify its intention to raise power tariff. In this case customers only learnt about it when they went to the company’s pay outlets to pay their bills. In his view, the government ‘scored a deal’ because newspaper headlines were soon after filled with customer ‘woes’ demanding TANESCO’s privatisation. This observation is supported by the fact that on the same day the power tariff rise was announced Cabinet approved and sanctioned NGS to take over the running of TANESCO for a period of two years, and on the same day NGS managers arrived in the country from South Africa.
Following the tariff rise, the Prime Minister (PM), Mr Frederick Sumaye, addressed a meeting consisting of the incumbent TANESCO management, workers and representatives from NGS and explained that the role of the new management would be to enhance TANESCO’s efficiency and improve its financial performance. The PM asked the workers to give the new management full support, assuring them that the government was working on the Workers Voluntary Agreement they had submitted to it. *EPI.1* at the University of Dar es Salaam stated that this meeting, convened concurrent with the power tariff rise, was important to the government as it was meant to convince the public that their government was concerned about the way their public firm was being mismanaged (*EPI.1*, 24/2/2005).

On 5 April 2002, the Minister for Energy and Minerals was summoned to appear before the Parliamentary Financial and Economic Committee (FEC) which was unhappy with issues emanating from TANESCO, especially its rushed privatisation. At this meeting, the Minister explained that privatisation of the public power utility was the implementation of the power sector restructuring programme initiated by the government in 1992. As for the ‘new’ management to run TANESCO, the Minister defended the government’s decision, arguing that the current management had totally failed to enable TANESCO to meet public expectations. According to the Minister, corruption among the public utility’s managers was one the main factors that had damaged the performance of the firm, citing TZS 5.6bn that had been spent on equipment ordered outside TANESCO’s established tender system. However, the FEC members wondered why the government was now so desperate in rushing TANESCO into privatisation if the restructuring programme was initiated ten years earlier, with TANESCO’s problems existing all along. They argued that the public power utility could not be privatised in the absence of a
proper inventory of the company’s assets which was yet to be carried out. The Parliamentary Committee also wondered why the government should accuse only TANESCO’s management of ‘unprocedural tendering’ when a report by the Controller and Auditor General had shown that in the year ending 30 June 2001, a total sum of TZS 70,727,295,859 was either unaccounted for or had been used in government ministries contrary to standard procedures.

TANESCO’s new management was supposed to start work on 11 April 2002. However, on 10 April 2002, the firm’s workers issued a statement insisting that they would not allow the new managers to take over TANESCO until the fate of their demands, based on the ‘Voluntary Agreement’ submitted to the government, was known. They also stated that TANESCO, a sensitive institution that bears the ‘souls’ of the citizens and the country’s economy, could not be managed by a small firm like NGS, capable only of managing an engineering workshop. Moreover, NGS’s picking by the PSRC had not involved TANESCO. This stance by TANESCO workers was supported by the Trade Union of Congress of Tanzania (TUCTA) in a statement issued on 11 April 2002 and signed by all the Union’s eleven members.

As if to support TANESCO’s workers, a group of 46 MPs presented to the National Assembly Speaker a written and signed submission on 11 April 2002, petitioning the government to submit in Parliament a copy of its agreement with the South African management firm. The MPs wanted the government to explain the procedure it used to nominate NGS; the sudden hike in tariffs for small users; and steps taken to account for monies which the Minister for Energy and Minerals said had been ‘misappropriated’. In their submission, the MPs stated that petitioning the government for an explanation was within the framework of good governance
because the issue concerning TANESCO’s management contract had ‘raised more question than answers among the public’. The House Speaker, Mr Pius Msekwa, through a letter of 11 April 2002, informed the MPs that their petition could not be entertained because it was ‘unprocedural’, as it was against a Parliamentary Standing Order which requires that only one MP signs such a submission.

A Legal Expert at the University of Dar es Salaam stated that there is a difference between a private member’s motion signed by a single MP and a written submission in which several MPs need an immediate action on a pressing problem (EPI.9, 25/2/2005). In his view, the Speaker erred in denying the MPs, as people’s representatives, their right of seeking answers from the government on a problem that touched on people’s interests. According to him, the same Speaker had in 1995 accepted a written and signed submission from a group of 55 MPs (the G55), seeking for the re-introduction of the Tanganyika government. He argued that Pius Msekwa tended to run the National Assembly as a committee of the ruling party in that he was a member of both the Central Committee (CC) and the National Executive Committee (NEC) of CCM. In Chapter Five, it was revealed that the same Speaker had apparently reacted angrily when the High Court of Tanzania nullified and set aside a CCM-brokered policy which enabled candidates vying for election seats to effectively bribe voters in the name of Takrima (traditional hospitality).

Following the Speaker’s refusal to allow the petition from MPs, Mr Thomas Nyimbo, Member of Parliament for Mbozi West, moved a private member’s motion on 13 April 2002, calling for the formation of a Parliamentary Probe Committee (PBC) to examine the functioning of the PSRC in relation to privatisation of public enterprises. In his petition, the MP cited the contractual problems of the NBC,
TTCL and TANESCO privatisations as cases that called for an immediate investigation into the Commission’s ‘modus operandi’. He contended that the entire privatisation programme was ‘politically motivated’ and its effects would have far reaching implications socially, economically and politically. Commenting on the ‘political’ motivation of privatisation, EPI.1 from the UDSM argues that in the 1970s ‘the government had abolished the co-operatives in the country because they appeared to be a political competitor, and hence a threat, to the state party. A similar situation applies to the largest parastatals in the country, including TANESCO, that had become so powerful economically and politically that they posed a challenge to the power elites’(EPI.1, 24/2/2005). In his view, privatisation offered a solution to this challenge, and that explains why even the well performing parastatals have been privatised.

Three days after the petition to form a probe committee on PSRC was received by the Speaker, the Minister for Finance made two announcements in the House. Firstly, he announced that the government had decided to restore the subsidy it had removed in 1999 on power consumption for domestic users and would subsidise up to 100 units of the power consumed by each individual consumer. Explaining the basis of government decision to restore the subsidy, the Minister stated:

*TANESCO is like a sick person who requires all kinds of measures to restore his health. While government subsidy on its products is one such measures, there is need to bring the sick person to a ‘good doctor’ for a better intended future. This, therefore, provides good reasons for management change (Daily News, 17/4/2002).*

A senior government official stated that the power subsidy system had previously benefited 350,000 domestic users but the government had removed it ‘to attune
consumers to TANESCO’s privatisation on understanding that no private investor would be willing to accommodate the system’ (*EPI.10*, 2/2/2005). In his view, ‘the decision to restore the subsidy was a political leverage aimed at ‘stifling’ the private member’s motion as well as diverting parliamentary attention from the contentious issues’. This view reinforces the argument that power elites resort to ‘carrot-and-stick tactics’ in an attempt to generate compliance, subdue opposition and force through some unpopular decisions (C. Wright Mills 1956, cited in Burke-White, 2002).

Secondly, the Minister informed the Parliament that the government had decided to hand over the probe on PSRC to the Prevention of Corruption Bureau (PCB), with instruction to look into how the agreement with NGS was reached. He stated further that PCB would also investigate how the agreement between TANESCO and IPTL was consummated. According to the Minister, the decision to involve PCB in probing these issues was based on two factors including the cost aspect if a parliamentary probe committee was to be involved; and PCB’s competence in undertaking such assignments. PCB is under the President’s Office and its Chairperson is an appointee of the President. Commenting on this measure, EPI.1 stated that involvement of the PCB to probe PSRC was ‘a tactical strategy whose objective was to kill the parliamentary probe petition and avert the embarrassment that would result from parliamentary probe findings’ (*EPI.1, 24/2/2005*).

One day following the announcements by the Finance Minister, Mr Edgar Maokola-Majogo was replaced by Mr Daniel Yona as minister for energy and minerals. Maokola-Majogo swapped positions with Yona, becoming Minister of State (President’s Office) responsible for poverty alleviation. The removal of
Maokola-Majogo from the MEM was explained as resulting from his ‘failure to convincingly explain to MPs about tariff hike and the signing of the contract agreement between the government and the South Africans’ (Daily News, 18/4/2002).

In what was interpreted as an attempt by the international community to bolster government efforts in privatising TANESCO (EPI.1, 24/2/2005), the Swedish Ambassador to Tanzania issued a statement in April 2002 urging the government to ‘immediately’ divest the energy sector because ‘given the opportunity, the private sector would by far prove to be more cost-effective in achieving the country’s energy goals compared to the public sector’. This interpretation appears credible given that the President addressed the nation soon after, explaining the government’s intention to privatise TANESCO and attacking the firm’s management for failing to serve the country’s people. Reiterating the government’s decision to sign an agreement with NGS, the President said that TANESCO’s major and only problem was poor management and:

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\text{Therefore, in order to save consumers from paying high electricity tariffs and other woes resulting from an inefficient management, the government has signed a contract with Net Group Solutions to manage TANESCO. Contracting a foreign firm to run TANESCO is not only inevitable but also long overdue, and should be understood in the context of state interest to improve TANESCO’s efficiency (Daily News, 30/4/2002).}
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The President went on to explain that although the government owes TANESCO over TZS 52bn in unsettled power bills, ‘it is not true that outstanding bills are the source of TANESCO’s problems’. According to the President, TANESCO had since 1995 incurred heavy losses consecutively including TZS 26.4bn (1995); TZS 3.7bn (1996); TZS 3.1bn (1997); TZS 14.2bn (1998); TZS 25bn(1999); and TZS 61.7bn
In his view, settlement of bills would, therefore, not solve the problems besetting the firm. With reference to ‘state interest’, as used by the President, EPI.1 argues that power elites often make recourse to ‘state interest’ to justify decisions made to promote their own interests (EPI.1, 24/2/2005).

On 1 May 2002 a group of five managers from South Africa arrived at the TANESCO Headquarters in Dar es Salaam ready to begin work in the public utility. The government had arranged for NGS to access TANESCO offices while workers were on May Day celebrations. However, the South Africans were confronted by a group of 300 angry TANESCO workers. The workers carried placards and chanted slogans to ridicule NGS as well as the government decision that had awarded the tender to the South Africans. Some of the words in the placards included: ‘TANESCO is a public property, it is not the property of a few greedy government leaders’; ‘Boers, go back home, you are only competent to manage a small workshop not TANESCO’; and ‘We have the right to query problematic contracts’ (Guardian, 2/5/2002). The workers besieged TANESCO headquarters and vowed to guard the premises on a daily basis to ensure the managers from NGS would not enter TANESCO.

The government issued an ultimatum on 15 May 2002, demanding that the workers who had besieged TANESCO head offices should vacate the premises or ‘force would be applied’ to remove them. After this call had gone unheeded, a contingent of heavily armed members of the paramilitary Field Force Unit (FFU) arrived at the TANESCO head offices on 17 May 2002. FFU is the country’s riot police unit which is deployed to quell riots and ‘illegal’ demonstrations against government. On arrival, it dispersed the workers, throwing tear gas canisters and
unleashing police dogs on them. After the workers were dispersed, the main gate was opened and the new managers moved in to take their offices. On the same day, the TANESCO Managing Director (MD), Baruany Luhanga, and four of his senior managers from Corporate Services, Technical Services, Operations and Supplies directorates were sent on compulsory leave to pave the way for NGS’ managers. Armed members of the FFU remained at TANESCO head office for several weeks to ensure the new managers were not distracted from managing the firm.

The government confrontation with TANESCO workers through the use of force almost coincided with the starting of 2002/2003 budget session in Dodoma in June 2002. Normally the session, lasting through to August, dwells on budget matters and no new bills are introduced. However, when the session began, a caucus of ruling party MPs moved, for the second time, a private motion in parliament demanding explanations from the government on two crucial issues, TANESCO’s privatisation and its management services contract, and the purchasing of USD 40m radar from BAE Systems of the United Kingdom. The radar, bought for defence purposes, was procured from BAE Systems at almost the same time as the signing of the contract between the government and NGS. However, the radar broke down immediately after its installation. Many parliamentarians felt that both transactions appeared to entail an element of corruption. The sale of the radar was still being debated by the British House of Commons on 30 January 2007 (see House of Commons Hansard, 30 January 2007:152-171). In Tanzania, however, the motion was withdrawn from parliament before it was discussed after President Mkapa summoned the ruling party legislators and rebuked them for working against his government as well as risking fragmentation of the party. In Chapter Five, it was reveals that when MPs appear to
oppose government policy, the ruling party MPs are summoned by the President, in his capacity as the ruling Party Chairman, to sit as a Party Committee during which they are reminded of the Party Manifesto they had vowed to defend and implement.

Upon starting work at TANESCO, Mr Rudy Huysen the company’s new MD from South Africa gave all TANESCO customers 21 days to settle their power bills or face power disconnection. Announcing this decision, the new MD argued that TANESCO would be empowered to supply electricity to the 90 percent of the rural population, if the ten percent who have access to electricity settle their bills totalling TZS 11,185,800,000. He stated that the government owes TZS 70bn (i.e. 63 percent) of the total amount owed. After the 21 days had passed, TANESCO began implementing power disconnections, starting with what are regarded in the country as ‘sensitive ministries and institutions’ including the Ministry of Defence and National Service (owing TZS 6bn), Ministry of Home Affairs (TZS 5bn), and the Dar es Salaam Water, Sanitation and Sewerage Authority (DAWASA)(TZS 5bn). Hardly a day following power disconnection, these institutions rushed to TANESCO to settle part of their long-standing power bills including Defence (TZS 1.2b); Home Affairs (TZS 300m); DAWASA (TZS 900m); and Zanzibar(TZS 174m). Commenting on this move, a senior academic argued that it would be almost a treasonable offence if the previous management was to disconnect power in any ministry. In his view, the new managers had the backing of the President,

...and the measure was intended to signal all defaulters that no one would be spared; publicly credit the efficiency of the new managers and discredit the old management; and silence critics who questioned the efficiency of Net Group Solutions. However, given the support from above, the former management would have achieved similar results (EPI.13, 28/1/2005).
TANESCO MD’s disconnection order began to indicate signs of sabotage when technicians disconnected power to customers who had paid their bills regularly, creating a countrywide furore. One such customers was Tanzania Posts Corporation which filed a suit in Court, claiming TZS 500m compensation. There also arose a new problem whereby persons popularly known among the local people as *vishoka* (i.e. illegal electricians) moved from one premise to another assisting those whose power had been disconnected to illegally ‘tap’ electricity. A TANESCO electrical engineer explained that ‘the problems that arose out of TANESCO MD’s order were in fact part of a silent campaign by some TANESCO workers to sabotage and frustrate the government–backed efforts of the new managers’ (*EPI.12*, 18/2/2005). He revealed that ‘the sabotage ranged from illegal tapping of electricity to vandalism of TANESCO’s installations, including major power transformers and electric cables’. This explanation is supported by the fact that between January 2002 and April 2003, there occurred unprecedented vandalism in TANESCO’s installation, including theft of large transformers, resulting in the loss of TSZ 695m (*Daily News*, 23/4/2003).

On the general efficiency of the firm, *EPI.12* said that TANESCO performed more poorly under the new management because:

*Domestic users were paying for power bills twice more than what they had paid before; the company could not pay for its long-term debts; power interruptions and load-shedding were more frequent than was the case before; and the management still attributed interruptions and load-shedding throughout the country to ‘technical problems’ and ‘declined water levels’ in dams and reservoirs in the same way as the former management* (*EPI.12*, 18/2/2005).

This observation is supported by the fact that besides power interruptions and hikes in tariffs, TANESCO reported a revenue loss of 40 percent and had been able to collect only TZS 9bn or 10.6 percent of the total outstanding debt of TZS 85bn.
In what appeared to be a response to being accused of ‘lack of managerial skills’ in running TANESCO, the NGS managers signed a TZS 70m deal with the South African-based University of Stollenbosch Business School to conduct business training for them in Tanzania. The cost of this training was borne by TANESCO.

The government’s frustration on TANESCO’s performance was revealed on 28 March 2003 when the Minister for Energy and Minerals summoned TANESCO board chairman and gave him a two-week ultimatum to provide explanations on several issues including why power interruptions in the country continued unabated; why power tariffs had not been reduced; and what contingency plans were in place to end the power crisis facing the country. According to a senior government official, the Minister’s ultimatum was issued against the background of government’s frustration over the manner the new management was handling problems in TANESCO. He pointed out that it was ‘government’s expectation that having facilitated the new management in many respects, the latter would move to resolve outstanding issues including frequent power interruptions and power tariff hikes as a manifestation of its competence and a justification for being awarded the tender by the government’ (EPI.5, 14/2/2005). In his view, failure of the new management to address these salient issues reinforced the government critics who regarded the award of TANESCO’s Management Services to NGS from South Africa as having been undertaken in ‘questionable circumstances’.

TANESCO’s response to the ministerial ultimatum was contained in a letter to the Commissioner of Energy on 10 April 2003. In its defence, the new management blamed the situation facing TANESCO on the agreement signed between the government and IPTL. The letter stated in part ‘the financial models (in the
agreement) show that the combined effects of the power purchase agreement (PPA) on the current and future structure of TANESCO as well as the resultant electricity market after restructuring would be severe, if not completely unimplementable’. Commenting on this response, a Legal Expert from MU pointed out that rather than responding to the issues raised by the Minister, Net Group Solutions managers placed the responsibility of the current situation in TANESCO squarely on government shoulders. He argued that implicitly, the new managers were saying that the government was wrong to have replaced the old management on the basis of problems which were not of their own making (EPI.15, 29/1/2005).

By November 2003, an assessment of about two years of TANESCO performance under the new management from South Africa revealed that the company’s performance ‘had declined drastically, both financially and technically’ (Daily News, 11/11/2003). However, the government announced that it would grant the firm a monthly subvention of TZS 7bn to meet running costs for its 2 gas turbines at the Ubungo power station. This was a far cry from government’s intention to take TANESCO off the government budget through the signing of the latter’s Management Service Contract. The government also applied for TZS 70bn from the World Bank to finance further restructuring of TANESCO, improve power reliability and expand power supply system.

At about the same time when the government was challenging TANESCO over poor performance, President Mkapa and Energy Minister Daniel Yona teamed up in 2004 to form a private company known as TANPOWER Resources, ‘with their wives, children and in-laws listed as shareholders’ (THISDAY, 2007). TANPOWER Resources bought shares in the then state-owned Kiwira Coal Mine and re-named
it Kiwira Coal and Power Limited (KCPL). Shortly afterwards, KCPL entered into a USD 271m (about TZS 340bn) with TANESCO for the supply of coal-fired electricity to the National Grid.

NGS’ two-year contract to manage TANESCO ended on 30 April 2004. However, instead of terminating the contract on the basis of the unsatisfactory performance, the government renewed the contract with the firm for 30 months for USD 5,688,182. The government could have terminated the contract because Net Group Solutions had failed to deliver desired results and TANESCO experienced a number of operational and managerial inefficiencies including high production costs, poor billing and fund collection system, and rampant corruption resulting in operational losses and cash flow difficulties. In its letter to the IMF dated 22 July 2004, the government acknowledged TANESCO’s problems and stated that the government was transferring TSZ 125bn or one percent of GDP to TANESCO ‘to cover the deterioration of its finances resulting from drought, oil prices and the financial impact of past investment decisions taken by government’. The government statement acknowledged the assertion by the former management that TANESCO’s problems were multifaceted and that no management, however efficient, could solve them without government support. It also acknowledged the fact that some of the power utility’s problems were the consequence of government intervention in the firm’s investment decisions.

The biggest test for NGS in TANESCO came in 2006 following a prolonged drought which threatened a countrywide black-out due to load-shedding. Responding to the problem, TANESCO’s MD Mr Adrian Van der Merwe expressed TANESCO’s urgent need for thermal generators to save the country from a looming blackout. To get
the generators, TANESCO contracted three foreign firms to deliver gas turbines: Richmond Development Corporation (RDC) of USA (100MW); Wartsila of Finland (100 MW); and Aggreco of the United Arab Emirates (40 MW)]. In the view of the TANESCO MD, the three firms had been selected on the basis of ‘a thorough scrutiny of their documents by experts’. RDC pledged to deliver the power equipment within 150 days. While the newly elected President Jakaya Kikwete gave a televised statement assuring Tanzanians that RDC would deliver the USD 172m worth of new power equipment before 15 October 2006, the ‘equipment’ turned out to be ‘unserviceable second-hand Boeing 707 engines’(East African, 23/10/2006).

According to the East African, RDC did not exist in the USA and one of its purported ‘owners’ turned out to be a close friend of Dr Ibrahim Msabaha, the new government Minister for Energy and Minerals, implying that the government had a hand in the ignominious transaction. RDC was supposed to have installed the generators in the capital, Dar es Salaam, and failure to do so resulted in 12-18hr black-outs daily between October and December 2006.

These events in the power sector resulted in the removal, by President Jakaya Kikwete, of Dr Msabaha and his deputy Mr Lawrence Masha from the MEM. Msabaha was replaced by Mr Nazir Kamaragi who turned down NGS’ application to renew its management contract with TANESCO for a third term in November 2006. Explaining TANESCO’s predicament under NGS, Minister Kamaragi said that the power utility had registered a TZS 70bn overdraft and was in a pathetic situation that would require four years to rectify. After failing to renew its contract with the government, NGS’ South African-based Chairman Mr Jaap du Preeze summed up their experience in TANESCO saying that no managers could possibly succeed to run TANESCO under the prevailing conditions. This remark is
significant for two reasons. One, it raises questions on NGS’ intentions to apply for a renewal of a contract the firm was aware it could possibly execute. Second, besides acknowledging the former management’s view (see above), this remark echoes the argument that even if a new management team should register improved performance in a power utility, ‘the utility usually reverts to its historically poor performance’ due to the sector’s multifaceted problems (Karekezi and Kimani, 2002). After NGS’ failure to run TANESCO, the government said it would never again outsource management to run the power utility and decided to take TANESCO off the privatisation list for a while (SIDA, 2006).

Generally, the events in TANESCO tend to support the view of a senior official in the MEM that the government knew all along that ‘the World Bank’s recommendations for improving performance in the power sector would not work. However, the government decided to let the restructuring in the sector run its course for the loans’ sake’ (EPI.4, 15/2/2005). This suggests that the government prioritised money in choosing a policy and in disregard of the negative consequences of the policy outcomes on the country’s people.

Conclusion

Tanzania recognises the importance of electricity both as a vital service to the economy and as a final good for household consumption. Based on this recognition and that 90 percent of the country’s population live in remote rural areas, the government decided in 1964 to make electricity a public service under state ownership as a means of promoting its rapid infrastructure development and expansion. Nationalisation of electricity was influenced by the fact that private
providers of the service tended to target the urban populations with higher income, a feature that would make rural electrification seem a far cry. Initially, the public power utility, TANESCO, performed well under public ownership but its performance faltered as the economy registered a dismal performance during the 1980s. To extricate the economy from its state of near collapse, the government approached the IMF and the World Bank for loans where upon it was issued conditions requiring it to deregulate the major sectors of the economy and restructure state owned enterprises.

The power sector became one of the sectors targeted by reform and, with technical assistance from the World Bank, the Tanzanian government formulated a policy in 1992 to meet that objective. Major aims of this policy included increasing the sector’s efficiency to meet electricity demand; accelerating electrification to ensure access by the broadest cross-section of the population; and promoting affordability through reduced tariffs in the electricity industry. Ironically, these appear to be similar to the objectives the government had in mind when nationalising electricity in 1964. If it was felt at the time that it was only through the public sector that these aims could be achieved, and since the country’s conditions have not changed much, there arises the question why the government accepted to transfer ownership of electricity to the private sector.

This case study indicates several factors that influenced the government decision. One was the country’s immediate need for loans and debt relief from the IMF, the World Bank and donors and the pressure from these institutions to have the electricity sector liberalised and privatised as a precondition for receiving the loans. Second, government leaders saw electricity sector liberalisation and
privatisation as an opportunity for them to extract resources from the public sector through bribery and establishment of own firms to exploit the liberalised electricity market. Third, foreign countries, including donors, manipulated government officials into adopting liberalisation and privatisation policy to pave the way for firms from these countries to exploit the country’s power sector.

In making its decision concerning electricity supply, the government should have considered several factors including that electricity is a service with unique features different from commodities that are supplied by the market; electricity supply is largely capital intensive and involves externalities that make it less attractive to private investors, especially in traditional economies like Tanzania; and the country’s population consists of poor people, the majority of whom live in rural and urban slum areas and, therefore, accessing electricity for them requires government involvement through its rural electrification policy.
CHAPTER TEN

GENERAL DISCUSSION, ANALYSIS AND CONCLUSION

Introduction

This study set out to investigate why Tanzania chose to liberalise important sectors of its economy and privatise the country’s public major enterprises. Specifically, the investigation focused on four questions:

a) Why was liberalisation and privatisation policy chosen in Tanzania?
b) What specific considerations were taken into account before adopting the reform policy?
c) What theory helps to explain Tanzania’s choice of the reform policy?
d) What lessons for policy decision-making can be drawn from the Tanzanian experience?

Based on the historical account, World Bank and IMF policies (see Chapter Six) and case studies in Chapters Seven, Eight and Nine, this chapter addresses these questions and provides an overall conclusion to the study.

The genesis of Tanzania’s policy reform and considerations influencing its policy choice

Schacter (2000) regards the public sector in most developing countries, including Tanzania, as being characterised by poor organisation, irrational decision-making processes, mismanaged institutions and staff, weak accountability, poorly designed public programs, and poorly delivered public services. The overall result of this state of affairs has been a declining economic growth and increasing levels of poverty. To reverse the trend of declining economic growth and eradicate poverty, most countries have introduced measures or reforms aimed at addressing and
fixing the problems inherent in the public sector. The major focus of these reforms has been administrative capacity building, strengthening policy capacity, institutional reform, and civil service downsizing. In many countries, the result of public sector reform has been an ‘unparalleled growth of the private sector’ (UNECA, 2004). In some developing countries reform has resulted from internal forces while in others it has been an outcome of powerful external forces interested in exploiting the economy of these countries. This has made policy choice an increasingly complex form of decision making as governments have had to make decisions in the context of pressing national needs and external pressures to meet reform objectives. Although there are a substantial number of studies on policy choice (see Chapter Two), there still remains a great deal to be done to fully understand the choice process in the context of public sector reforms in developing countries. This study makes a contribution to that effect.

In promoting its parastatal reform, the Tanzanian government had stated the reasons for privatising the National Bank of Commerce (NBC), the National Microfinance Bank (NMB) and the Tanzania Telecommunications Company Limited (TTCL) as including the huge financial losses incurred by these firms; overdependence of the firms on the government for financial support; and the government’s desire to sell shares to Tanzanians. However, these proved not to be the real reasons. First, the financial statements from the banks and the initial private auditing of the TTCL by Price Waterhouse Coopers proved that in fact the companies were making profits. Second, the companies produced evidence to indicate that they were not receiving any subsidy from the government. Third, until the time of this study, the government had not affected the sale of shares to the
people. The question then remains, what were the real reasons influencing the choice of liberalisation and privatisation policy?

The government of Tanzania chose to liberalise and privatise its banking, telecommunications and power sectors because it was a precondition for Tanzania to access the IMF loans under the ESAF and the PRGF, and to be considered by the Paris Club of donors for debt relief under the HIPC initiative (see above and Chapter Four). This interpretation is supported by the letters of intent and progress reports from the government to the IMF giving details about various phases of liberalisation and privatisation and the acknowledgement and financial releases from the IMF and World Bank following implementation of liberalisation and privatisation programme. There are various government statements in the three case studies indicating that the government was in fact compelled under pressure from the IMF the World Bank and donors to undertake liberalisation and privatisation. The three cases reveal ‘lectures’ from the IMF, World Bank and representatives from the donor community on the need to liberalise and privatise the public sector as a means of promoting economic competition and efficiency. In this perspective, the IMF, World Bank and donors influenced the Tanzanian government to view banking, telecommunication and electricity services as ‘commodities’ like any other which would be provided more efficiently by the market if they were transferred to the private sector. The behaviour and activities of the IMF, World Bank and donors support the argument that a range of external forces exerts pressure to influence ‘the choices open to government’ (Davis, 2000:231).
The poor performance of the economy, resulting in the dismal performance of SOEs in the 1980s, also influenced the government to adopt the view of the IMF, World Bank and aid donors that the public sector was inefficient in allocating scarce resources and, therefore, that it was only through liberalisation of the economy and privatisation of the SEOs that improved performance could be realised. The adoption of this view was in accordance with public choice theory which advocates for the replacement of the public sector by the market as a means of allocating society’s resources (see below and Chapter Two).

In addition, Tanzania chose to reform the economy and privatise its SEOs as a result of lobbying and pressure from foreign countries, international organisations and multinational companies interested in controlling and exploiting its economic sector. The lobbying took various forms including the IFIs and donors withholding loans and aid; suspending externally funded projects; delaying debt relief; and assisting the government to carry out the reform through provision of funds and ‘technical’ assistance. The three cases show that following the liberalisation and privatisation of banking, telecommunications and the electricity sectors, the World Bank and firms from members of the Paris Club went on to exploit the markets of the liberalised sectors. Table 10.1, for example, reveals that many of the firms that opened business in Tanzania following liberalisation and privatisation originated from Paris Club countries and, therefore, supports the argument that developed countries promote policies that enable their firms to operate in developing countries (Martin and Lancovichina, 2001). The case studies also reveal that after the privatisation of the NBC and the TTCL the World Bank became one of the main shareholders in the privatised entities either directly or through other investing firms. In chapter Six, it is shown that the World Bank, like any other profit-
oriented entity, endeavours to create as many business opportunities as possible to make a good return to investment for its major shareholders, including the US, UK, Japan, France and Germany, which are also members of the Paris Club.

**Table 10.1: Selected foreign firms operating in Tanzania, originating in member countries of the Paris Club.**

<table>
<thead>
<tr>
<th>Paris Club member and firm</th>
<th>Investment Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United Kingdom</strong></td>
<td></td>
</tr>
<tr>
<td>Barclays bank</td>
<td>Banking</td>
</tr>
<tr>
<td>Standard bank</td>
<td>Banking</td>
</tr>
<tr>
<td>Stanbic bank</td>
<td>Banking</td>
</tr>
<tr>
<td>NM Rothschild</td>
<td>Telecoms</td>
</tr>
<tr>
<td>Price Waterhouse Coopers</td>
<td>Telecoms</td>
</tr>
<tr>
<td>Deloitte Touche and Komatsu</td>
<td>Electricity</td>
</tr>
<tr>
<td><strong>Unites States of America</strong></td>
<td></td>
</tr>
<tr>
<td>McArthur and Baker International</td>
<td>Banking</td>
</tr>
<tr>
<td>Citibank</td>
<td>Banking</td>
</tr>
<tr>
<td>Tri Communications</td>
<td>Telecoms</td>
</tr>
<tr>
<td>Motorola</td>
<td>Telecoms</td>
</tr>
<tr>
<td>AES Corporation</td>
<td>Electricity</td>
</tr>
<tr>
<td>Computer and Telecoms Systems</td>
<td>Electricity</td>
</tr>
<tr>
<td>Hutton and Williams</td>
<td>Electricity</td>
</tr>
<tr>
<td>Stewart and Stevenson</td>
<td>Electricity</td>
</tr>
<tr>
<td>Walter Scott</td>
<td>Electricity</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td></td>
</tr>
<tr>
<td>Acres International</td>
<td>Electricity</td>
</tr>
<tr>
<td>Canadian Development Corporation</td>
<td>Electricity</td>
</tr>
<tr>
<td>HBT Agra Ltd</td>
<td>Electricity</td>
</tr>
<tr>
<td>Ocelot International</td>
<td>Electricity</td>
</tr>
<tr>
<td>TransCanada Pipeline</td>
<td>Electricity</td>
</tr>
<tr>
<td>V.C. Wilhelm</td>
<td>Electricity</td>
</tr>
<tr>
<td>Sasktel International</td>
<td>Telecoms</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td></td>
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<tr>
<td>Rabo Bank</td>
<td>Banking</td>
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<tr>
<td>Mobile Service International (MSI)</td>
<td>Telecoms</td>
</tr>
<tr>
<td>Stet International</td>
<td>Telecoms</td>
</tr>
<tr>
<td><strong>Luxembourg</strong></td>
<td></td>
</tr>
<tr>
<td>Millicom International Cellular</td>
<td>Telecoms</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td></td>
</tr>
<tr>
<td>Ericsson</td>
<td>Telecoms</td>
</tr>
<tr>
<td><strong>France</strong></td>
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<tr>
<td>Meridian Biao Bank</td>
<td>Banking</td>
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<tr>
<td>Alcatel</td>
<td>Telecoms</td>
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<tr>
<td>France Telecoms</td>
<td>Telecoms</td>
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<tr>
<td><strong>Germany</strong></td>
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<tr>
<td>Siemens</td>
<td>Telecoms</td>
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<tr>
<td>Detecon</td>
<td>Telecoms</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
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<tr>
<td>Nexus-IBA</td>
<td>Telecoms</td>
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The liberalisation of electricity reveals that the behaviour and attitude of the World Bank towards firms operating in developing countries depends on whether or not it has an interest in these firms. For example, when the Malaysian Independent Power Tanzania Limited (IPTL) entered the Tanzanian power sector to generate electricity the World Bank initiated a furore, claiming that the project was unnecessarily costly, was uncalled for and that the outcome of its costly generated power would hurt the Tanzanian consumers. However, it later emerged that the World Bank was in fact a stockholder in the Songas project that started at almost the same time as IPTL to generate electricity for Tanzania. The Bank’s protest was, therefore, an attempt to influence the government of Tanzania to cancel the IPTL project to pave the way for Songas to exploit the country’s power sector. This view is supported by the fact that in the cases of banking and telecommunications, the World Bank did not intervene when, for example, the South African banking group, ABSA, was haggling with the government over payments and when the Tanzania Telecommunications Company Limited (TTCL) strategic investor (MSI/Detecom), apart from refusing to pay the government of Tanzania, was plundering the TTCL. The Bank had a stake in both these firms. The World Bank’s complaint over IPTL also suggests that either the Bank does not fully understand how the market behaves or does not accept the nature and behaviour of the free market, given that IPTL’s behaviour was in fact a manifestation of the nature of the private sector whose adoption by Tanzania had been influenced by the World Bank.
The banking and telecommunications case studies indicate that the World Bank’s motive for privatisation of Tanzania’s state-owned enterprises (SOEs) was to get them out of the way because, given their size and the percentage of market control they enjoyed, it was feared by the Bank and donor countries that the SEOs would undermine the entry of foreign private firms into the country’s market. For example, Tanzania as part of the African continent had shown the potential as ‘an immense and a fertile market’ for telecommunications investment, mainly in the mobile cellular services (Abugre and Thomas, 1998; ITU, 1999). Mobile service business would not thrive well in the presence of a public monopoly offering basic fixed telephony services. It can be argued, therefore, that the TTCL privatisation was a strategy intended to ensure that the public firm was purchased by a foreign cellular company and subsequently weakened in its service provision so that cellular business could thrive. This argument is reinforced by the fact that MSI, which with Detecon of Germany acquired the private equity stake in TTCL, specialises in mobile cellular business and has the World Bank as a key share holder.

Upon acquiring a share in TTCL and the right to make policy and management decisions, MSI/Detecon was able to make strategic decisions that were supposedly intended to ‘make TTCL one of the best telecommunication companies in the world’ by enhancing its ability to provide better services through improved infrastructure and financial performance. However, decisions and actions taken by the investor amounted to what can be described as blatant sabotage of the company. Firstly, the investor engaged the Tanzanian government in a payment dispute which can be regarded as providing a scapegoat for the investor not
carrying out its responsibilities under its agreement with the government. For the four years the dispute lasted, no investments were made to improve TTCL's capacity to deliver better services and become ‘one of the best telecoms companies in the world’. Secondly, the investor introduced a new cellular company, Celtel Tanzanian Limited, registering it as a subsidiary of TTCL, and using the latter as its springboard to spread itself not only within Tanzania but also in the East Africa region. Thirdly, the investor unilaterally decided to dismantle the existing TTCL infrastructure, which had cost the government of Tanzania millions of dollars to install, and moved it out of the country. Apart from the investor’s decisions and actions being aimed at getting TTCL out of the way, they confirm the argument that some foreign investors acquire public telecommunication facilities in developing countries ostensibly to improve performance and promote efficiency but in fact end up destroying them by using them solely to advance their mobile cellular business (Bull, 2004).

Why did the World Bank keep a low profile in the TTCL case while the investor dishonoured commitments to the government of Tanzania and engaged in activities that were aimed at weakening the position of TTCL? There are a number of reasons why the World Bank might have been expected to intervene. Firstly, TTCL privatisation was part of the World Bank-and- IMF-brokered structural adjustment programme whose aim was to assist Tanzania’s economic recovery and poverty reduction efforts. Secondly, the liberalisation of the country’s telecoms and the subsequent privatisation of TTCL were justified in terms of ‘improving’ the country’s telecommunications sector. Thirdly, the World Bank had initially issued USD 77m towards Tanzanian’s telecommunications sector, a restructuring programme whose aim was to enhance the performance of TTCL. Fourthly, the
Bank was a key shareholder in MSI which, together with Detecon, was involved in the dispute. Against this background, one would have expected the Bank to ensure that the investor was honouring its obligations for the sake of TTCL’s efficient performance and Tanzania’s economic recovery.

The fact that the Bank decided to remain a spectator in the dispute while the investor was pillaging TTCL may imply that the Bank’s efforts towards ‘assisting’ Tanzania’s telecommunications sector were aimed at creating a favourable environment for the exploitation of the country’s telecommunication sector by foreign firms. It is revealed in Chapter Six that the role of the World Bank in developing countries is to create an environment that widens opportunities for foreign firms to make money. The World Bank acknowledges that though foreign investments of new opportunities for poor people, they also create great dislocations and risks for the same people (World Bank, 2002). The Bank’s non-intervention stance in situations such as in TTCL indicates that it is interested in instituting reforms in developing countries but pays much less attention to the negative consequences of such reforms for these countries (van Puymbroeck, 2001). It also indicates that the Bank opts to remain ‘neutral’ in disputes between governments and multinational corporations in matters involving its sponsored projects, ostensibly to be seen as preferentially treating neither of the two but in fact backing the multinationals from behind the scenes (Shihata, 1999).

There is extensive literature that links the restructuring and privatisation of state-owned enterprises in developing countries with foreign firms interested in making money with the support of external forces such as the World Bank (e.g. Urey, 1995;
Ghauri, 1996; Browthers, 2002; Kyaw, 2003; Hallberg, 2006). Commenting on telecommunication restructuring, for example, Urey (1995) argues that:

The impetus for restructuring telecommunications originates within large and dynamic firms dominating from the industry in industrialised countries... (and is) more driven... in the case of developing countries, (by)...broader forces related to globalisation of the capitalist mode of production (Urey, 1995:53-54).

The case studies reveal that corruption played a major role in influencing government decision to liberalise its economic sectors and privatise its SEOs. Corruption is ‘a transaction between private and public sector actors through which collective goods are ultimately converted into private-regarding pay-offs’ (Heidenheimer, et al 1997:36; Hallack and Poisson, 2002). It involves the corrupt state official on one hand and the corruptor on the other hand who may be a domestically or externally based individual or organization. Amundsen (2000) identifies two forms of corruption, extractive and redistributive. Extractive corruption occurs when state officials formulate policies or make decisions that are designed to generate financial gains or other benefits in-kind to the officials concerned. In all the three cases, there is evidence of extractive corruption whereby money or other material benefits had changed hands between government leaders and investors during the privatisation process. In the banking sector, for example, NBC’s TZS 150bn debtors included government officials. During the NBC privatisation process ANBEN, a company owned by the President and his wife, obtained a loan of USD 500,000 from the NBC. The NBC was privatised without the public officials paying the debts they owed the bank. The bank’s privatisation, therefore, was partly motivated by the desire of government leaders to avoid paying their debts permanently. The choice of ABSA, a small banking firm from South Africa, as the new NBC investor after ABSA’s managers had held private
discussions with government officials suggests that the choice was aimed at facilitating the attainment of government officials’ objective of avoiding debt repayment. In the Electricity sector TANPOWER resources, a private company jointly owned by the President Mkapa and Daniel Yona (the Minister for energy and Minerals) purchased the privatised Kiwira Coal Mine and entered a USD 271m private deal with TANESCO to supply the latter with electricity. This suggests that government leaders had introduced liberalisation and privatisation with private gains in mind.

In both the banking and the telecommunication cases the money paid by the investors to acquire the NBC and TTCL could not be accounted for by the government, and government leaders were rewarded in kind in both the NBC and TTCL cases. In the liberalisation and privatisation of electricity, government leaders were behind the Tanzanian companies established to team up with foreign firms to exploit the country’s electricity market. These examples indicate that there was in fact a corrupt motive among government officials that had influenced the choice and implementation of liberalisation and privatisation.

Redistributive corruption occurs when powerful economic interest groups (national or international) manipulate public officials into making decisions, concessions and choices that generate financial benefits for the groups. An example of redistributive corruption may be discerned from the desire by external forces, including donor countries and International Financial Institutions, to influence and promote policies that facilitate the financial exploitation of poor countries by those external forces. The fact that the World Bank had a stake in both the NBC and the TTCL, and that companies from donor countries that had influenced the
Tanzanian government to choose liberalisation entered as players in the markets of the liberalised sectors, indicates that the World Bank and donors benefited financially, or expected to do so, from the chosen policies. The literature indicates that it is common for the World Bank and donors to influence the adoption of policies in developing countries that would make it easy and convenient for the Bank and donors to pursue their interests and from which they would gain in future (e.g. Choritz, 2002).

Theoretical explanations of Tanzania’s policy choice

Chapter Two outlined a number of theoretical frameworks that could explain government’s choice of specific policies. This section explores and discusses the extent each of the outlined frameworks, indicated in Figure 1.1 and summarised below, may help to explain Tanzania’s market reform policy choice.

Incrementalism

This approach, based on Lindblom (1959), regards development as a process that is beset by complex problems which cannot be solved in one stroke. According to this approach, policy decisions do not occur on ‘a blank sheet of paper’ but are based on legislation and policies which already exist, taking into account existing commitments, resource expenditures, the effort invested by decision-makers and the influence of powerful groups benefiting from the existing policy (Jones, 1999: 35). In the view of this approach, complete termination of policy to introduce a new one may have both financial and political costs; lead to failure with no immediate replacement; and be opposed by groups and interests associated with the existing policy. Introduction of incremental changes to existing policy enables policy
makers to avoid making unforeseeable costly mistakes and is, therefore, the best method of choosing policy (Lindblom, 1959).

**Figure 10.1: Models of policy choice**

**Mixed Scanning Model**
Proposed by Etzioni (1967), ‘mixed-scanning’ is a compromise between rational choice and incrementalism which are regarded as extreme approaches (Khatri, 2000). In Etzioni’s view, the complexity of society requires a dual approach in the policy process involving a high-order fundamental approach that provides new
directions and an incremental approach that provides adjustments to deal with short-term problems. ‘Mixed-scanning’, therefore, allows the ‘scanning’ of the problem environment to identify aspects of it that require short-term redress through incrementalism and those that require fundamental decisions to ‘set basic directions’ (Etzioni, 1967:388). For fundamental decisions, the approach provides for the exploration of a range of alternatives without acceding to the detailed cost-benefit analysis. Once ‘a more feasible’ alternative has been chosen and operationalised, incremental decisions should follow to address the shortcomings of the chosen alternative or whatever has been overlooked or was not feasible to consider at the fundamental decision-making stage.

Some scholars (e.g. Gershuny, 1978; Wiseman, 1978) hail ‘mixed-scanning’, not only for providing society with a twin-strategy for dealing with societal problems but also as a flexible approach that can be adjusted to suit changing circumstances. The approach offers an explanation not only on why policies are chosen but also on how policies should be chosen. In view of this approach, policies are chosen on two levels. On the first and fundamental level, they are adopted to provide direction towards identified long-term development goals. On the second and incremental level, they are chosen to address short-term problems. The approach also provides that for policy to bear desired results, it is imperative that a ‘scan’ of the policy environment is carried out to identify a more feasible alternative for implementation. However, the difficult with this approach is the absence of criteria to distinguish between incremental decisions and fundamental ones because fundamental decisions in one context are incremental in another and vice versa (Smith and Smith, 1980). Moreover, the approach is said to be as equally technical
in its proposed process of decision making as the rational comprehensive model (Collingridge and Douglas, 1984).

In view of the case study results, the incrementalist and mixed scanning approaches do not offer an explanation for Tanzania’s policy choice. In the case of incrementalism, for example, the country had made a complete turn about from pursuing a socialist policy to embracing a market economy. The Tanzanian policy choice case confirms the view that incrementalism involves a ‘conservative dogma’ that neither anticipates radical changes in society nor appreciates development of innovative skills (Etzione, 1967; Dror, 1968). The approach regards development process as being characterised by a ‘smooth’ linear progression and fails to recognise that specific policy initiatives may fail along the way, forcing government to seek alternative ‘paths’ including going back to where it started or taking the opposite direction. This study has revealed, for example, that at Independence in 1961, Tanzania adopted a market economy only to rescind its decision in 1967 and choose socialism, after realising that the market could not provide solutions for the country’s pressing problems. However, in 1991 the government made another complete u-turn and embraced its previous market policies after the socialist policy had failed to provide the anticipated solutions to the country’s problems.

Although incrementalism does not in general explain Tanzania’s choice of reform policy, the case studies support two specific points presented by the proponents of incrementalism regarding abrupt termination of policy. First, abrupt termination of policy may be opposed by groups whose interests may be undermined by the new policy resulting from drastic change. This is evidenced by the fact that
Tanzania’s workers staged an opposition to privatisation demanding that the fate of their terminal benefits be decided first before the policy could be adopted. When the government ignored these demands, the workers translated their opposition to privatisation into action by sabotaging the operations of the privatised firms.

Second, the case studies support the view that abrupt termination may result in financial and political costs. It is shown that Tanzania’s abrupt policy changes have indeed resulted in financial and material losses, for example as investors of privatised firms refused to honour their financial and operational commitments. In addition, the abrupt policy change has been linked with political corruption, while the measures instituted to implement the change, including closure of less profitable rural-based institutions, have resulted in the alienation of the majority of the country’s population.

**Pluralism: Interest group consensus**

Pluralism holds the view that power is widely dispersed in society to the extent that a multitude of groups, including trade unions, professional associations, business associations, civil rights activists, environmentalists and formal and informal like-minded citizens influence the making and administration of government policy (Pressman and Wildavsky, 1979; Innes and Booker, 2001; Innes and Booker, 2003). Policy is chosen on the basis of consensus-building among various interest groups within the country, especially on volatile issues of national interest.

This research shows that power in Tanzania is not widely dispersed as claimed by pluralists but is in fact a monopoly of a small group of elites which controls the decision making machinery and applies it to pursue their own interests. The group controlling the reins of power is able to apply all sorts of tactics including lies, rhetoric and distortion of reality to ensure that what they desire prevails. The case
studies also indicate that pluralism ignores or overlooks a number of factors. Firstly, the approach does not anticipate a situation whereby government leaders, under the influence of corruption, decide before-hand what policy should be chosen to suit their own interests. Secondly, the approach does not anticipate a situation whereby government would be prevailed upon by a coalition of external forces to adopt a policy in order to qualify for some consideration. As this research indicates, the Tanzanian government, with very limited internal group participation, decided to adopt liberalisation and privatisation policies under pressure from the IMF, the World Bank and donors as a precondition for obtaining loans. Thirdly, the approach does not recognise the possibility that a political system could be deliberately designed to subdue other groups within the country. In Tanzania, for example, party supremacy and the legacy of one-party rule still influences political decision making at the expense of other groups. In Chapter Five, it is revealed that the ruling party (CCM) controlled and manipulated the political system to the extent that Members of Parliament paid more allegiance to the party than to the people who elected them. The three cases reveal that although the country’s Parliament supposedly represents diverse group interests, it was either circumvented by the executive (wearing the mantle of party chairperson) in making privatisation decisions or politically pressured into rubber-stamping them.

The thesis confirms the pluralist view that lack of civic engagement in policy making may result in rhetorical and ritualistic policies and may lead to conflict and disharmony. The case studies indicate the extent Tanzanian government leaders resorted to rhetoric about privatisation in attempting to popularise the policy. Conflict emanating from the absence of consensus-building on policy issues is attested by the extent workers demonstrated their opposition to privatisation. This
further suggests that when introducing a new policy, there is need to address the issue of opposition and conflict to achieve desired policy outcomes.

**Rationality**

Simon (1957) argues that humans are generally rational and human decision making is both rational and goal directed, making rational actor theory the best model for choosing government policy. Based on this argument, the aim of the rational approach is to produce goal directed policy that either maximizes or ‘satisfices’ the attainment of prescribed policy objectives (Jones, 2002; Morris et al, 2004).

This research reveals that the rational approach does not help to explain Tanzania’s reform policy choice because in choosing its market reform policy the government did not adopt the procedure it proposes. The market reform policy implemented by Tanzania was an off-the-shelf policy received by the government from the IMF. For example, the basis which guided the government in adopting privatisation was the IMF’s view that the policy had registered positive results in countries such as the UK where it had been implemented. The government accepted this view, adopted the policy and started implementing it without taking any measures to determine its suitability as a solution for the country’s problems.

Further, the case studies indicate that the rational model makes a number of assumptions about government and policy making. Firstly, the model does not distinguish between individual, self-centred rationality and organisational rationality and tends to assume that any form of rationality exercised would be in the interest of the organisation and the people it represents. On this basis, the
negative results of privatisation as revealed by the cases suggest that in terms of national interests the approach applied by the government in choosing the policy was irrational. However, in terms of the self interest of corrupt public officials who benefited from the privatisation decision, the approach was quite rational.

Secondly, the model assumes that government would always have autonomy in identifying needs, testing alternatives and choosing the seemingly optimal one to meet the need. This research indicates that both needs and policy solutions may not necessarily be identified autonomously by the government but may in fact be decided by external forces and dictated to the government. Although the Tanzanian government may or may not have identified the need for efficiency in its parastatal sector, it is in fact the IMF and the World Bank that orchestrated this need, proposed privatisation as a solution for the need and coerced the government to implement this solution. Thirdly, there is also the issue of time limitations. To qualify for loans, the government was required to implement the reform programme within deadlines set by the IMF and the World Bank. The government did not have enough time for systematic problem identification, determination and ‘testing’ of alternative solutions to determine their consequences, before adopting one as a solution to the problem.

Fourthly, rationality tends to overlook the fact that even after the policy has been chosen on the basis of the steps prescribed by the approach, attainment of desired results would still depend on other important aspects such as political commitment, reliability of actors and resource availability. The case studies indicate that political commitment of public officials is necessary for successful policy delivery. However, this commitment may in fact be undermined by political
corruption, even in a situation where an enforceable legal framework exists for delivery of policy. Brucker supports this view, arguing that having policy with the right legal framework to guide its implementation is one thing, while having the framework fully enforced is another (Brucker, 1997). Hao and Johnson (1995) observe that policy reform in public enterprises has resulted in some forms of corruption that have impaired effective enforcement of contracts by government officials. Supporting this view, the case studies indicate that although contracts signed between the government and the investors were in place, the government was reluctant to enforce them.

For example, in both the NBC and TTCL the investors refused to pay the government against the contractual agreements but were allowed to operate the firms and make far reaching decisions. In the case of the TTCL, the investor (MSI/Detecon) unilaterally decided to re-audit the firm after a signed sale contract was in force; refused to pay the agreed second tranche payment but was allowed to run the firm on contractual terms; introduced a new business, in the name of Celtel Tanzania, operating under TTCL licence; dismantled TTCL’s gateway infrastructure and moved it out of the country; failed to install the agreed 800,000 lines; and re-sold 35 percent TTCL shares to Celtel International. While all these actions were contrary to the signed agreement, government leaders behaved as if nothing had happened. The government's attitude suggests that its leaders were apprehensive in offending the investors from whom, as the cases show, they had benefited financially and in kind. Lack of political commitment is also discernible from the manner in which the government picked various actors to assist in the implementation process. The cases indicate that the government deliberately awarded privatisation tenders to incompetent firms while throwing out firms that
were deemed to produce desired results, and ‘shied’ away when the performance of the selected firms left a lot to be desired.

The importance of having the resources available to produce desired policy outcomes is attested by the fact that although, for example, the TTCL investor was contractually bound to commit USD 90m to increase the utility’s fixed lines, this did not occur because the said amount was in fact not made available. In addition, an important time resource (the four-year implementation period specified in the contract) was wasted in settling a payment dispute between the government and the investor.

**State interest model: State hegemony**

The term ‘state’ has two connotations. Its first connotation refers to an organised political community, with an organised government, that occupies a definite territory and possesses internal and external sovereignty. By sovereignty is meant the ability to exercise autonomy to make and implement decisions considered to be to the state’s best interests. The second connotation of ‘state’ refers to a group of people comprising the government of a sovereign state to whom the state, as a collective entity, transfers its authority to make decisions on its behalf. To distinguish between the two, this section applies the term ‘state’ to refer to the first connotation while ‘state managers’ refers to the second.

In the view of the state interest approach, the state is a powerful independent actor that pursues its own collective interests rather than being a tool for specific interests outside itself (Nordlinger, 1981; Grindle and Thomas, 1991; Jessop, 2001). In this regard, the state chooses policies that reflect its autonomy and sovereignty and
which advance its own interests, promote its own survival, perpetuate its sovereignty and maintain its hegemony. The approach assumes that the state is autonomous and sovereign to the extent that it does not take orders or bow to pressure from outside itself.

This research indicates that the state in Tanzania did not exercise its autonomy to choose and implement a policy that would portray it as sovereign. The adoption of market reforms in the country was a result of pressure and coercion from the IMF and the World Bank. Various statements produced by state managers indicate that the privatisation policy was chosen against the state’s interest. Apart from bowing to pressure from the IMF and the World Bank to adopt the privatisation policy, state sovereignty failed another test in that state managers accepted conditions dictated to them by a small banking firm from South Africa. The South African Bank, ABSA, had threatened to withdraw from the NBC privatisation deal unless the government sold NBC shares for USD 15m instead of USD 21m stipulated in the contract; accepted payment in local rather than hard currency; met costs for some further 700 workers to be retrenched by the NBC; incurred legal expenses for any court cases involving the NBC; and reviewed the country’s land policy. Despite a public outcry urging state managers to reject these demands because they were an insult to state sovereignty, the managers succumbed to the demands in order not to jeopardise loan approval by the IMF and qualifying for debt relief under the HIPC initiative both of which depended on the outcomes of privatisation. This tends to support the view that globalisation, characterised by both multilateral financial institutions and multinational companies, has weakened the sovereignty of states to the point of lacking ‘freedom to pursue independent policy responses’ (Sindzingre, 2003; O'Fairchil, 2004:220).
This also suggests that there is a divergence of interests between state and state managers. In Chapter Nine, for example, it is revealed that electricity privatisation was adopted partly to attract loans from the IMF although the state managers were aware that it would not produce results desired by the state; and enable state managers acquire shares in the energy sector and supply electricity to TANESCO. This further suggests that state managers may sacrifice state interests in order to promote their own. When it came to choosing between rejecting pressure from the IMF to promote state sovereignty and bowing to pressure to secure loans to promote their survival, state managers chose the latter. The state managers’ decision to adopt a reform policy whose failure was certain, implies that what these managers valued most were the loans they needed to revamp the economy because, as Kuhnle argues, economic growth is at the root of the survival of state managers (Kuhnle, 1999).

This further suggests that state sovereignty may in reality be defined in terms of the sovereignty of state managers. Mbaku argues that the state is no longer an autonomous entity with own interests to pursue, but an intervening variable used by self-motivated individuals pursuing their own interests (Mbaku, 2000:5). This implies that state managers may use the state as a springboard to advance their own interests while undermining state institutional interests such as state autonomy and sovereignty. In Chapter Nine, for example, it was revealed that state leaders have a tendency not to distinguish between personal and state domains as state leaders may invoke words like ‘in the state’s interest’ to justify decisions and actions which in fact promote their own interests. Tanzanian leaders’ adoption of liberalisation and privatisation of electricity ‘in the state’s interest’, given their
knowledge of possible policy failure, indicates that the consequences of failure to the country’s population did not matter to these leaders, so long as the government received money from the IMF to prop up the system that sustains the state leaders’ survival.

**Public choice theory**

Public choice theory regards the public sector as being unable to efficiently allocate resources because of the self-gain and rent-seeking behaviour of government officials who use the sector’s resources to promote their self-interest (Tullock, 1967; Niskanen, 1971). As a result, efficiency in resource allocation to the benefit of the public majority can only be attained if the role of government is minimised to enable the market to run the show.

Public choice theory helps to explain Tanzania’s choice of policy as the view expressed by this approach was applied by economists at the IMF and the World Bank as a justification for liberalising and privatising Tanzania’s economic sectors to allow the market to lead the way. The IMF and the World Bank refused to grant loans to the government of Tanzania on the grounds that, unless private sector participation in managing the economy was allowed, the loaned funds would end up serving the interests of rent-seeking bureaucrats, resulting in lost opportunities for economic growth and making loan repayment a problem. The three cases show that following the IMF pressure to ‘dismantle’ the inefficient public sector enterprises, the government was eventually persuaded and started to review its financial, telecommunications and power sector policies with technical support from the World Bank. After it had met the liberalisation and privatisation conditionality by deregulating these sectors, the loan funds started flowing in.
Generally state officials are perceived by public choice as being rent-seekers who promote inefficiency, for example, in public enterprises. However, this thesis identifies a range of different behaviours among public officials which may be presented in a spectrum with three points categorised as public interest, rent-seeking and corruption as illustrated by Figure 10.2 below. At one end of the spectrum, there may be no rent seeking as public officials observe governance ethics in making decisions, serve the public, promote the public interest and behave legally according to standard procedures. At the next (middle) point of the spectrum there is rent-seeking whereby public officials make decisions and commit themselves in ways that promote self-interest and self-gain. At the extreme end (i.e. centre) of the spectrum the rent-seeking behaviour of public officials turns into corruption (see below).

The public interest of public officials is attested by the level of achievement attained by the public sector in many parts of the world today. To dismiss public officials as being purely rent-seekers is to deny this reality. However, this does not rule out rent-reeking behaviour among some public officials. At the middle of the spectrum, public officials make decisions that promote their self interest. The literature suggests that in pursuing self-interest, public officials have a tendency to make decisions or choose policies that create opportunity for rent-seeking or ‘maximise their level of compensation’ (Krueger 1974; Mbaku, 2000:5; Harris, 2003). Kruger (1974) argues, for example, that public officials tend to make decisions that increase government involvement in the economy because the larger the role of government in the economy the more the interaction between public officials and clientele, widening opportunities for rent-seeking. Generally, rent-
seeking is wasteful and counterproductive, leading to inefficient allocation and use of resources. Renger and Wolff (2000) summarize the welfare costs of rent seeking thus:

*The social and economic effects of rent seeking take many forms. In the long term the result is total distortion of the structure of social and economic incentives and misallocation of resources, leading to heavy welfare losses and social cost. Rent seeking hinders economic growth and social development... (it) is one of the main causes of underdevelopment and poverty in numerous developing countries* (Renger and Wolff, 2000:6)

Renger and Wolff (2000) point out that there is extensive linkage between rent seeking and corruption, which is at the extreme end of the spectrum. Rent seeking becomes corruption either where politicians and bureaucrats specifically exploit their official opportunities and manipulate the existing institutional framework to serve their own private gains or where illegal financial benefits (e.g. bribes) are used in rent seeking. Fredricksson and Svensson (2003:1385) pursue this argument, stating that a government may choose a particular policy after its officials have been bribed or promised a bribe by ‘an interested group of lobbyists’. In an attempt to clandestinely redistribute state wealth to themselves, public officials may issue statements to confuse the public and conceal the truth (see Harsch, 1993:33; Mbaku, 1996:100). Szeftel (2000) reveals that in most African countries, privatisation has widened the opportunity for corruption as public officials pursue self enrichment.
Turning now to privatisation in Tanzania, the case studies indicate that there is in fact rent-seeking and corruption in the public sector, appearing to justify IMF’s and World Bank’s pressure for economic liberalisation and privatisation. The decision by the Tanzanian state officials to liberalise and privatise the banking, telecommunication and electricity sectors was made partly on the basis of ‘extractive corruption’ with ‘private-regarding gains’ in mind. At the time of privatising the NBC, the firm’s debtors included state officials, but the bank was privatised without the officials repaying the loans they owed. The NBC and the
TTCL investors claim to have paid the government specified amounts of money to acquire shares in the said firms. Apart from conflicting statements issued by the government regarding the payments, the monies could not be accounted for. The shareholders of IPTL, a private company registered to generate electricity, following liberalisation, included top government and party leaders. The South African management contractor who was assigned to run TANESCO had a Tanzanian joint-partner which happened to be a company owned by the President. The President and the Minister for Energy and Minerals used their offices to influence their acquisition of the state-owned Kiwira Coal Mine and went on to strike a private deal with TANESCO that enabled their private company, TANPOWER Resources, to supply electricity to the National Grid.

When the NBC and TTCL investors failed to honour their commitments, including refusing to pay the government, the latter was urged by Parliament to terminate the contracts it signed with the investors in these firms, but failed to do. The government remained silent even when the TTCL investor was plundering the firm and using its resources to expand into areas of business not specified in the contract. The leniency with which the government treated the investors who had ‘dishonoured’ their commitments, coupled with the misleading statements issued by government about the privatised firms, indicate that the TTCL privatisation deal was corruptly consummated.

However, the three cases reveal that rent-seeking and corruption also occurs in the private sector. For example, although the NBC and TTCL investors had agreed to pay the government of Tanzania specified amounts of money for acquiring public sector firms, they failed to honour their commitments but engaged instead in
prolonged disputes with the government. In the case the TTCL, the four-year dispute appeared to have been a deliberately designed strategy to justify the investor’s failure to honour commitments including installing 800,000 new lines. In addition, the government claimed that it had reinvested in the NBC and TTCL the initial monies paid to it by the investors of the two firms. In both cases, these monies could not be accounted for by the recipients.

Rent seeking and corruption are also exemplified by the following behaviour: ABSA managers making use of NBC resources for self-gain; MSI managers covertly using TTCL resources to establish and run Celtel, while evading tax to the government; IPTL managers substituting the low-priced medium speed for high-priced slow-speed thermal engines, while claiming the price for the latter; and apart from utilising TANESCO’s resources for self-gain, Net Group Solutions Managers also ordered and supposedly paid for old and unserviceable jet engines purporting to be thermal electricity engines. These examples reveal that the IMF, the World Bank and public choice theorists had either overlooked or ignored the fact that the private sector also includes self-interested people who could be rent-seekers and act corruptly, and that the public sector’s self-interested, rent-seeking and corrupt bureaucrats might be removed only to be replaced by self-interested, rent-seeking and corrupt private sector managers.

This further suggests that when introducing market reform, there is need for government to carefully scrutinize the motive of forces that manifest interest in assisting to implement the policy. This thesis shows that rent-seeking was in fact the main motive of the countries and international institutions that persuaded the government to adopt economic liberalisation and privatisation and subsequently
assisted the country to implement the policy. In urging Tanzania to adopt market policy IMF, World Bank and donors applied public choice theory about ‘market efficiency’ to achieve their aim. The question, however, is: market efficiency in whose interest? The research reveals that in providing assistance to Tanzania to restructure its public enterprises and applying public choice views to do so, the World Bank and donors also influenced the adoption of a pro-market policy that allowed them to pursue their interests and from which they gained or would gain in future. This suggests that public choice theory overlooks the fact that market efficiency may be exploited to serve rent-seeking interests of foreigners and the interests of international finance capital rather than the interests of the country and its people.

This highlights the importance of exercising great care and vigilance on the part of government to ensure that private investors produce results commensurate with negotiated agreements because the mere signing of contractual agreements does not guarantee that considerable variations in the outcomes of the negotiated agreements may not occur (O’Faircheallaigh, 1995, 1996, 2000). Public choice theory tends to assume that the involvement of the private sector in negotiated agreements will automatically ensure delivery of desired results, an assumption that has been disproved by the results of the three case studies. Foster (2004) argues that variations in the outcomes of negotiated agreements may occur due to the diverse objectives pursued by the partners. For example, while the government wants to deliver services to the required standard and to make the best use of public resources, the private investor wants to earn a big return to investment. Since public and private objectives are not necessarily compatible, careful consideration should be given to not only selecting the right partner to deliver
policy objectives but also following up the activities of the partner to ensure that variations in the negotiated agreement are readily identified and appropriately addressed (Foster, 2004:85).

The case studies have also proved that the market is not necessarily more efficient than the public sector and that it may not necessarily successfully fulfil public needs where the public sector has failed. They provide further support for the extensive literature attesting to this fact (see, for example, Levine and Zervos, 1998; Guasch et al, 2003; Coghill and Woodward, 2006:88). The IMF and the World Bank withheld loans to force Tanzania into adopting liberalisation and privatisation with a view to improve efficiency in the economy. However, the three cases indicate that privatisation has not provided the required solutions for Tanzania’s problems in the banking, telecommunications and electricity sectors. In the banking sector, for example, privatisation resulted in the split of the NBC into NBC (1997) Ltd and NMB with a view to enable the privatised NBC (1997) Ltd deal with big businesses and avoid loss-making rural branches. After privatisation, however, the new NBC registered a loss of USD 30m while the NMB which inherited the ‘loss-making’ branches and dealt with small accounts made a USD 27m profit during the same period. Privatisation in the telecommunications sector did not improve performance either. Apart from failure of the TTCL investors to install new lines the existing lines dropped by 24 percent in four years, forcing the government to re-nationalise the firm. The performance story was almost the same in the power sector. After TANESCO was placed under private management, its financial and operational performance deteriorated to the extent of the government stating that it would require four years to reinstate it.
Generally, this thesis has disproved three major assumptions made by public choice. The first assumption is that the mere transfer of economic activities from the public to the private sector would produce automatic results. The approach appears to overlook some common factors, such as the human resource factor, in the production process both in the public and the private sectors. Unlike all other resources such as money, machines and materials, the human resource is the only one that activates other resources, has its own will and cannot be easily manipulated (Matiku, 2003). The case studies indicate that the negative reactions of angry and discontented employees (e.g. strikes and sabotage of production) have similar consequences to private as to public firms. Second is the assumption that only public officials are rent-seekers and that so long as private sector players are involved, policy would automatically succeed in its objectives because the private sector is void of rent seeking-behaviour. Third is the assumption that the private sector abounds with financial ability and the requisite skills to operate an efficient market. For example, for four years the TTCL investor failed to increase the number of fixed lines, raising questions about his financial ability. In the case of TANESCO, the Net Group Solution managers experienced a deficiency in business skills to the extent that they enrolled themselves for training on TANESCO’s resources to acquire the requisite skills. This further supports the warning by Spicer and Pyle that the private sector cannot be trusted to produce and sustain the results desired by government without its intervention through appropriate regulation (Spicer and Pyle, 2002).
Advocacy coalition framework

This framework provides that a national or international advocacy coalition may, through various ways including use of economic aid, manipulate the government into making decisions or adopting measures that promote the coalition’s objectives (Jenkins-Smith and Sabatier, 1993:5; Andersen and Eliassen, 2001). The government chooses a policy not on the basis of meeting the country’s pressing development needs but with a view to pursue the self-serving goals of the dominant coalition (Howlett and Ramesh, 1995:127).

The case studies indicate that this mode of policy choice offers a convincing explanation of Tanzania’s choice of liberalisation and privatisation. They show that the IMF and the World Bank teamed up with the Paris Club to form a strong coalition that withheld aid to Tanzania until the country introduced economic reforms. The main strategy employed by this coalition to manipulate the Tanzanian government and influence its policy choice involved making liberalisation and privatisation of banking, telecommunications and electricity one of the conditions to be fulfilled before the country could access loans from the two institutions or have its debts rescheduled. The case studies indicate that the main objective of the IMF, World Bank and donors in demanding liberalisation and privatisation in these sectors was to pave the way for foreign firms to exploit the economic opportunities they offered.

The Neo-Marxist Approach

This approach can also help to explain Tanzania’s liberalisation and privatisation policy choice. In Neo-Marxist thinking, the modern state is no longer an instrument of the ruling class dominated and controlled by this class from outside,
but is a distinct entity that endeavours to promote a dependent co-existence between itself and capital to perpetuate its own survival (Paulantzas, 1978; Offe, 1984). To promote this co-existence, the state chooses policy that aims to enhance a symbiotic relationship between the state machinery and capitalism (Grindle and Thomas, 1991:21). This choice is achieved through the legal, institutional and ideological machinery that is deliberately put in place to ensure that the interests of both state and capital prevail.

Liberalisation and privatisation in the banking, telecommunication and power sectors were policies that were intended to promote not only the interests of finance capital but also the interests of the state. The liberalisation and privatisation not only facilitated the entry of foreign firms into Tanzania, but also enabled the state to access the much needed loans from IFIs to sustain itself. For example, the choice of policy enabled Tanzania to qualify for debt relief under the HIPC initiative, being one of only three countries in the Third World, along with Mozambique and Honduras, to do so. Moreover, in 2001, the country received a USD 3bn debt service approval from the IMF in recognition of the country’s privatisation effort (see Chapter Four).

Neo-Marxists argue that since both state managers and capitalists are beneficiaries of the capitalist system through shared material values, lifestyles and institutional networks, they cooperate to promote the underlying interests that enhance the survival and healthy of the system (Dunleavy and O’Leary, 1997). While the state gains from capital through increased taxes and other supportive measures, it perpetuates and guarantees the existence of capital through restrictive controls on
industrial relations, formulation and enforcement of social control programmes, and managing potential crises that may threaten the survival of capital (Dunleavy and O’Leary, 1997:63). This argument is supported by the fact that during the privatisation of public commercial banks, telecommunications and electricity in Tanzania, the state took measures to ensure the interests of capital prevailed by amending the existing industrial relations law and introducing a new wage policy; threatening the NBC workers with expulsion and forcing them to withdraw the legal measures they had instituted against the bank privatisation; forcing NMB managers to resign; sacking the entire NMB Board; dismissing the Tanzania Communications Commissioners and the commission’s Director General for arguing with MOBITEL; and unleashing a paramilitary police force on TANESCO workers.

The gains to Tanzania from privatisation have been justified by government bureaucrats in terms of its supposed contribution to broader economic benefits and more specifically in increasing government tax revenues. Evidence of economic benefits is supposedly provided in terms of ‘a booming GDP growth’ which in 2004 stood at 6 percent per annum (URT, 2005). While highlighting the supposed benefits of privatisation, state managers overlook the fact that ‘the rebounding economy’ has in fact benefited foreign investors and state bureaucrats who jointly rip most of the benefits leaving indigenous people to wallow in abject poverty’ (The Guardian, 09 February 2006). In addition, the state has lost the firms it previously owned, as well as the profits that accrued from their business activities, to foreign investors. Moreover, state managers have been silent on thousands of workers who have been thrown out of jobs as a consequence of privatisation. For example, the
restructuring and privatisation the NBC alone left a total of 3,900 employees jobless.

**Considerations that would have yielded desirable results and lessons to be drawn**

The government of Tanzania identifies the objectives of parastatal sector reform as promoting the operational efficiency of the enterprises involved; enhancing their contribution to the national economy; reducing the burden of the parastatals on government budgets; expanding the role of private sector participation in the economy; and promoting the wider participation of people in the ownership and management of business (PSRC, 2000d). To realise these objectives the government, through the adoption of the IMF and World Bank’s brokered policy, liberalised its economic sector and privatised the country’s large public enterprises including the NBC and TTCL, through direct sales, and placed TANESCO under private management in preparation for privatisation. The three case studies indicate that the measures instituted by the government failed to yield the desired results anticipated by the stated objectives. This indicates that the considerations on which the government based its decision to reform its state enterprises were not the correct ones. This section, therefore, broadly addresses the issues the government should have considered if it was to realise the stated objectives of parastatals sector reform. The two major issues covered in this section are the process of decision making and the reform mechanisms that would help guarantee desirable results.
Decision making process

Decision making is a process that begins with the desire not only to take a course of action but also ensure that the course of action is taken in a way that guarantees delivery of desired results. This sub-section explores alternative decision making processes that could have been adopted by Tanzania and argues that if the government really desired successful outcomes from liberalisation and privatisation, its decision making should have been considered on the basis of environmental fit and good governance.

Environmental fit

Before adopting a policy reform, it is essential that government attempts to match the country’s prevailing circumstances with the requirements of the intended reform measures (Tsakalotos and Lyberaki, 2002:95). The importance of environmental fit suggests that before a policy decision is taken, the decision maker should first establish a decision environment consisting of an adequate amount of information regarding decision preference (country-specific needs necessitating the decision), identified values (the desired outcomes of the decision) and the prevailing circumstances (strength and weaknesses) that may promote or undermine the attainment of desired outcomes. This suggests further that government should undertake research aimed at generating sufficient information for decision makers before producing a final policy decision. Goic et al (2003) point out specifically that there are steps that government should take before reforming public enterprises. As a first step, government should endeavour to identify the need for a private sector against the country’s prevailing circumstances, including people’s resource base, level of social development and attitudes for or against the private sector. On the basis of this identification,
government should then determine how and to what extent the intended reform strategies are likely to address the country’s underlying development problems where the pre-reform measures had failed.

This research reveals that there is a contradiction between Tanzania’s identified needs and circumstances and the reform measures introduced to respond to them. For example, Tanzania’s banking, telecommunications and power sector liberalisation policy objectives identify the country’s primary need for reform as ‘accelerating’ provision of services to ensure access by the broadest cross-section of the population. In both telecommunications and electricity, there is an added dimension of promoting affordability of the services through reduced tariffs. In line with these needs, the government should have considered the fact that the country’s level of economic development is low; the economy is based on rural-based agricultural production; the level of poverty of the people is high; and levels of resources and skills are low. Before adopting economic liberalisation and privatisation, the government needed to determine the extent such reform measures could address the prevailing circumstances.

If the main objective of introducing reform in Tanzania was to serve ‘the broadest cross-section of the population’, the government should have taken appropriate steps to verify the extent the recommended transfer of banking, telecommunication and electricity services to the market would accelerate the provision of these services to all parts of the country and to promote their accessibility at affordable prices. Rather than taking such steps, the government readily adopted the view of the World Bank that the market is a suitable alternative on the assumption that political intervention is one of the main factors associated with inefficient
performance of public utilities and services (Kakerezi and Kimani, 2002). Before adopting the World Bank’s view, the government should have considered the fact that the market targets that section of the population which is able to afford the prices of goods and services. This section of the population in Tanzania is a minority of urban-based people. The ‘broadest cross-section of the population’, as stipulated in the policy objectives of the three cases, refers to 90 percent of the population who live in mostly inaccessible remote areas of the country and most of whom live on less than one US dollar a day. Since the main purpose of the market is to maximize returns to investment, it is apparent that the ‘broadest cross-section of the population’ in Tanzania may be of little interest to the market. In this regard, the government should not have adopted a policy based purely on market mechanisms. In making reform decisions, the government should have considered Yi-Chong’s view that supply of services such as electricity to the poor bracket of society is a political matter (Yi-Chong, 2005).

The fact that liberalisation and privatisation had failed to realise the anticipated results suggests that the government should have considered applying rigorous decision making models such as a rational transplantation approach as its alternative. As the term ‘transplantation’ suggests, a rational transplantation approach likens policy reform to a heart surgery whereby the transplantation process replaces an ailing heart with a healthy heart. In this context, privatization policy (for example) may be equated with a healthy heart that is given to a supposedly sick patient (the ailing economy) to replace a malfunctioning heart (public sector enterprises) through transplantation. In heart surgery, Chinnock (1995) states that the donor operation must be tailored to or matched with the anatomic needs of the recipient before heart transplantation can take place. The
Table below provides a summary of the matching and assessments that have to be conducted before heart transplantation takes place.

Table 10.2: Matching donor’s variety with recipient’s

<table>
<thead>
<tr>
<th>Matching the donor’s</th>
<th>Assessing the recipient’s:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• heart with the native’s (recipient’s) heart.</td>
<td>• renal and liver function and profile;</td>
</tr>
<tr>
<td>• blood vessels with those of the recipient’s;</td>
<td>• pre-transplant sensitization;</td>
</tr>
<tr>
<td>• blood type with the recipient’s.</td>
<td>• neurological status;</td>
</tr>
<tr>
<td></td>
<td>• anatomy and function;</td>
</tr>
<tr>
<td></td>
<td>• pulmonary artery adequacy;</td>
</tr>
<tr>
<td></td>
<td>• pulmonary vascular resistance.</td>
</tr>
</tbody>
</table>

Source: Adapted by author from Chinnock (1995).

Applying this perspective to policy choice, the study adapts Johnson and Scholes (1993) view that a comprehensive country analysis should be carried out before a choice of policy is made. As is the case of heart transplantation, the country analysis suggested by Johnson and Scholes involves matchings and assessments as shown in the Table 10.3 below:

Table 10.3: Matching policy variety with organizational variety

<table>
<thead>
<tr>
<th>Matching policy demands with:</th>
<th>Assessing the country’s:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• the general vision and development needs of the country;</td>
<td>• resource and technological implications of the new policy;</td>
</tr>
<tr>
<td>• the general strengths and weaknesses of environment in which implementation will take place;</td>
<td>• existing operational procedures and the extent these will accommodate the new policy;</td>
</tr>
<tr>
<td>• the existing policies and legislations;</td>
<td>• the legal requirements of the new policy (e.g. regulations);</td>
</tr>
<tr>
<td>• the specific government structure, resource capability and other implementation requirements (e.g. technology, skills and finances).</td>
<td>• social and economic implications of the new policy;</td>
</tr>
<tr>
<td></td>
<td>• prevailing beliefs, values and attitudes and the extent these would accommodate the new policy;</td>
</tr>
<tr>
<td></td>
<td>• political and ideological implications of the new policy.</td>
</tr>
</tbody>
</table>

Source: Adapted from Johnson and Scholes (1993).

Figure 10.3 below summarises the rational transplantation model, indicating that the country’s internal environment plays a key role in determining whether or not a
particular policy should be chosen or adopted for implementation. Figure 10.3 indicates that since policy decisions usually both affect structure and control systems and depend on them for implementation, it is crucial that policy is carefully matched with the existing structural controls. Structural controls consist of processes by which state managers monitor the efficiency and effectiveness of activities. Matching policy with the existing controls would enable policy makers or analysts to determine whether the policy will work on the basis of existing structure, what needs to be introduced, altered or improved (either on policy or structure or both) to ensure successful performance, the nature and amount of resource requirements and what built-in substitutabilities need to be introduced in the policy to facilitate future improvement in case policy and structure are not working.

The model operates on the premise that getting desired results on any activity requires time and energy. Although, for example, the life of a heart patient may be threatened, a heart specialist takes time and moves meticulously and with precision to ensure delivery of successful results. In the same context, policy makers need to take time to guarantee that policy decisions yielded desired outcomes. This brings us to the importance of time frames in decision making. The argument that political pressure and competing demands facing policy makers make it less feasible for them to observe measures to produce policy (e.g. Wergin, 1976) overlooks the consequences of botched policy decisions.
The case studies indicate that four factors negated any efforts to consider environmental fit when introducing the reform. Firstly, the reform measures were decided by the IMF and the World Bank in Washington, thousands of kilometres away from Tanzania, and the government was required to adopt the reform measures without taking and steps to determine the suitability of these measures to the local environment. To ensure that the reform measures were adopted as decided in Washington, the World Bank supplied consultants to help put the reform in place. In Chapter Five, over-reliance on external consultants was given as one cause for policy failing to realise the desired results. The three cases support
this argument in that external consultants were involved right from drawing up the financial, telecommunications and the electricity privatisation legislation down to the actual privatisation of the firms. As evidenced by the case studies, the World Bank had a vested interest in the privatised firms. Viewed in the context of donors’ vested interest in Tanzania’s financial, telecommunications and power sector markets and the fact that privatisation of the NBC, TTCL and TANESCO failed to achieve the anticipated results, there is reason to suggest that the advice of the World Bank sponsored external consultants on privatisation was not matched with the needs and circumstances of the country’s local environment. The fact that their advice failed to deliver anticipated results reinforces the argument that foreign experts’ advice on matters of policy tends to reflect heavily the practices pertaining to their own environments while ignoring local reality, leading to flawed policy (Leach and Mearns, 1996). Colebatch raises a similar point, arguing that ‘the purposes of the (country’s) policy makers may not be the dominant motivation of (the) agents contracted by the government to carry out some activity on its behalf’ (Colebatch, 1993: 35).

Secondly, the case studies also indicate that the issues pertaining to the local environment were not taken into account because of corruption as state leaders were competing to see how much they get out of the assets in relation to others. In this context, they did not care whether or not liberalisation and privatisation responded to the needs of the local environment, so long as their level of compensation was realised. Thirdly, liberalisation and privatisation was the IMF’s ‘off-the-shelf’ policy that was imposed on Tanzania, in disregard of the country’s environment, in the belief that it had succeeded in Britain. Rather than adopting the IMF ‘success story’, the government should have considered the view that a
strategy that may work successfully in Britain, USA or Ireland may not necessarily succeed elsewhere due to economic, political and socio-cultural differences (Laver, 1986). Fourthly, the reform measures were hurriedly adopted by the government to meet loan deadlines from the Fund. As a result, the government did not have time to scrutinize the reform measures to ensure the extent these measures would address the country’s prevailing needs and circumstances.

As discussed in Chapter Five, in the past Tanzania adopted the ‘running while others walk’ mode of policy making whereby policy decisions were made in a hurry without policy makers first having obtained full and detailed knowledge of the consequences of such decisions. This mode of policy making produced unrealistic and ambitious policies, including villagisation and decentralisation, which failed to realise their stated objectives with dire consequences for the economy. Ironically, the IMF and World Bank brokered reforms were introduced in Tanzania with the aim of correcting past mistakes including reversing its unproductive ‘running while others walk’ mode of policy making. However, the case studies indicate that reforms have not helped the government in overcoming its flawed decision making. The cases indicate that since Tanzania was under pressure from the donor community to meet deadlines set by the IMF, the government resorted to ‘flying while others walk’ mode of decision making to produce its privatisation decisions. Consequently, the government lacked the time required to consider the environmental fit aspect and to subject its privatisation decision to rigorous measures before adopting it as policy.

For example, privatisation policy decisions adopted by the government were either passed by Parliament without discussion or were brought to the attention of
parliament after privatisation had already taken place. As a result, intricate issues pertaining to the privatisation of the firms were not adequately dealt with, as the government appeared more focused on meeting the privatisation deadlines than on how well the exercise should be done to maximise economic efficiency for the benefit of the country’s people. The fact that the country’s privatisation programme has failed in its objectives confirms the view that pressure from donors and international financial institutions has spurred governments to adopt decisions without sufficient information; knowledge on how they would be effectively implemented; and understanding of ‘the constraints or the resources and the time needed to overcome them’ (Rosenau, 1992; Harsch, 2000:9).

Although Tanzania needed loans from the IMF and the World Bank to address its economic problems, the government’s acceptance of the IMF conditions was not inevitable. The Government should have considered rejecting the Fund’s conditions on the basis of the fact that the cost of some policy outcomes may be irreversible over a long time (Andorka and Urzua, 1991). In this regard, Tanzania could have adopted the Nigerian position whereby its President, Olusegun Obasanjo, had refused to allow his country to be rushed into privatising state firms simply to please the IMF (Harsch, 2000). The Nigerian example reveals that IMF and World Bank policies are not inevitable and that governments have the choice to adopt or reject them in an attempt to avoid the costly mistakes emanating from imposed decisions.

In considering acceptance or rejection of imposed reforms, the Tanzania government should have reminded itself of the development and social equity goals that were being served by the parastatal sector before adopting the liberalisation
and privatisation approach. Chapter Four outlines the development imperatives that drove Tanzania to announce the Arusha Declaration in 1967 which culminated in nationalisation of the commanding heights of the economy, resulting in the creation of an expanded parastatal sector. When debating the privatisation of the NBC most Members of Parliament argued against rushing to privatise the parastatal sector, pointing out that the country’s development imperatives that necessitated its creation were still as relevant as at the time of the Arusha Declaration in 1967.

**Good governance**

In addition to environmental fit, this thesis also underscores the importance of good governance in producing fruitful decisions. Major components of good governance discussed in relation to policy making are participatory decision-making and consensus-building, transparency and accountability (Conwall and Gaventa, 2001).

Harsch (2000) argues that participatory decision making enables government to promote consensus-building. Consensus does not mean that everyone should fully agree with government decision. It does imply that even where some people are in disagreement, the fact that they have been involved in the decision propels them to cast aside their disagreement in support for the decision. Generally, the benefits of consensus include helping to clarify and communicate decision objectives to the people; improving the decision by pointing out its risks and exploring alternatives; promoting public acceptance of government policy; and building collective spirit. The existence of collective spirit helps to focus energies on supporting rather than opposing the policy.
It is shown in the study that economic liberalisation and privatisation were not widely discussed in Tanzania and that more often than not privatisation decisions were brought to the attention of Parliament after privatisation had in fact taken place. This lack of participation in privatisation policy making produced negative sentiments among people. For example, the case studies reveal that members of parliament and workers of privatised firms become discontented with and questioned privatisation and the manner it was undertaken. While the NBC workers paralysed the firm’s operations through strikes, the TTCL and TANESCO workers vented their privatisation discontent by sabotaging the privatised firms through various acts, including vandalism. Workers in the three cases argued that their firms should have been involved in the privatisation decision to determine how the interests of workers affected by the decision would be addressed. The lack of support of the policy from workers underscores the view that participatory decision making helps win support for policy and that success of a policy depends on the support it receives from the people (Veenhoven, 2002; Rap, 2006). This further suggests that the government should have allowed civil society to discuss and make suggestions on privatisation before it was adopted by the government as its policy.

Related to participatory decision-making and consensus-building is transparency and accountability of government. Katz (1999) provides as an important principle of government transparency the ease with which ordinary citizens are able to access important decisions of government, request and receive government documents, and have input into government decisions and policy making. An Australian Treasury Report (1999) states that transparency is required ‘across all
areas of government’ and the economy and that the more and better information is available to the government and the civil society, the sounder are government policies and decisions. The importance of transparency includes improving the quality of government policy decisions; providing the basis for accountability; checking mismanagement and corruption; promoting public confidence; and enhancing informed participation of citizens (UNPAN, 1999).

The case studies reveal that the Tanzanian government not only lacked transparency in its privatisation decision but also accountability for its actions. For example, apart from not being ready to receive input from its people, government leaders kept people in the dark as to government intentions by producing contradictory and misleading statements about loss making parastatals. The fact that government’s statements on NBC and TTCL losses turned out to be incorrect suggests that the government was hiding truth to gain advantage over its own people (Ballati, 2001; Curtin, 2000). During the award of tenders to would-be investors, the government not only failed to make public the criteria used to award tenders to ABSA to purchase the NBC and to Net Group Solutions to become TANESCO’s management contractor but also ensured that these criteria remained secret even from the Parliament. The friction that occurred between the government and the Parliament over TANESCO’S privatisation, which prompted Members of Parliament to petition for a parliamentary committee to investigate how the contract was consummated, suggests that the privatisation decision would have been improved had the government been transparent in formulating that decision.
Overall, the results from the three cases suggest that the absence of good
governance may produce dire consequences for a country.

**Substantive reform instruments**

The parastatal sector reform programme focused mainly on liberalising and
privatising the main economic sectors including banking, telecommunications and
electricity. However, other options should have been considered. First, the
government should have recognised the fact that there is no ‘blanket’ policy
approach that suits all sectors because different sectors of the economy do not
share similar characteristics and, therefore, should not be subjected to a blanket
form of reform. In this regard, the government should have considered
categorising different sectors of the economy into those in which deregulation
should have been completely avoided; liberalisation could take place without
privatisation; and both liberalisation and privatisation could have been considered.
Banking, telecommunications and electricity are sectors which are socially,
politically and economically sensitive to the extent of being regarded by the people
as the ‘soul’ of the nation. In this regard, privatising these enterprises meant that
the government relinquished the organs it relied on to foster development in the
rural-based economy. Furthermore, some sectors such as electricity required
massive capitalisation and entailed natural monopoly characteristics to the extent
that liberalisation and privatisation might not be appropriate.

Second, a range of measures are available to institute reform in the banking,
telecommunication and electricity sectors. For example, the government should
have considered corporatising and commercialising the sectors’ enterprises,
notably the NBC, TTCL and TANESCO in their present monopoly format without
necessarily liberalising or privatising them. Corporatisation refers to a process of turning a state body into a commercial company to enable it run efficiently (Bostock, 1998). The negative monopoly characteristics to be addressed by corporatisation and commercialisation include low level of work efficiency; excessive numbers of employees; poor investment decisions; low level of organisational and managerial knowledge; and ceasing all sorts of political interference of the companies. However, in undertaking corporatisation, care needs to be taken to ensure that the new system does not undermine the ability of the companies in promoting rural development. For example, to promote rural financing, rural micro-financing units could be created within corporatised banks assisted by government subsidy. Besides, in selecting the right partner or investor, the government should not simply ‘stop at the desk top analysis of the bids against the evaluation criteria’ (Foster, 2004:95). In his view, the government should carry out extra investigation to enable it determine such aspects as the partner’s or investor’s service or business interest, track record, skill and experience, financial standing, quality of service provision, and compliance with contractual obligations.

In countries where the corporatisation mode of restructuring has been adopted on electricity, for example, public power sector suppliers have performed as well as private sector companies (Yunos and Hawdon, 1999; Karekezi and Kimani, 2002). Apart from enhancing efficiency in electricity supply, this mode of restructuring enables the government to promote a relatively good power system security; control electricity prices; promote equitable access to power supply; and develop technically skilled employees (Goic et al, 2003).
The government could also have considered carrying out ‘horizontal unpackaging’ of the distribution system to involve local authorities (see Fig.10.4). Apart from being responsible for generating and transmitting electricity, TANESCO could have also been involved in the distribution. The benefits from this model would, besides promoting efficiency, have been the introduction of competition in the distribution system; enabled the local authorities to plan for rural electrification and power supply to the urban poor.

Third, the government could have considered liberalising the banking, telecommunication and electricity sectors while at the same time corporatising the existing public enterprises in these sectors without necessarily privatising them. The adoption of this measure would have facilitated the entry of private investors in the sectors to compete with the corporatised public companies. The introduction of competition would ‘bring about favourable results for service penetration, capacity expansion, labour efficiency and prices to industrial users’ (Zhang et al 2002:2). In banking and telecommunication, the government could have evolved a deliberate policy through which the country’s people would be encouraged and facilitated to own shares in the private banks as well as in private telecommunication companies. However, competition in the power sector should have been introduced only in electricity generation as transmission and distribution still retain natural monopoly characteristics resulting from the existence of economies of scale that ‘limit the scope for competition’ (Zhang et al, 2002:4).
Fourth, the government could have considered privatising its state-owned enterprises in the banking and telecommunications sectors through a direct local-foreign partnership approach whereby public shares are sold by the government to both the local people and strategic investors (Pronkopenko, 1995; ILO, 1995). Apart from enabling the state to avoid the total sale of strategic assets to foreigners, this form of privatisation provides opportunity for citizens to acquire and own the privatised firms as well as gaining from their partners the requisite entrepreneurial skills. It also enables the companies privatised in this manner to improve efficiency by accessing the benefits offered by the private sector including,
management; investment capital; new technology; marketing expertise; foreign currency sources; improved loan quality; and exposure to foreign markets (Miller, 2000). The benefits of this privatisation approach are illustrated in Chapter Seven by the privatisation of the Co-operative and Rural Development Bank (CRDB).

In banking and telecommunication the government had indicated its intention to adopt the direct local-foreign partnership approach by stating that it would sale its public shares in the NBC and the TTCL to workers, national financial institutions and international financial institutions. However, the public shares in the NBC and TTCL were not sold to the public as initially stated, indicating that the government’s public share sale statements were aimed at persuading the people of Tanzania to support the government’s privatisation drive.

In the power sector, the government could have considered ‘horizontally unpackaging’ its hydro and thermal power generating units from the main public power utility and turning them into corporatised and commercialised business entities, before deregulating the power sector. After deregulation, the government could have sought competent and willing foreign firms to enter into public-foreign partnership with the corporatised power generation entities, as shown in Fig. 10.5 below. This measure would be in line with the World Bank’s encouragement of private sector participation in the power sector (World Bank, 1993). Apart from enabling the government to retain control over the sector, this arrangement would introduce competition in power generation while at the same time enabling power generation entities to improve investment and operational efficiency, promote technical change and improve financial needs of the entities.
When introducing competition in generation, there was a need for government to consider the fact that competition might not be fair among firms employing different power generating systems (e.g. hydro, gas, oil) (Castell and Tanchuco, 2005). For example, firms that apply hydro systems to generate electricity might find it difficult to fairly compete in the same market with those applying gas or thermal systems. However, transmission and distribution of electricity in the country should have remained the responsibility of the main public power utility for the similar reasons given above by Zhang et al (2002), although the government may also have considered forging public-foreign partnerships in
transmission and distribution to improve sector efficiency and technical aspects, given the large capital requirements involved.

**Conclusion**

This research investigated Tanzania’s economic policy reform including why the government chose to liberalise and privatisate its public enterprises; the considerations that were taken into account; the theory that helps to explain the choice; and lessons to be drawn from Tanzania’s experience.

Three factors had played a major influence on Tanzania’s choice of liberalisation and privatisation to reform its state-owned enterprises. Firstly, the choice of policy was made under pressure from the IMF and the World Bank who employed privatisation as a pre-condition for granting loans to the country. In this regard the choice of liberalisation and privatisation was simply made as a ‘trade-off’ for loans because, as the case studies indicated, the government received loans soon after public enterprises were privatised. Secondly, the government chose to liberalise and privatisate its state-owned enterprises in response to lobbying and manipulation by a coalition of external institutions including the World Bank and the Paris Club of donors in need of controlling and exploiting the Tanzanian economy. Two main lobbying strategies were employed by this coalition to achieve its objective including the coalition withholding economic aid and debt relief to Tanzania unless the government abandoned its socialist policies, liberalised the economy and deregulated its major sectors including the parastatal sector; and promoting the efficiency of the private sector in allocating scarce resources in the economy and influencing the government to adopt the view that the dismal performance of the
The parastatal sector was a result of the inherent inefficiency of the public sector. The coalition advanced the view that the efficient and improved performance of the economy would automatically come with the introduction of the private sector. Thirdly, Tanzania’s adoption of liberalisation and privatisation was influenced by the desire of corrupt state officials to benefit financially and in kind from privatisation of public enterprises.

Accompanying the IMF conditionality to grant a loan to the government of Tanzania was the requirement that privatisation should be implemented within specific time frames. Based on the need to meet the set deadlines issued by the IMF, the government implemented its privatisation programme with such speed that privatisation was not fully discussed by civil society or by Parliament either to determine its pros and cons for the country or how best to implement it for the benefit of the people. Being in a hurry to meet the IMF-set deadlines and to obtain loans and ultimately benefit from privatisation, government leaders not only lacked enough time to assess the country’s environment in relation to the objectives of privatisation but also to determine which privatisation approach would produce desired outcomes for the country. As a result of the government haste decision and failure to consider the environmental aspect to determine the mode of privatisation that would work for the country, the policy failed to realise the objectives it intended to achieve and, in some cases, privatisation decision was reversed.

Tanzania’s privatisation results indicate that ‘off-the-shelf’ policies do not work in every situation, although such policies might have produced desired results elsewhere. As Laver (1986) argues, a country’s economic, political and socio-
cultural differences may account for failure of a strategy that has successfully worked in Britain, USA or Ireland.

Generally, the thesis demonstrates that there is no single policy choice theory that can adequately explain a country’s choice of policy, reflecting the fact that policy is a complex form of decision making. The inability of any one theory to explain policy choice comes about because most theories make assumptions that ignore or overlook reality on the ground. A few examples of theories that illustrate this include incrementalism assuming that policy initiatives cannot fail along the way, forcing government to discard them altogether, replacing them with new ones; pluralism assuming that there will always exist opportunities in the country to promote group participation and consensus-building; rationality assuming that government will always have autonomy, time and resources to make need-based and solution-tested decisions; public choice theory assuming that the market possesses all solutions for economic problems and that the private sector is free from rent-seeking behaviour; and state interest theory assuming that the state is infallible and that its autonomy and sovereignty are unchallengeable.

However, three of the policy choice theories are relevant to Tanzania’s adoption of liberalisation and privatisation. The first is public choice theory which regards the public sector as consisting of rent-seekers and is consequently inefficient in allocating scarce resource in the economy. This view is supported by the three cases which indicate that there is in fact rent-seeking in the public sector. Influenced by this view, the IMF, the World Bank and donors withheld loans and economic aid to Tanzania, forcing the government to adopt liberalisation and privatisation on the assumption that the private sector is endowed with resources, skills and reliability.
to more efficiently allocate resources in the economy compared to the public sector. The thesis shows, however, that the private sector is not in fact necessarily more reliable than the public sector in efficiently allocating resources. The private sector may also include people who are rent-seekers and lacks the requisite skills and, like the public sector, the private sector is equally exposed to industrial disputes resulting in sabotage of the production process, to the detriment of productivity. Moreover, in Tanzania the private sector expended resources mainly in areas where good returns were guaranteed and, regardless of the consequences to the economy, was prepared to plunder and deplete the country of scarce resources, as in the case of TTCL, and move the resources across borders in search for better investment opportunities.

The second theory that helps to explain Tanzania’s choice of economic liberalisation and privatisation is advocacy coalition which provides that policy is chosen on the basis of manipulation, through various ways including use of economic aid, of government by a dominant coalition in pursuing self-serving goals. Driven by the desire to control and exploit the Tanzanian economy, a coalition of lobbyists involving the IMF, World Bank and donor countries manipulated the government, through loan and economic aid conditionality, into liberalising and privatising its economic sector. Following the adoption of economic reform by the government, the World Bank and a variety of investor and consultancy companies originating from a number of the donor countries became the beneficiaries of the liberalised banking, telecommunications and power sectors in Tanzania. The thesis shows that the main interest of an advocacy coalition is to influence government to implement measures that promote some specific interest of the coalition, regardless of the consequences of the measures to the host country.
The Neo-Marxist theory also helps to explain Tanzania’s policy choice. This approach sees policy choice as emanating from the desire of both state officials and capitalists to advance and perpetuate a symbiotic relationship which is beneficial to both the state and capital. This research shows that Tanzania decided to liberalise and privatise its economy to attract more capital in the form of money, skills and technology. The government promoted a climate conducive to accommodating and facilitating the accumulation of surplus value capital. This climate was attained by the government introducing market regulations, amending existing labour laws to suit the interests of capital, suppressing the dissenting views and actions of workers, dissolving commissions and sacking managers and invoking a sense of fear among people whose actions appeared to negate the interests of capital.

Finally, this research provides a number of considerations that might have produced desired policy outcomes. Firstly, the government should have considered matching privatisation objectives with the prevailing circumstances in the country before adopting the policy. Secondly, the government should have been transparent in its choice of the policy. Transparency could have been manifested through allocating enough time for people, including the Parliament, to give their view through a rigorous discussion of the policy before its adoption for implementation. This measure would have enabled the government to not only obtain contributions from people but also understand their position vis a vis the policy and take appropriate measures to enlist their support of the policy. Thirdly, the government should have considered a number of privatisation instruments including corporatisation and commercialisation; public-private partnerships; and direct local-foreign partnerships, to determine and choose the mode of
privatisation that would be in the best interest of the country. However, the cases indicate that this did not occur due to the manipulative impact of advocacy coalition; the tendency of state managers to promote interests of capital; and the tendency of corrupt public officials to pursue rent-seeking and self-regarding gains.
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BPI.2 – Member 1, NBC Restructuring Steering Committee, Dar es Salaam, 13/12/2004.
PBI.3 – Member 2, NBC Restructuring Steering Committee, Dares Salaam, 14/12/2004.
PBI.4 - Consultant, PSRC, Dar es Salaam, 15/12/2004.
PBI.5 - Senior Officer 1 (Finance), NBC, Dar es Salaam, 15/1/2005.
PBI.7 - Senior Academic (Finance), Institute of Finance Management, Dar es Salaam, 16/2/2005.
PBI.8 - Senior Officer, MOF, Dar es Salaam, 22/2/2005
PBI.10 - Senior Official 2, President’s Office, Planning and Privatisation, Dar es Salaam, 21/2/2005.
PBI.12 - Senior Research Officer, ESRF, Dar es Salaam, 22/2/2005.
PBI.13 - Professor of Political Science, UDSM, Dar es Salaam: 24/2/2005.
PBI.15 - Senior Officer 2 (Finance), NBC, Dar es Salaam, 18/3/2005.
PBI.16 - Member of Parliament, TLP, Dodoma, 8/2/2005.
PBI.17- CCM Member of Parliament, Dodoma, 8/2/2005.
PBI.19 - Senior Officer, Research, Academicians and Allied Workers Union (RAAWU), Dar es Salaam, 26/3/2005.
Telecommunications

TPI. 1 - Senior Manager, TTCL, Dar es Salaam, 26/2/2005.
TPI. 3 - Senior Finance Officer, MOF, Dar es Salaam, 2/1/2005.
TPI. 4 - Professor of Political Science, UDSM, Dar es Salaam: 24/2/2005.
TPT. 6 - Professor of Economics, MU, Morogoro, 29/1/2005.
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EPI. 12 - Senior Officer, TANESCO, Dar es Salaam, 18/2/2005.
ANNEX: Map of the United Republic of Tanzania