

## THE POLITICAL ECONOMY OF GRAND CORRUPTION IN TANZANIA

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### ABSTRACT

This article examines the political economy of grand corruption in Tanzania in the era of rapid growth and global integration. Grand corruption in Tanzania is linked to intra-elite conflicts within the ruling CCM party. However, the underlying dynamics of these struggles and how such elite politics interacts with the wider process of socio-economic transformation unfolding in Tanzania are not well understood. This article draws on the political settlements approach in building an analytical framework to examine four major grand corruption scandals that occurred within public finance from 2000 until 2014. In particular, it sets out the key actors and patterns in the factional struggles over corruption in order to demonstrate how the elite within the ruling CCM party is not centralized but composed instead of internal factions that have equal weight. The article explains how the enduring control of this elite, despite its internal divisions, can be explained by examining the balance of power in society beyond the institutions of the ruling party or the state itself. The article then establishes the mechanisms through which grand corruption shapes paths of accumulation within the domestic economy in Tanzania. In concluding, it argues that the fragmented distribution of power within the ruling party means that policy responses of the donor community, in particular the halting of aid disbursements, have been ineffective and are likely to continue to be ineffective in stopping grand corruption in Tanzania.

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CORRUPTION SCANDALS were a recurring feature of Tanzania's political landscape at the start of the twenty-first century, against a backdrop of rapid economic growth and global integration. Grand corruption cases in public finances implicated senior politicians, high-ranking government officials, domestic industrialists, and multinational companies in a series of illegal activities involving bribes, kickbacks, and the theft of public funds. In October 2014, the ruling party Chama Cha Mapinduzi (CCM) found itself embroiled in a corruption scandal that once again caused significant turbulence within the highest echelons of the state. This case involved the alleged

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illegal payment of US\$122 million by senior state officials to businessmen under the guise of energy contracts. In response, twelve donors suspended aid payments to Tanzania pending a report into the affair by the controller auditor general, and subsequently a number of senior figures within the ruling party who were implicated in the scandal resigned from their parliamentary duties.<sup>1</sup>

Such a response by donors and by the ruling party itself is by no means a new departure in Tanzania. While grand corruption has occurred across a number of sectors including land, natural resources, and industrial policy, the scandals in public finance have caused the greatest reverberations within the state and within the donor community. Since the mid-1980s, numerous accusations of grand corruption have been followed by the temporary suspension of aid and by concerted efforts by the ruling party to clamp down on high-level corruption within its midst. These efforts involved short-term political reshuffles as well as more searching institutional reforms to the state, but all with little effect, as the scandals recurred with depressing regularity.

The intractability of grand corruption in Tanzania contrasts with the gradual improvement in other aspects of public financial management since the turn of the century. At the end of the 1990s, the Report on the Presidential Inquiry into Corruption in Tanzania identified widespread petty pilfering of funds channelled through the government system, and illegal payments in public procurement and to secure government-awarded contracts for public works.<sup>2</sup> As a number of major donors prepared to switch their aid modalities towards direct budget support, reducing these forms of corruption became a major goal. Public financial management reforms were part of a broader anti-corruption drive that included two Parliamentary Acts, in 2002 and 2007, on the prevention of corruption, as well as a strengthening of the Prevention and Combating of Corruption Bureau. Within public finances more specifically, the Public Financial Management Reform Programme aimed to reduce corruption through greater transparency and accountability. A cash budget, limiting payments to cash availability on a monthly basis, and a centralized payment system were introduced. The development of a medium-term expenditure framework and a Public Expenditure Review involving different stakeholders increased transparency. An expenditure-tracking system was introduced to

1. Mark Anderson, 'UK and international donors suspend Tanzania aid after corruption claims' *The Guardian*, 13 October 2014, <<http://www.theguardian.com/global-development/2014/oct/13/uk-and-international-donors-suspend-tanzania-aid-after-corruption-claims>> (14 October 2014); *The Citizen*, 'Three MPs resign over escrow billions bounty', 22 January 2015, <<http://www.thecitizen.co.tz/News/national/Three-MPs-resign-over-escrow-billions-bounty/-/1840392/2598052/-/item/1/-/xc6v96/-/index.html>> (8 February 2015).

2. United Republic of Tanzania, *The report on the residential inquiry into corruption in Tanzania*, Vols I and II (Tanzania Government Printers, Dar es Salaam, 1996).

reduce leakages at service delivery level. By the mid-2000s, Tanzania had achieved some notable successes in constraining certain forms of bureaucratic corruption within the budgeting system.<sup>3</sup> In the first Country Policy and Institutional Assessment in 2005, Tanzania scored considerably above the regional averages in all aspects relating to public finance.

The persistence of grand corruption in public finance despite these reforms points to the fact that the technical improvements in the budgeting process did little to address the underlying drivers of the phenomenon in Tanzania. Recently a number of scholars have linked grand corruption in Tanzania to the nature of elite politics within the ruling CCM party.<sup>4</sup> For example, Michael Lofchie uses a rent-seeking framework that draws on Anne Kruger's neo-classical economics approach to argue that grand corruption is a result of the centralization of power, allowing members of a narrow elite to dominate the state and use corruption to consolidate their control over the economy. However, this approach does not account adequately for the internal fissures within the CCM elite that have also been exposed in these cases of grand corruption. In particular, we need to know much more about how order is maintained in the context of these factional conflicts. The literature on grand corruption in Tanzania also fails to specify the mechanisms through which grand corruption influences economic development. The standard rent-seeking framework rests on the assumption that grand corruption ultimately constrains economic development by raising the costs of collective goods and by undermining investor confidence. However, recent literature has shown that grand corruption is linked to a range of different economic outcomes.<sup>5</sup> We need to know much more about the links between grand corruption and the processes of economic transformation unfolding in Tanzania.

In order to explain how intra-elite struggles exposed by grand corruption relate to the path of socio-economic transformation in Tanzania, I draw on the political settlements theory developed by Mushtaq Khan.<sup>6</sup> A political settlements approach places the phenomenon of corruption within the context of capitalist transformation in developing countries. A political

3. Reports of the Controller and Auditor General on the financial statements of public authorities and other bodies for the financial years 2005/06, 2006/07, 2007/08, 2008/09 (National Audit Office, Dar es Salaam, 2006–9).

4. See for example Michael Lofchie *The political economy of Tanzania: Decline and recovery* (University of Pennsylvania Press, Philadelphia, PA, 2014); Tim Kelsall, *Business, politics, and the state in Africa: Challenging the orthodoxies on growth and transformation* (Zed Books, London, 2013); Ronald Aminzade, *Race, nation and citizenship in post-colonial Africa: The case of Tanzania* (Cambridge University Press, Cambridge, 2014).

5. Jakob Svensson, 'Eight questions about corruption', *Journal of Economic Perspectives* 19, 3 (2005), pp. 19–24.

6. Mushtaq Khan, 'Class, clientelism and communal politics in contemporary Bangladesh', in Kavalam Panikkar, Terrence Byres, and Utsa Patnaik (eds), *The making of history: Essays presented to Irfan Habib* (Anthem Press, London, 1995), pp. 572–606.

settlement is the combination of institutions and the underlying distribution of power in a society. The distribution of power in society affects the ability of historically constituted social groups to acquire, or hold on to, property rights that generate income. In most developing countries, the distribution of political power between contending social groups is not aligned with the formal structure of institutions. Instead, power often resides in clientelist networks that operate within and outside formal state institutions. Clientelism, as understood within the political settlements framework, results from specific features of late capitalist transformation relating to the challenge of consolidating power within formal institutions that are supported neither by a significant capitalist surplus nor by traditional sources of authority. The ways that power and institutions are combined within different political settlements have important implications for trajectories of economic development in low-income countries. In particular, different institutional configurations and patterns of power within each political settlement will have implications for political stability and the ability of the state to implement policies to promote technological catch-up. Further, the characteristics of a political settlement affect the viability of different strategies of accumulation.<sup>7</sup> A recent but burgeoning literature explores aspects of the political settlements theory and economic transformation in African countries.<sup>8</sup>

By extending this line of enquiry to grand corruption cases in Tanzania, this article makes a fresh contribution to the understanding of Tanzania's political economy and furthers the broader debate about grand corruption, political settlements, and economic development in Africa. Specifically, the article explains how the elite within the ruling CCM party is not centralized; rather, it is composed of internal factions that have equal weight. The article argues that this distribution of power within the elite means that it is difficult for the president, or any group within the ruling party, to stop grand corruption. It then explains how the enduring control of this elite, despite its internal divisions, can be explained by examining who holds power in society beyond the formal institutions of the ruling party or the state itself. This is followed by a clarification of the key factors in Tanzania's history

7. Mushtaq Khan, 'Rent-seeking as process', in Mushtaq Khan and Jomo Kwame Sundaram (eds), *Rents, rent-seeking and economic development: Theory and evidence in Asia* (Cambridge University Press, Cambridge, 2000), pp. 70–144.

8. Mushtaq Khan and Hazel Gray, 'State weakness in developing countries and strategies of institutional reform – operational implications for anti-corruption policy and a case study of Tanzania' (Report for the Department for International Development, London, UK, September 2006); Hazel Gray and Mushtaq Khan, 'Good governance and growth in Africa: What can we learn from Tanzania?' in Vishnu Padayachee (ed.), *The political economy of Africa* (Routledge, London, 2010); Lindsay Whitfield, Lars Buur, Ole Therkildsen, and Metter Kjær, *The politics of African industrial policy: A comparative perspective* (Cambridge University Press, Cambridge, 2015); Kelsall, *Business, politics and the state in Africa*.

that shaped the contemporary distribution of power, namely the nature of the independence struggle and the experiences of attempting to construct socialism in the 1960s and 1970s. Following this, the article expands on the causal factors that explain how grand corruption shapes economic transformation. In doing so, it seeks to move beyond the idea advanced by Tim Kelsall and others that centralized and long-horizon management of rents is necessary, to show how the specific and historically constructed relations between business and the state are critical in shaping the implications of grand corruption for accumulation within the domestic economy. In the case of post-socialist countries such as Tanzania, an important further factor is the extent to which economic institutions that facilitate collective action by politicians and business to channel resources into productive activities survived under economic liberalization.

The article starts by setting out the links between public finance, corruption, and the political settlement. It then presents a detailed analysis of four grand corruption cases that occurred in Tanzania over the period of high economic growth, tracing the pattern of struggles within the ruling party and the political and economic connections exposed in these cases. The article explores the implications of this empirical evidence for the dynamics of elite struggles, changing state–business relations, and the interaction of patterns of grand corruption with processes of accumulation within the economy. Finally, it concludes by explaining why withholding aid by donors is likely to continue to be unsuccessful as a strategy for tackling grand corruption and what a political settlements approach implies for attempts to control grand corruption in Tanzania. Even under the threat of donor withdrawal of aid, the ability of the ruling CCM party to constrain corruption effectively is undermined by the fragmented distribution of power within the ruling party. However, beyond the intra-elite struggles within CCM, other social forces are emerging in Tanzania. These social forces challenge the existing distribution of power and will affect the feasibility of different anti-corruption agendas in the future.

#### *Public finances, corruption, and the political settlement*

Public finance plays a critical role in economic performance through a multitude of different avenues, not least by funding the economic policies of the state, providing direct and indirect finance to businesses, and lowering the costs of production through investment in infrastructure and public services. Public finance also plays a vital political role in maintaining political stability in the face of competing demands for state resources from different social groups. Many of these transfers occur explicitly through the official government budget, where patterns of resource flows mainly reflect political pressures that are mediated by ‘negotiations’ through formal

political institutions.<sup>9</sup> However, other transfers of public finance that also play a critical role in economic performance and in generating political stability occur in the form of off-budget expenditures outside official budget channels and away from the ‘glare of public scrutiny’.<sup>10</sup> Of course, not all off-budget expenditure is associated with corruption. Off-budget flows can represent legitimate expenditure by the state where the details of expenditures are kept outside of the official budget documents. These flows could be thought of as the ‘known-unknowns’ of public finance. In Tanzania these flows included funds to the State House and to the army,<sup>11</sup> as well as other expenditure that was undertaken by public agencies and parastatal firms. While not officially part of the public expenditures of the state, the high degree of political influence over these institutions meant that such expenditure can, in effect, be considered a form of state expenditure. Over the past decade, Tanzania was widely seen as a success story in terms of efforts to crack down on these forms of off-budget finance.

Off-budget expenditures also took the form of covert and illegal payments that were officially ignored or denied. These payments included forms of petty corruption that resulted from the inability of the state to constrain theft by some public employees in ministries and local government, as well as the grand corruption that occurred at higher levels of office within the state. While the technical and formal procedural changes that occurred within public financial management across the 2000s were relatively effective at reducing petty corruption, they did little to reduce the grand corruption that only came to light subsequently through the high-profile cases discussed below.

These inscrutable forms of off-budget expenditure by the state appeared to be shaped by complex links between individuals in the ruling party and individuals within the private sector. Different forms of grand corruption, and the opposition they generate within the ruling party and more widely in society, reflect the distribution of power in a country. Hence, a picture of the distribution of power can be gleaned by studying the outcome of contests over resource flows in their particular historical contexts. Underneath Tanzania’s formal negotiated settlement, reflected in the institutional structures of the state and the ruling party, is a continuous process of struggle among groups over resource flows and property rights. It is in the details of these struggles that the implications of grand corruption for Tanzania’s

9. With reference to Tanzania this is discussed in Laura Weinstein, ‘The politics of government expenditures in Tanzania 1999–2007’, *African Studies Review* 54, 1 (2011) pp. 33–57.

10. Andrew MacIntyre, ‘Funny money: Fiscal policy, rent seeking and economic performance in Indonesia’, in Mushtaq Khan and Kwame Sundaram Jomo (eds), *Rents, rent seeking and economic development: Theory and evidence in Asia* (Cambridge University Press, Cambridge, 2001), pp. 248–73.

11. Transparency International UK, ‘The transparency of national defence budgets’ (Transparency International UK, Defence and Security Programme, London, 2011).

development path and the possibilities for constraining corruption can be found.

*The grand corruption cases*

The four grand corruption cases discussed here all occurred within the realm of public finances over the period of higher economic growth from the end of the 1990s until 2014, under the Presidencies of both Benjamin Mkapa and Jakaya Kikwete. Grand corruption in Tanzania, as elsewhere, occurs behind a veil of secrecy that is rarely punctured. My account of these corruption cases draws on numerous sources, including parliamentary debates and official government documents, interviews, analysis by non-government organizations (NGOs) and donors, US embassy cables released by WikiLeaks, media reports, and court cases relating to corruption. Nevertheless, the facts behind grand corruption remain contested by the parties involved. A further caveat with regard to data quality relates to the fact that all these sources are subject to political bias, particularly in Tanzania where there is considerable political shadow-play behind the legal wrangling and media accounts of corruption. The timing and manner of the exposure of these corruption cases can partly be explained by a number of specific developments within Tanzania's political economy over the decade. These include the rise of more plural and vocal media, which have been increasingly active in exposing and discussing corruption.<sup>12</sup> Parliament also became a more open forum for criticism of the ruling party, both from within the party's own ranks and from the emergent opposition, notably through the increasingly active presence of Chama Cha Demokrasia Na Maendeleo (CHADEMA). These changes may not have reduced the occurrence of grand corruption but they did shape the extent and way in which details of corruption have come into the open across the period.

While other smaller corruption scandals came to light over the same period as those discussed here, the importance of these four cases is that they give an unprecedented insight into the otherwise opaque inner political struggles at the top of the ruling party. The first case involved a deal with the British firm British Aerospace Engineering (BAE) for the purchase of a civil aviation radar system. The deal led to an international scandal in 1999, when investigators from the British Serious Fraud Office identified the deal as significantly corrupt and BAE was forced to pay 30 million pounds in fines. On the Tanzanian side, the deal was brokered by businessman Sailesh Vithlani and the investigators found that part of the considerable kickbacks paid to him by BAE was used to bribe senior government officials working

12. Miki Tanessi, 'Media power and political power in the war against corruption in Tanzania', *Journal of the Advancement of Journalism* 3 (2010), pp. 4–10.

in Mkapa's government.<sup>13</sup> The main political support for the deal appeared to come from a number of figures whose names were frequently associated with contemporary corruption scandals, including the Attorney General at the time, Andrew Chenge, as well as an ex-governor of the Bank of Tanzania, Dr Idris Rashidi.<sup>14</sup> While Mr Vithlani was pursued by local courts over this case, the Tanzanian Prevention of Corruption Bureau was hindered from pursuing cases against other senior political figures implicated in the affair.<sup>15</sup>

Grand corruption in public procurement also emerged within the energy sector where the Richmond scandal and the Independent Power Tanzania Limited (IPTL) scandal illustrate similar patterns of contention within the ruling party and links between senior party figures and domestic and international business. The details of the two cases are as follows. In June 2005, Tanzania Electric Supply Company Limited (TANESCO) advertised a tender for emergency power supply, but in February 2006 all the proposals, including one from a firm called Richmond Development Company LLC (Richmond), that previously had been involved in a failed attempt to construct an oil pipeline from Dar es Salaam to Mwanza, were rejected, as none of them showed sufficient competence and financial surety.<sup>16</sup> The main political support for Richmond allegedly came from Mr Msahaba, the Minister for Energy, and his successor Mr Nazir Karamagi, as well as from the prime minister, Edward Lowassa.<sup>17</sup>

Despite TANESCO's rejection, Mr Msahaba moved all tendering to his Ministry and Prime Minister Edward Lowassa instructed that officials in the Ministry of Energy and Minerals should disqualify other bidders and award the tender to Richmond.<sup>18</sup> Problems started shortly afterwards, however, as Richmond failed to achieve financial backing – and it was only with funds provided by the government that it was able to bring in a generator to

13. Tim Jarrett and Claire Taylor, 'Bribery allegations and BAE systems', Standard Note: SN/BT/5367 (House of Commons Library, Business and Transport Section and International Affairs and Defence Section).

14. British High Commission, 'Summary of Kiswahili Press, 1 April 2009' (British High Commission, Dar es Salaam, Tanzania, 2009).

15. United States Embassy, 'Big fish still risky catch in Tanzania', US Embassy Cables, 24 July 2007, <<http://www.guardian.co.uk/world/us-embassy-cables-documents/11643619>> (19 December 2010).

16. Republic of Tanzania, 'Report of the special committee of the Parliament of the United Republic of Tanzania of 13 November 2007 to investigate the criteria used to award the contract for the production of emergency electricity to Richmond Development Company LLC of Houston, Texas, USA in 2006' (Parliament of the United Republic of Tanzania, Dodoma, 2008).

17. Katharine Gratwick, Rebecca Ghanadan, and Anton Eberhard, 'Generating power and controversy: understanding Tanzania's independent power projects', *Journal of Energy in Southern Africa* 17, 4 (2006), pp. 39–56.

18. Angel Navuri, 'Cabinet dissolved' *The Guardian*, Tanzania, 8 February 2008, <<http://www.ippmedia.com/ipp/guardian/2008/02/08/107959.html#2/08>> (8 February 2008).

convert gas from Songo Songo into electricity, as it had agreed to do.<sup>19</sup> Later that year, the Prime Minister, Edward Lowassa, intervened to ensure that Richmond's contract was extended, despite contrary advice from TANESCO.<sup>20</sup> The ongoing electricity crisis and Richmond's failure to deliver electricity brought the company under scrutiny in Parliament and in the national media. By the end of 2006, Richmond was facing extreme difficulties in fulfilling its commitment to produce electricity and evidence emerged that the company had been completely unsuitable, both in terms of size and experience, as a provider of electricity.

Concerns over irregularities in the tendering process led to an investigation by the Prevention of Corruption Bureau, which announced that it had found no evidence of corruption. Nevertheless, within a few months a Parliamentary Commission was established to investigate the Richmond saga.<sup>21</sup> It concluded that there had been corruption in awarding the contract to Richmond. As a result, the Prime Minister Edward Lowassa tendered his resignation, as did Mr Msahaba and Mr Nazir Karamagi. The full political fall-out from the case was limited as the government issued a response to the report that exonerated all politicians and senior civil servants from wrongdoing. By 2011, the only person who had been prosecuted was one of Richmond's local agents, and he was acquitted by a local court.<sup>22</sup>

The other grand corruption scandal involving private energy procurement has its roots in a large power supply contract signed in 1995 between the IPTL and the government. Despite serious accusations of corruption surrounding the tendering process, an agreement was signed that tied Tanzania into an expensive deal that was not in the economic interests of the country.<sup>23</sup> Interestingly, there was evidence of opposition to the deal from within the state. A number of senior officials within the Ministry of Energy and Minerals opposed the deal, but other senior politicians supported IPTL. Brian Cooksey reported that at one point the Tanzanian Prevention of Corruption Bureau was close to pressing corruption charges over the case, but these never materialized.<sup>24</sup> The case was finally referred to the International Centre for Settlement of Investment Disputes (ICSID) in 1998 and TANESCO requested the ICSID to consider corruption charges in 2000. A number of

19. *Ibid.*

20. Parliament of the United Republic of Tanzania, 'Report of the special committee of the Parliament of the United Republic of Tanzania' (Government Printers, Dar es Salaam, 13 November 2007).

21. *Ibid.*

22. *The Citizen*, 'Why Richmond lone suspect is a free man', 28 July 2011, <<http://www.thecitizen.co.tz/news/51-other-news/13248-why-richmond-lone-suspect-is-a-free-man.html>> (28 July 2011).

23. Brian Cooksey, 'The power and the vainglory: Anatomy of a Malaysian IPP in Tanzania', in Jomo Kwame Sundaram (ed.), *Ugly Malaysians? South-South investment abused* (Centre for Black Research, K.S. Durban, 2002), pp. 47–76.

24. *Ibid.*

key officials from the Ministry of Energy and Minerals provided sworn statements. Finally, however, the charges of corruption were dropped, as the government failed to come forward with further substantiating evidence on corruption in the timeframe imposed by the ICSID, suggesting that there were disagreements within the state about pursuing the charges.<sup>25</sup> Controversy surrounding IPTL erupted again in 2014 when the Public Accounts Committee (PAC) was asked to investigate alleged fraudulent payments from an escrow account set up by TANESCO to the energy firm and to a number of senior CCM politicians.<sup>26</sup> To date, an MP and the Attorney General have resigned from their positions, three further MPs have resigned from their parliamentary duties, and the prime minister, also identified by the PAC as being involved in the scandal, has resisted pressure from Parliament to step down.<sup>27</sup> At the same time, key figures involved in IPTL have hit back, claiming that the PAC has used the case to settle political scores.<sup>28</sup>

While the Richmond and IPTL case involved just a handful of business people, another major corruption scandal in 2007, involving illegal payments from the External Payments Arrears account under the Bank of Tanzania, exposed a much wider set of links between the ruling party and businesses in the country. At the heart of the scandal was the Bank's commercial external debt account, set up to help service the balance of payments. Local importers could pay into the account in Tanzanian shillings and foreign companies could then be paid by the Bank of Tanzania in foreign currency. After its establishment, special measures had been introduced that allowed foreign creditors to assign payments to local companies.<sup>29</sup> Rumours of corruption started circulating on the Internet and, following pressure from development partners, the government asked Ernst

25. International Centre for Settlement of Investment Disputes, 'Before the International Centre for Settlement of Investment Disputes ICSID Case No. ARB/98/8. Tanzania Electric Supply Company Ltd (Claimant) and Independent Power Tanzania Ltd (Respondent) Final Award', 12 July 2001, <[http://icsid.worldbank.org/ICSID/FrontServlet?requestType=CasesRH&actionVal=showDoc&docId=DC578\\_En&caseId=C174](http://icsid.worldbank.org/ICSID/FrontServlet?requestType=CasesRH&actionVal=showDoc&docId=DC578_En&caseId=C174)> (1 September 2011).

26. Zitto Kabwe, 'How Pan Africa Power Ltd acquired Independent Power Tanzania Ltd for almost nothing and looted US\$124m from the Bank of Tanzania' (Briefing paper, Chair, Public Accounts Committee, 2014), <[http://www.tzdp.gov.or.tz/fileadmin/documents/dpg\\_internal/dpg\\_working\\_groups\\_clusters/cluster\\_3/governance\\_working\\_group/gwg\\_meetings/September\\_2014/IPTL\\_Brief\\_FINAL\\_edit.pdf](http://www.tzdp.gov.or.tz/fileadmin/documents/dpg_internal/dpg_working_groups_clusters/cluster_3/governance_working_group/gwg_meetings/September_2014/IPTL_Brief_FINAL_edit.pdf)> (3 January 2015).

27. Mussa Juma, 'How Pinda survived escrow scandal storm in Parliament' *The Citizen*, 1 December 2014 <<http://www.thecitizen.co.tz/News/-/1840392/2540870/-/ahjv3/-/index.html>> (15 January 2015).

28. Christopher Kidanka, 'Tanzania's PAC used escrow account scandal to settle scores – Rugemalira', *The East African*, 3 January 2015, <<http://www.theeastafrican.co.ke/news/Tanzania-PAC-used-escrow-account-scandal-to-settle-scores/-/2558/2577444/-/s08ixj/-/index.html>> (30 January 2015).

29. United Republic of Tanzania, 'National Audit Office Report of the Controller and Auditor General on the special audit performed by Ernst and Young in respect of the External Payment Arrears (EPA) Account during the financial year 2005/2006' (The United Republic of Tanzania National Audit Office, Dar es Salaam, January 2009).

and Young to undertake an audit into 'dubious payments' to local firms that had been made from the account.<sup>30</sup>

The firm identified US\$131 million in improper payments to 22 local firms. Five major banks were identified as having colluded in laundering the money. Dr Daudi Balali, the Governor of the Bank of Tanzania, who had previously worked for the IMF as well as advising the President of Tanzania, was directly implicated in authorising the payments and was forced to resign.<sup>31</sup> A number of the firms that received the money belonged to prominent business people with strong links to CCM and to senior members of CCM. The president issued an ultimatum that the stolen funds had to be repaid, and in 2008 it was announced to the media that most had been repaid, although who actually repaid money and how much remained a secret.<sup>32</sup> Some business people were later sent to prison. However the government was accused of protecting the business people who had links to the CCM,<sup>33</sup> particularly in relation to the firm that was a major recipient of corrupt External Payments Arrears disbursements, Kagoda Agriculture Limited,<sup>34</sup> which allegedly was associated with a very senior CCM politician.<sup>35</sup>

During the court cases it was reported that a significant proportion of the funds that had been disbursed as External Payments Arrears had been taken out of the country and kept in foreign bank accounts,<sup>36</sup> fuelling concern about the detrimental links between grand corruption and capital flight. Despite vacillation within the highest ranks of the party, in the end it pulled together to stop any further political implications for senior figures. Nevertheless, the case had significant reverberations within the factional politics of CCM. In April 2011, Rostam Aziz and Andrew Chenge were removed from the National Executive Committee but this group continued to have considerable support within the party at the national and local level. At the top of the party an internal fissure emerged between the so called CCM-*Safi* politicians, who had sought to expose these cases, and the so-called CCM-*Mafisadi* who had been associated with the EPA and Richmond scandal.

30. *Ibid.*

31. Asset Recovery Knowledge Centre, 'Bank of Tanzania (BoT) External Payment Arrears (EPA)' (Basel Institute on Governance, Basel, Switzerland, 2007), <<http://www.assetrecovery.org/kc/node/c3db0209-6a0e-11de-805d-551e161363cd>> (22 September 2010).

32. *Ibid.*

33. *Reuters Africa*, 'Businessmen jailed for Tanzania central bank fraud', 24 May 2011, <<http://www.af.reuters.com/article/topNews/idAFJ0E74N05F20110524>> (24 May 2011).

34. United Republic of Tanzania, 'National Audit Office Report of the Controller and Auditor General'.

35. *The Guardian* [Tanzania], 'Rostam Aziz resigns from NEC membership, Parliament', 14 July 2011, <[http://www.corruptiontracker.or.tz/dev/index.php?option=com\\_content&view=article&id=185%3Arostam-resigns-from-nec-membership-parliament&catid=18%3Acurrent-issues-&Itemid=51&lang=en](http://www.corruptiontracker.or.tz/dev/index.php?option=com_content&view=article&id=185%3Arostam-resigns-from-nec-membership-parliament&catid=18%3Acurrent-issues-&Itemid=51&lang=en)> (25 January 2012).

36. 'The EPA case', *Tanzania Affairs* 103 (September–December 2012), p. 8.

These cases had common features in terms of the actors involved and the dynamics of internal party politics. In each case there is evidence of struggles within the party over whether the questionable deals should go ahead and whether those implicated should be held to account. At the same time, despite the internal fissures exposed by these cases, none of the senior CCM politicians who were removed from their posts sought to create greater divisions by breaking from the CCM. In all of these cases the media accounts tended to focus on the Tanzanian Asian business partners and a handful of senior politicians, while the role of Tanzanian African business men, international businesses, and multinational companies received less attention. Prima facie, grand corruption in these cases led to inflated prices for procurement and financial loss for the government of Tanzania. The relationship between these cases and the wider processes of economic transformation unfolding in Tanzania is, however, much more complex than a simple trade-off between corruption and economic growth.

*The dynamics of intra-elite struggles within CCM*

The prevalence of grand corruption within public finance involving large infrastructural projects, foreign capital, and huge kickbacks to senior politicians follows a common path identified in many developing countries.<sup>37</sup> Yet the types of investment projects that Tanzania ended up accepting appeared to be particularly poor, compared for example to Vietnam<sup>38</sup> or Malaysia,<sup>39</sup> where similar patterns of corruption associated with infrastructural investments have been documented. Interestingly, in Tanzania's case there is ample evidence that senior figures within the party and government did attempt to prevent these corrupt procurement deals going through. The fact that these attempts failed was a result of the particular dynamics of factional politics within the ruling party. The factional nature of Tanzanian politics has been discussed mainly in terms of the ideological divisions within the CCM in the 1980s and 1990s over whether to pursue liberalization.<sup>40</sup> However, the type of factional politics that is exhibited in these cases has little to do with the earlier ideological divides. Nor do the factions within CCM map onto regional, ethnic, or clan-based cleavages. Instead, the networks within CCM are based on ties that were forged in schools and universities and were then consolidated through political careers within the institutions of the

37. Transparency International, 'Annual report 2010' (Transparency International, Berlin, 2011).

38. Nguyen Xuan Thah, 'Vietnam's infrastructure constraints, UNDP – Harvard policy dialogue papers' (Policy dialogue paper No. 1, Vietnam, January 2010).

39. Edmund Gomez and K. S. Jomo, *Malaysia's political economy: Politics, patronage and profits* (Cambridge University Press, Cambridge, 1999).

40. See for example Lofchie, *The political economy of Tanzania*.

state and ruling party.<sup>41</sup> At the same time, the distribution of power between factions within the ruling party involved in these cases appears to be relatively equal in so far as no one faction was able to dominate consistently within the National Executive Committee of the CCM over the period.<sup>42</sup>

Aspects of Tanzania's political settlement can explain these political features. Internally, the CCM is dominated by a narrow elite and, while there is churning amongst this group, the senior figures directly implicated in these scandals under both presidencies quickly returned to positions of influence within the party. Despite tensions, the narrow elite at the top of CCM collaborated to maintain its hold on power and avoid a damaging split in the party itself. On one level, the institutional centralization of the party constructed during the socialist period was clearly a factor in maintaining party cohesion and constrained internal factions from organising outside the party institutions.<sup>43</sup> At independence, the ruling party was poorly institutionalized with few resources at its disposal. It sought to overcome these institutional limitations by establishing a bureaucratized party structure down to the village level, consolidating control of the existing state bureaucracy under the party<sup>44</sup> and effectively integrating party institutions within the civil service.<sup>45</sup> These institutional features continued to exert a centripetal force on Tanzanian politics. Nevertheless, a focus on the degree of centralization of the institutions of the ruling party alone may be misleading, as the appearance of a relatively centralized political system was primarily the result of the wider distribution of power in which Tanzania's formal political institutions are situated.

The distribution of power in society relates to organizational capabilities that are not only held by those with institutional positions within political parties or by those with economic power. The capacity to mobilize people to achieve political ends also comes from past experience of political struggle. In particular, the nature of the independence struggle and processes of state formation in the years immediately after independence are critical to understanding the balance of power in post-colonial states. In Tanzania, as in many other developing countries, it was the members of intermediate classes,<sup>46</sup> made up of clerks and junior civil servants within the colonial administration and teachers, who were the key organizers of the independence

41. Max Mmuya, *Tanzania – Political reform in eclipse: Crisis and cleavages in political parties* (Friedrich Ebert Stiftung, Dar es Salaam, 1998).

42. Gray and Khan, 'Good governance and growth in Africa'.

43. Tanzania's political settlement was first described by Mushtaq Khan and Hazel Gray in 'State weakness in developing countries and strategies of institutional reform'.

44. Harry Goulbourne, 'The role of the political party in Tanzania since the Arusha Declaration', in Henry Goulbourne (ed.), *Politics and state in the third world* (Macmillan Press Ltd, London, 1979).

45. Pius Msekwa, *Towards party supremacy* (Eastern Publications, Arusha, 1979).

46. The term comes from Michael Kalecki, 'Observations on social and economic aspects of intermediate regimes', reprinted in Michal Kalecki, *Essays on developing economies* (Harvester Press, New York, NY, 1976).

struggle. They played the pivotal role in establishing the Tanganyika African Association (TAA) that later became the Tanganyika African National Union (TANU) and led the independence struggle. Yet the size of the intermediate class in Tanzania was small as a result of the limited size of the colonial state in Tanzania and the relatively egalitarian rural socio-economic structures that endured across the colonial period.<sup>47</sup> The type of struggles that occurred during the independence movement involved organized protests, non-cooperation with government policies, and strikes by trade unions. However, the struggle was essentially non-violent and primarily followed constitutional means to demand the handover of power. The relatively short and largely constitutional struggle that led up to Tanzanian independence in 1961 left the country with a muted experience of political mobilization. After independence the leaders of the independence struggle were absorbed within the institutions of the ruling party.

Therefore, the socialist period started with a limited distribution of power outside formal political institutions. The efforts to create a socialist system in the 1960s and 1970s further consolidated political power within the formal institutions of the ruling party by suppressing the emergence of other potentially powerful groups outside of the party structure, in particular by limiting the power of Native Authority structures,<sup>48</sup> and by controlling urban labour and the cooperative movement.<sup>49</sup> Hence, the distribution of political power in Tanzania maps onto the formal political institutions of the ruling party to a much greater extent than in other countries where power is organized along ethnic, regional, or class-based cleavages within and outside formal political institutions. One consequence of these features of Tanzania's political settlement was that even after the move to multi-party elections in 1995, the scope for political mobilization outside the ruling party structure was limited. The ruling party in Tanzania, therefore, did not have to deal with widespread political activism, whether organized along class lines or by multi-class networks led by intermediate class groups outside of the party structures. The lack of external opposition meant that a degree of centralized authority within the party could be maintained at relatively low cost.

These features of Tanzania's evolving political settlement provided a stable overall political architecture and the appearance of centralized authority. However, the consolidation of power within the formal political

47. The implications of rural socio-economic differentiation for the characteristics of political struggle are explained in Barrington Moore, *Social origins of dictatorship and democracy* (Beacon Press, Boston, MA, 1966).

48. Cathy Boone and Lydia Nyeme, 'Land institutions and political ethnicity in Africa: Evidence from Tanzania', *Journal of Comparative Politics*, 2015 (forthcoming).

49. Issa Shivji, *Class struggles in Tanzania* (Heinemann Educational Books, London, 1976); Andrew Coulson, *Tanzania: A political economy* (Oxford University Press, Oxford, 1982).

institutions of the ruling party did not mean that there was an effective hierarchical or centralized authority structure within the party. In Tanzania, regardless of the formal constitutional rules, power is not centralized around the president. In contrast to the findings of pervasive presidentialism in many African countries,<sup>50</sup> the Tanzanian case suggests that behind the formal constitutional rules, power is considerably fragmented even at the top of a dominant party system. Despite the appearance of centralized authority, neither the president nor any one particular faction could enforce its particular agenda within the ruling party. Factions within the CCM that emerged to contest or protect flows of resources from grand corruption were weak *vis-à-vis* each other. The limited distribution of political power outside the party meant that senior political figures within CCM could not tap into politically mobilized groups outside of the ruling party framework in battles for influence within the CCM.

As a result, the apparent strength of the CCM relates more to the limited distribution of political power outside the party, than to the CCM itself having a very strong centralized power structure. The weak but stable political settlement in Tanzania of the 2000s allowed a number of very problematic deals to be made that were opposed by some senior figures within the ruling party. The extent of controls on grand corruption that was feasible under Tanzania's political settlement in the 2000s contrasts with the more effective disciplining of rent-seeking processes that occurred in successful East Asian developers. Under these political settlements, during the early periods of rapid economic transition in the 1970s and 1980s, leaders at times allowed high-level corruption to occur to ensure political stability, but also had the power to ensure that the outcomes of corrupt procurement deals were broadly in line with wider economic development objectives.<sup>51</sup>

Economic transformation is an ongoing process in Tanzania. With an increasing pace of accumulation and growing inequality and socio-economic differentiation under liberalization, the stable political dynamics that sustained CCM are likely to change. In particular, the ability of certain factions within CCM to tap into financial resources and influence local candidate selection within CCM, as was witnessed in 2013,<sup>52</sup> may tip the balance of power within the party towards one particular faction. The implications of this for CCM cohesion, as well as for the pace and nature of socio-economic change, will not be determined primarily by the personal character traits of the political actors involved in these factional struggles. Rather, it will

50. Nicolas van de Walle, 'Presidentialism and clientelism in Africa's emerging party systems', *Journal of Modern African Studies* 41, 2 (2003) pp. 297–321.

51. Ha Joon Chang 'The political economy of industrial policy in Korea', *Cambridge Journal of Economics* 17 (1993), pp. 131–57.

52. Oxford Analytica, 'Tanzania: Kikwete struggles with CCM factionalism' (Oxford Analytica, Oxford, 2 December 2009).

depend on the interaction of elite politics with patterns of accumulation in the economy and wider dynamics of political change that occur outside the institutions of the ruling party.

*State–business relations and grand corruption*

The relationship between the foreign and the local private sector and the state has changed in significant ways since the shift towards economic liberalization from the mid-1980s and the gradual lifting of restrictions on private accumulation and foreign investment. Much of the analysis of the relationship between the state and business has focused on changes to the formal institutional position of the private sector in Tanzania's political and economic system. These changes included the introduction of the Tanzania Business Council, the increasing number of CCM politicians with a background in business,<sup>53</sup> and the extensive processes of privatization across the economy that saw a return of assets to many of the pre-*Ujamaa* owners.<sup>54</sup> Yet the corruption cases discussed above suggest that there were also extensive informal relations between the top leadership within the ruling party and prominent members of Tanzania's small domestic private sector.<sup>55</sup> The media accounts of these corruption cases focused in particular on Tanzanian Asian business owners who have held a prominent position within Tanzania's private sector since independence. The importance of this group within the private sector grew out of the racially structured economy that was constructed across East Africa initially under colonialism and then in the immediate post-independence years prior to the Arusha Declaration.<sup>56</sup>

The informal relations between business and the ruling party are perhaps as important as the changing formal position of domestic business for explaining Tanzania's economic experience over the decade. However, I argue that the informal associations between large and medium-sized business owners and party officials that are exposed in these cases of grand corruption emerged from much deeper historical roots than is recognized in accounts that focus primarily on Tanzania's political economy after liberalization.<sup>57</sup> These relations were illustrated in the corruption scandal

53. Max Mmuya and Amon Chaligha, *Political parties and democracy in Tanzania* (Dar es Salaam University Press, Dar es Salaam, 1994).

54. Peter Gibbon, *Liberalised development in Tanzania* (Nordic Africa Institute, Uppsala, 1995).

55. An anonymous document that was circulated on the Internet in 2007 caused a stir by setting out these ties in great detail. While some of the accusations are backed up by the sources discussed in this article, the document makes further links that are difficult to verify on the basis of the material available about these particular corruption cases. This document is discussed in detail in Aminzade, *Race, nation and citizenship in post-colonial Africa*, pp. 337–48.

56. *Ibid.*

57. For example, see the account of state–business relations in Kelsall, *Business, politics, and the state in Africa*.

involving the Bank of Tanzania External Payments Arrears account, where a number of the businesses involved appeared either to have had direct links to politicians or were owned by people with ties to the ruling party that developed during the *Ujamaa* era.

In the *Ujamaa* period, the ruling party attempted to forge a more egalitarian economy by restricting the formal economic and political power of international business and the predominantly Tanzanian Asian domestic business community through nationalization and by placing limits on private trade. Yet in a longer-term perspective, the limits on the private sector were relatively short-lived and economic policy often simply overlooked the existence of the private sector.<sup>58</sup> Severe constraints on the material and technical resources under the control of the state also limited its ability to bring about a thorough transformation of economic power under *Ujamaa*. Thus, the attempts to create socialism in the 1960s and 1970s had much less impact on the distribution of economic power in Tanzania in comparison with its impact on shaping the distribution of political power, as set out above. The result was that a proportion of economic activities, particularly in the industrial sector, remained in private hands throughout the period,<sup>59</sup> and, while they operated under risky conditions, Tanzanian Asian businesses continued to play a role in the economy throughout this period.

Similar developments occurred in the political sphere: while the political discourse of the period increasingly portrayed the Tanzanian Asian business class as enemies of *Ujamaa*,<sup>60</sup> there were a handful of prominent figures from the Tanzanian Asian community who held positions of formal power within the ruling party.<sup>61</sup> Their access to formal political power, albeit limited, contrasts with the lack of access to formal political positions for Kenyan Asians who were faced with a much stronger emerging Kenyan African business class over the same period.<sup>62</sup> Even under *Ujamaa*, beyond the formal institutional positions, informal relations also existed between those holding political power within the state and those with access to economic resources and trade networks. This was manifested in illegal

58. Jeanette Hartmann, 'The rise and rise of private capital', in Neil O'Neill and Kemal Mustafa (eds), *Capitalism, socialism and the development crisis in Tanzania* (Gower Publishing Company Limited, Aldershot, 1990).

59. P. K. Balachandran, 'An embattled community: Asians in East Africa today', *African Affairs* 80, 320 (1981), pp. 317–25.

60. James Brennan, *Taiifa: Making nation and race in urban Tanzania* (Ohio University Press, Athens, OH, 2012).

61. Lionel Cliffe, *One party democracy* (East African Publishing House, Kampala, 1967); Coulson, *Tanzania: A political economy*.

62. Daniel Branch, *Kenya between hope and despair, 1963–2011* (Yale University Press, New Haven, CT, 2011).

racketeering<sup>63</sup> and a number of political scandals that came to light in the early 1980s.<sup>64</sup>

Thus, an important and enduring aspect of Tanzania's political settlement that came to the fore during the grand corruption cases in the 2000s was the entrenched informal relations between Asian Tanzanian businesses and the ruling party. However, these relationships had their roots in economic developments not only of the early 1960s but across the whole period since independence, including during the *Ujamaa* period. The small size of the domestic economy meant that there were few alternative sources of financing for the ruling party. The same business groups remained important for the ruling party under both presidents. The continued backing of important business figures for the CCM throughout liberalization reflected the continuing capacity of the ruling party to absorb potentially powerful groups and limit the opportunities for political mobilization outside its own institutional framework.

Yet the ability of the ruling party to absorb important business figures did not override the political difficulties involved in channelling resources to a group that held limited political legitimacy with the broader public. This played out, amongst other things, in the tardy provision of targeted infrastructure for industrial development, despite official commitments, across most of the decade.<sup>65</sup> Ironically, the EPA scandal demonstrated that informal transfers to the domestic private sector were perhaps easier to organize than the formal mechanisms for financing industrialization. Effective formal mechanisms for subsidizing industrialization would have required a more coordinated effort to transfer resources to domestic capitalists, but given the limited political legitimacy of this group within the political settlement, such open transfers were not politically feasible during the period in question.

#### *Grand corruption and accumulation*

Corruption is normally assumed to have negative economic implications and to lead to lower levels of investment.<sup>66</sup> However, building on the Marxist concept of primitive accumulation, resources generated by grand corruption can potentially feed back into forms of investment and hence

63. Ted Luta Maliyamkono and Bagachwa Mboya, *The second economy in Tanzania* (James Currey, London, 1990).

64. Aili Tripp, *Changing the rules: The politics of liberalization and the urban economy in Tanzania* (University of California Press, Berkeley, CA, 1987).

65. Hazel Gray, 'Industrial policy and the political settlement in Tanzania: Aspects of continuity and change since independence', *Review of African Political Economy* 41, 136 (2013) pp. 185–201.

66. Paulo Mauro, 'Corruption and growth', *The Quarterly Journal of Economics* 110, 3 (1995), pp. 681–712.

influence the overall pace and character of economic transformation.<sup>67</sup> The implications for economic development of grand corruption will, therefore, be shaped by the types of investment that are associated with resources generated by the illegal appropriation of assets. In Tanzania, the impression in the media and in parliamentary discussions was that rather than funding local investment in productive activities, corrupt forms of accumulation associated with these scandals mainly resulted in capital flight. The extent to which grand corruption leads to local investment as opposed to capital flight is partly a result of international systemic factors, such as financialization within the global economy.<sup>68</sup>

However, the relative power of different groups to protect their investments also influences the incentive structure for local investment. This means that national level political settlements also affect the degree of capital flight that is associated with grand corruption. Evidence from Tanzania on the specific link between grand corruption in public finance and capital flight is patchy and equivocal. Anecdotal evidence of capital flight emerged from the court cases discussed above and in parliamentary discussions on the impact of corruption in Tanzania.<sup>69</sup> However, James Boyce and Leonce Ndikumana's detailed analysis of capital flight on the continent places Tanzania's capital flight at a lower level than other African countries with similar-sized economies.<sup>70</sup> Such evidence gives credence to the argument that incomes generated by grand corruption did not simply flow out of the country, but that a proportion of these resources was also used to invest in the local economy. Indeed, a growing proportion of investment was financed from domestic savings across the 2000s.<sup>71</sup> Further, the close informal relations between members of the domestic business sector and officials within the ruling party described above may have facilitated the channelling of some off-budget transfers to local investment, particularly in the urban construction boom.

Nevertheless, Tanzania's political settlement in the 2000s led to a very different experience from some other high-growth late developers such as Vietnam. In Vietnam, as in Tanzania, the party institutions created during the socialist period have endured and provide a strong institutional

67. In *Capital*, Volume One (Penguin Books, London, 1990), Karl Marx argued that extensive primitive accumulation occurred in the establishment of capitalism; but in contemporary contexts primitive accumulation refers to illegal and non-market processes of accumulation.

68. Sam Ashman, Ben Fine, and Susan Newman, 'Amnesty international? The nature, scale and impact of capital flight from South Africa', *Journal of Southern African Studies* 37, 1 (2011) pp. 7–25.

69. Rodgers Luhwago, 'House orders government to probe stolen Swiss billions', *The Guardian*, 10 November 2012, <<http://www.ipppmedia.com/frontend/?l=47841>> (15 December 2012).

70. Leonce Ndikumana and James K. Boyce, *Africa's odious debts: How foreign loans and capital flight bled a continent* (Zed Books, London, 2011).

71. Republic of Tanzania, 'National Accounts of Tanzania mainland 2001–2011' (National Bureau of Statistics, Dar es Salaam, 2012).

framework that gives an appearance of centralized authority. Nevertheless, while power maps onto the institutions of the ruling party, the central leadership is often unable to clamp down on corruption within the ruling party and, as in Tanzania, the ruling party does not exhibit the capacity for centralized control of corruption. However, in the case of Vietnam, the dense institutional and political legacy of the socialist state at the local level provided multiple links between financial and party institutions that facilitated the channelling of resources generated through corruption into productive investments, albeit often with low levels of transparency and efficiency.<sup>72</sup>

Tanzania's socialist period left a much stronger institutional framework of the state compared to many other African countries. In comparison to Vietnam, however, the political and economic institutions that survived under liberalization in Tanzania were much less dense, making collective action by state officials and business to channel resources into productive activities more difficult. In Tanzania, there was neither the centralized authority within the ruling party to influence grand corruption nor an institutional framework for economic activities within the state that could have been used to channel resources generated through corruption into more productive investments. Thus, the type of primitive accumulation associated with corruption in public finance in Tanzania mainly led to unequal processes of individual enrichment rather than supporting the broader economic transformation needed to create jobs and reduce poverty.<sup>73</sup>

### *Conclusion*

The objective of this article was to examine the drivers and consequences of grand corruption in public finance in Tanzania over the period of rapid economic growth from the end of the 1990s. I draw on an analytical framework derived from the political settlements approach to bring out a number of facets of four grand corruption scandals that challenge existing interpretations of Tanzania's political economy. Grand corruption has been resistant to anti-corruption reforms across Africa, but the reasons for this intractability are actually quite unique to different countries, depending on how power is distributed within and outside formal institutions. In Tanzania, grand corruption is difficult to constrain because different factions within the ruling party hold equal weight and neither the president nor any particular faction is able to dominate within these elite struggles. The article

72. Hazel Gray, *Economic development and the legacies of socialism: Tanzania and Vietnam at the turn of the 21st century* (Oxford University Press, Oxford, forthcoming).

73. Government of the United Republic of Tanzania, 'Economic transformation in the making: Going beyond growth', in *Tanzania Human Development Report 2014: Economic transformation for human development* (UNDP and Ministry of Finance, Tanzania, 2015), pp. 58–72.

argues that the ongoing cohesion of the ruling party in the face of elite struggles exhibited in these corruption cases was not simply the result of the institution building of the party that occurred during the *Ujamaa* period. Cohesion was also the result of particular features of Tanzania's distribution of power, in particular, the relatively constrained experience of political mobilization and limited socio-economic differentiation that characterized Tanzania for most of the twentieth century. These political dynamics remained remarkably consistent under both presidents and are likely to continue to shape the nature of elite struggles within the ruling party even after the elections this year.

The cases of grand corruption examined also provide insights into the changing relationship between capital and the state over the decade. The domestic private sector and the ruling party have had much closer relations than is recognized in many accounts of Tanzania's political economy that focus on the institutionalized relationships between the private sector and the state. Informal relations that pre-dated the liberalization era became solidified through various formal institutional fora across the 1990s and 2000s. However, public animosity towards the predominantly Tanzanian-Asian business community endured over the period. This made it difficult for the ruling party to target larger transfers of finance to the development of domestic businesses through formal public financing mechanisms. Off-budget transfers in the form of grand corruption may have supported some forms of economic investments, but these flows were too fragmented and inadequate to overcome the high costs associated with bringing about a more rapid pace of structural change in the economy.

A key insight that emerges from the political settlements analysis presented here is that the policy responses of the donor community to grand corruption in Tanzania, in particular the halting of aid disbursements, are likely to continue to be ineffective in stopping grand corruption. This is because such policies are based on the assumption that grand corruption can be stopped once rationally maximizing leaders have more to gain by clamping down on corruption than by letting it continue. In reality, the ability of the ruling party to effectively constrain corruption is shaped by the nature of elite struggles and their interaction with the wider distribution of power in society. Nevertheless, a political settlements approach does not support the crude idea that the possibility of reducing grand corruption in Tanzania simply depends on achieving economic development. This is because political movements as well as economic structures shape distributions of power in society, which in turn influence the feasibility of different anti-corruption agendas. This analysis of the drivers of corruption implies an approach to political and economic reform that falls far outside the remit of donor-led anti-corruption initiatives.

Beyond the intra-elite struggles within the CCM examined in this article, other social forces are emerging in Tanzania that challenge the existing distribution of power and the formal institutional framework of the state. These are manifested in protests over land rights, religious grievances, payments for public sector workers, and student loans.<sup>74</sup> The mobilization of new social forces will interact with existing structures of elite politics, leading to changes in the balance of power within the CCM and upsetting the equilibrium within the existing factional networks. However, such new political forces could also overturn the existing order by providing a focus for consolidation outside the existing institutional framework. In either case, a significant redistribution of power would result that might constrain grand corruption, at least in the short term. Yet popular political movements against grand corruption are embedded within a range of different political and economic agendas. The anti-corruption agenda promoted by donors in Tanzania over the past twenty years has gone hand in hand with efforts to promote economic liberalization. Whether these political movements will also be aligned to the liberal economic agenda of the existing political parties and donors is far from certain.

74. Emmanuel Onyango, 'Dar business district turns into battle field', *The Guardian*, Tanzania, 20 October 2012, <<http://www.ippmedia.com/frontend/index.php?t=47112>> (30 October 2012); Siri Lange, 'Land tenure and mining' (CMI Report, Chr. Michelsen Institute, Bergen, 2008); Amnesty International, *Annual Report 2013: The state of the world's human rights – Tanzania* (Amnesty International, London, 2014).