'Regimes of capitalist accumulation': A novel approach to analysing diversified business groups in Tanzania

Credit: David Stanley, Dar es Salaam, Tanzania

Key messages

- Analysing the growth of diversified business groups (DBGs) through a framework of 'regimes of capital accumulation' (RCAs) can help us understand how different sets of policies and institutions lead to (in)efficient allocation of rents, and therefore to different development outcomes.
- In Tanzania, various RCAs have enabled DBGs to have precedence over other businesses as 'market makers' and 'rents extractors'. The RCAs continue to define the characteristics and business models of DBGs, and the development of DBGs, in turn, has driven change within the RCAs.
- The current Tanzanian government has promoted reforms to try to curb the rise of unproductive rents, but this has not happened across the board. Instead, rents have been shifted from some areas to others, generating opportunities for certain DBGs while closing avenues for others.
- Governments can incentivise pro-development behaviour by DBGs, including by promoting the productive allocation of rents

What is ACE?

The Anti-Corruption Evidence (ACE) research consortium takes an innovative approach to anti-corruption policy and practice. Working with a multi-country coalition of 12 partners over five years, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

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Diversified business groups (DBGs) have played an important role in industrialisation in developing countries, and they continue to have an impact on economic growth, including through their reinvestment of rents in productive or non-productive activities. DBGs, like the private sector more broadly, can be enablers of structural change or obstacles to efficient industrialisation. Despite this, there is surprisingly little information available on DBGs in developing countries, including in corporate literature.

To help fill this gap, the Anti-Corruption Evidence (ACE) research consortium has carried out the first comprehensive review of DBGs in Tanzania, using a framework of ‘regimes of capital accumulation’ (RCAs) (Andreoni and Sial, 2020). This framework draws on three strands of literature – theories of business group diversification, regulation theory, and political settlements. Bringing the political settlements approach into the analysis is particularly important because it helps explain the two-way relationship between businesses and policies and institutions, as mediated by the relative power of different organisations (the ‘political settlement’). A specific ‘political settlement’ determines which business groups are able to capture more or less rents, and is itself shaped by the evolution of different business groups.

An RCA results from the combination of a political settlement, a system of policies and institutions, and a set of specific accumulation processes and strategies within business groups. An RCA is, therefore, historically and country-specific, and it is semi-stable. Exploring the emergence and strategies of DBGs through RCAs helps shed light on how various combinations of policies and institutions may lead to either efficient or inefficient allocation of rents, and to different development outcomes.

Box 1: The structure and function of diversified business groups

DBGs are conglomerates that encompass a variety of inter-linked, market-based economic activities, which are organised to complement the overall operation of an entire business.

At early stages of capitalist development, businesses’ productivity is restricted as a result of their limited productive, technological and organisational capabilities, as well as their adverse operating environment. In such a context, the DBG structure offers a number of functions that enable capital accumulation:

- *Rent-seeking and profit-making within and across several sectors:* by structuring a business as a DBG, it is possible to respond to different incentives and ‘capture rents’ across several sectors and segments of the economy at the same time.
- *Organisational integration of rents:* DBGs’ portfolios may include businesses that are purely rents-driven and businesses that respond to market incentives and opportunities. The groups can shift resources between these businesses, transforming rents-driven businesses into market-competitive businesses.
- *Formal and informal strategic control and influence:* DBGs allow powerful individuals to exercise their influence over a long tail of activities, regions and groups, and within several clientelistic networks, beyond formal ownership.

Shifting regimes of capital accumulation in Tanzania

Different sets of policies and institutions have allowed Tanzanian DBGs to initiate their businesses in the early stages of industrialisation and to consolidate their operations and diversify. RCAs have enabled DBGs to have precedence over other businesses as ‘market makers’ and ‘rents extractors’ and continue to define DBGs’ contemporary characteristics and distinct business models. The ACE working paper, *Not business as usual: The development of Tanzanian diversified business groups (DBGs) under different regimes of capitalist accumulation* (Andreoni and Sial, 2020) defines the RCA framework more fully. It explores four RCAs and the development of DBGs from the time of British colonialism in East Africa through to today.

The early years of corporate evolution in Tanzania

The colonial period played an important role in setting up capitalist accumulation processes in Tanzania. Like the rest of East Africa, the colony’s capital accumulation regime was oriented towards the export of commodities and the import of finished goods from Europe. Tanzania’s transition from colonialism to independence did not sever its links with colonial capital, and the economy remained dependent on foreign investors.

In 1967, the government implemented the Arusha Declaration and officially adopted a state-led development model. The government’s pursuit of complete ownership of means of production included the nationalisation of all banking and insurance, trading companies and sisal plantations. But the quest for a pure form of socialism was contingent on the presence of strong indigenous capital and a sophisticated industrial infrastructure, both of which Tanzania lacked. This limitation meant that the nature of accumulation was dependent on foreign capital in various forms – so while nationalising many (though not all) sectors, the state also pursued joint ventures with multinational corporations.

By the second half of the 1970s, economic difficulties led to a pro-liberalisation consensus among some political and business elites. The 1980s saw the unravelling of Tanzania’s centralised bureaucratic model and the implementation of policies which would lead to a steady reversal of the Arusha doctrine. Full liberalisation of the economy was initiated in 1985, with the election of a new president.

RCA 1: Regulatory reversal of socialist policies (1985–1990)

The period from 1985 to 1990 created the first lasting framework for Tanzania’s business capitalist accumulation. The Chama Cha Mapinduzi (CCM) ruling party gradually transformed its socialist roots and formed a new capitalist alliance with business elites.

By the mid-1980s, many individuals were already involved in informal and illegal activities to supplement their incomes, and significant private entrepreneurial activities were taking place. In the presence of this mushrooming ‘second economy’, the state began implementing liberal and market-centred reforms, using incentives and rents specifically targeted at businesses. The 1986 government-led Own-Import Scheme, which allowed businesses to obtain foreign exchange from sources other than the Bank of Tanzania, was transformative in enabling the rise of Tanzania’s indigenous businesses. This was complemented by the Export Retention Scheme, designed to incentivise businesses to invest in export-focused sectors. Export production incentives were additionally supplemented by the Debt Conversion Programme, aimed at reducing Tanzania’s foreign debt.

RCA 2: Experimenting with free market policies (1990–2005)

The period between 1990 and 2005 was defined by privatisation, the deepening of liberalisation in multiple sectors, and the creation of new markets. Privatisation was a highly politicised process, and a lack of technical capacity and governance failures led to hasty transfers.

DBGs acquired key parastatals, as well as a large proportion of real estate such as rental properties, warehouses, agriculture farms, transport companies and other assets. State-owned firms appropriated by DBGs brought investment gains, which materialised as industries matured over time. Reforms in major sectors confounded the impact of the acquisitions, and the rents accumulated by the DBGs during this period were extreme. In some cases, the rents were completely unproductive and did not lead to any socio-economic structural transformation. In other cases, they were reinvested and led to the creation of entire industries from scratch.

RCA 3: Unproductive rents and DBGs (2005–2015)

Between 2005 and 2015, CCM politics reoriented towards an enhanced liberal agenda. State–business relations were strengthened, including through the arrival of key business people in politics and tax exemptions granted to companies. President Kikwete’s government negotiated the expansion of key DBGs in neighbouring countries, including the setting up of preferential trade deals, export exemptions and access to agriculture farmlands in East and South Africa.

Efforts to increase access to East African markets were accompanied by the implementation of trade regulations under the Common External Tariff (CET) – adopted by Tanzania and other East African Community (EAC) countries in 2007 to ensure that all countries in the bloc harmonise their tariffs for stability in international trade and to promote regional trade.

But the harmonisation was limited. Tanzania, like other EAC members, applied exemptions of tariffs for certain imports as a result of business lobbying. Today, nearly all of the exempt products in Tanzania are used by the leading DBGs in their production, manufacturing and processing value chains.

The creation of the EAC led to increased opportunities for rents capture, both directly, through smuggling products within a country, and indirectly, through re-exporting smuggled products across the region. Those businesses that had established trading relationships and had cumulated significant liquidity intensified operations in the lucrative import market and used national exemptions with the EAC to capture rents.

Overall, this period saw an increase in the concentration of leading DBGs and the exacerbation of monopoly in some sectors. On-going liberalisation and the changing structure of global investment also allowed DBGs to adapt their production-centred business models towards more financial sectors. Experimentation with private equity, investing to sell for foreign shareholders or multinational corporations, and mechanisation of value chains became an avenue of diversification, often at the cost of reinvestment in productive sectors.

RCA 4: The path to a new regime (2015 – present)

The election of President Magufuli in 2015 led to a break in CCM politics and opened the path to a new RCA. But, despite a strong message of discontinuity and the promotion of reforms, the new government has not been able to systematically curtail the rise of unproductive rents. Instead, old and new rents have been created or shifted from some areas to others, generating opportunities for some business groups while closing avenues for others.

Nevertheless, with respect to DBGs, three key changes can be seen. First, an enhancement in tax collection, with the introduction of measures aimed at fighting smuggling, tax avoidance and other rents-capture practices, has gone hand in hand with retroactive punitive measures aimed at re-establishing government fiscal and expenditure capacity. While these measures have pushed some businesses towards compliance and reconsideration of their business models, other businesses groups that were highly dependent on previous clientelistic networks and rents capture have collapsed.

Second, there has been an emergence of selective bespoke deals that are conditional on productive investments. While politics has played an important role in determining who has been allocated what rent, the DBGs were differently prepared for this shift – some had better leveraged their competitive advantages and were ready to engage the government under different terms while others were not. Third, privatisation has been increasingly contested and DBGs have seen significant rents sources under threat for the first time. In particular, the government’s threat to repossess land which is held without productive investments or for speculative purposes has raised major concerns.

Development of Tanzania’s DBGs

The development of Tanzania’s DBGs has been both a response to and a driver of change within the RCAs. The 1980s saw the emergence of several DBGs. During the 1985–1990 and the 19902005 regimes, DBGs mainly relied on a combination of rents capture and profit-making activities. However, given the informal nature of the economy and the semi-stable configurations of policies and institutions, the business groups could not focus on a long-term strategy of business development and diversification. In an economy dominated by rents, emerging business groups developed capabilities that allowed them to become extremely responsive to rents opportunities.

With the expansion of domestic markets, business groups gradually learned how to make their enterprises profitable. In some cases, they began leveraging cumulated rents to reinvest and to shift towards a more systematic organisational integration of rents. This integration required the development of new capabilities that the business groups did not have in the past.

During the next two RCAs, between 2005 and 2015, the loose allocation of rents and the dominance of unproductive rents capture paved the way for divergent pathways both within and across DBGs. In some cases, rents opportunities pushed investments towards new sectors. In other cases, DBGs developed related diversification businesses, often anchored to agro-food industries or extractives.

The most recent RCA phase has presented both opportunities and challenges to DBGs. A number of them have managed to align their business strategies to government efforts. Others have chosen an exit option, and have identified market opportunities in the region as new avenues for investments.

Implications for other developing countries

The RCA framework can be used to understand DBG activity and related outcomes in developing countries beyond Tanzania.

First, industrialisation was a very different experience for developing countries than for advanced economies, not least in terms of the obstacles to ‘catching up’ in international markets. The structure, expansion and complexity of DBGs in developing countries not only vary according to different socio-economic and political contexts, but also as a result of the combination of formal and informal settings in which they operate. DBGs have played, and continue to play, an important role in the structural transformation of developing countries’ economies. Their capacity to contribute towards industrialisation and regional integration can aid understanding of the business environment in late industrialisation.

Second, rents, as an outcome of state–business relations, can lead to different developmental trajectories. Analysing DBGs over time through RCAs raises questions about the conditions which lead to efficient and inefficient rent allocation. The structural constraints of late-industrialisation in developing countries and the expansion of DBGs can result in business groups playing a more central role in determining, as well as responding to, market incentives – DBGs may remain largely rents-driven or they may reinvest rents in more productive ways.

Third, governments may be able to incentivise pro-development behaviour by DBGs. While the ability of different DBGs to instrumentalise rents towards productive and unproductive activities is an ultimate measure of their individual contributions towards economic growth, the state can create conditions that promote productive investment of rents.

References

Andreoni, A. and Sial, F. (2020) *Not business as usual: The development of Tanzanian diversified business groups (DBGs) under different regimes of capitalist accumulation*. SOAS-ACE Working Paper No. 22.- London: SOAS University of London.

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About the Anti-Corruption Evidence (ACE) Research Consortium:

ACE takes an innovative approach to anti-corruption policy and practice. Funded by UK aid, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real, and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

ACE is a partnership of highly experienced research and policy institutes based in Bangladesh, Nigeria, Tanzania, the United Kingdom and the USA. The lead institution is SOAS University of London. Other consortium partners are:

- BRAC Institute of Governance and Development (BIGD)
- BRAC James P. Grant School of Public Health (JPGSPH)
- Centre for Democracy and Development (CDD)
- Danish Institute for International Studies (DIIS)
- Economic and Social Research Foundation (ESRF)
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ACE also has a well established network of leading research collaborators and policy/uptake experts.

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