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## A democratic purge? Financial scandals and political turmoil in Tanzania

*In East Africa, Tanzania is the blue-eyed boy for international donors, who have been overjoyed to see the former socialist country enthusiastically embrace a strictly capitalist economy of free market (1985) and a pluralist political system (1992). It is the respect for the conditions accompanying the disbursement of financial aid, combined with significant investments in the education and health sectors, that earned the country a particularly high rate of gifts, loans and all sorts of international aid.<sup>1</sup> The two recent scandals of the Bank of Tanzania and Richmond have just shattered this illusion. These two scandals brought to light the fact that the country, especially governmental bodies and public services, were not exempt from corruption, embezzlement of funds and other illegal practices— which is an undeniable fact. But apart from stating the obvious, these two scandals stood out by the wave of unprecedented resignations of members of the cabinet and senior governmental officials, followed by the springing up of cumbersome political and financial scandals from all quarters for the well-regarded government and politicians. Are these developments an indication of the sensational entry of real democratic governance based on the principles of transparency and morality? Are these well-thought out political strategies rather a continuation of practices modelled on the tradition of authoritarianism<sup>2</sup> to which the State has had recourse since independence? A revisit of these events attempts to question the new governance practices, their actors and the challenges they raise in a relatively new political and economic context.*

The events that recently rocked the country caught the attention of the local media in November 2007. A financial audit of the Central Bank of Tanzania carried out by Ernst and Young (an international firm) revealed that more than Tz Sh 133 billion (approximately € 70 million) were siphoned off from funds intended for external debt payment (External Payment Arrears account, or EPA account). The money was used to make illegal payments to about 20 national and foreign private enterprises. Some of these businesses were fictional while the others belonged to prominent business men and government officials.<sup>3</sup> After these revelations, the President of Tanzania, Jakaya Mrisho Kikwete dismissed the Central Bank Governor, Daudi Ballali<sup>4</sup> on 9 January 2008, who is said to have fled to the United States. Jayantibhali Kumar Patel, Chairman of Noble Azania Ltd which was among those accused of having benefited from the generosity of the Central Bank, investing heavily in agriculture (tobacco,

sugar-cane, maize), shoe-making, telecommunications and more recently, in the banking and mining industries, is today under attack by the critics. The embezzlement of public funds has for several months cosseted a second dubious deal involving the same protagonists. This concerns the construction of 17-floor smoked-glass twin towers at the Central Bank, in Dar es Salaam city centre. An audit has been called to reveal the misappropriations that led to the increase in construction costs from an initial estimate of \$ 200 million to more than \$ 420 million a year later.

During the same month of November 2007, a second scandal tarnished the political class. It led to massive resignations of the following officials: the Prime Minister, Edward Lowassa (2006–2008); the Minister for East African Cooperation, Ibrahim Msabaha (formerly Minister for Energy and Minerals); Minister for Energy and Minerals, Nazir Mustafa Karamagi; his Permanent

Secretary, Arthur Mwakapugi; Minister for Justice, Johnson Mwanyika; the Commissioner of Energy, Bashir Mrindoko; and the Director of the Prevention and Combating of Corruption Bureau (PCCB), Edward Hoseah. This entire matter had begun in February 2006 after a long period of drought throughout the country which drastically limited the production of hydro-electricity. The national electricity-generating company TANESCO (Tanzania Electric Supplies Company) was obliged to ration electricity in the main towns of the country. The government therefore decided to form a special team whose mandate was to decide between the offers from independent electricity providers. The Richmond scandal has its roots in these market ownership procedures. In fact, the former Minister for Energy and Minerals, Ibrahim Msabaha, supported by some members TANESCO's administrative committee, ignored both legal market procedures and the advice of an American law firm, Hunton & Williams LLP, and chose the Richmond Development Company, based in Houston, Texas, despite the abnormalities in its file. Nazir Karamagi, the minister who replaced Ibrahim Msabaha in 2007, continued along the same path as his predecessor. Despite the results in terms of electricity production being disastrous, the contract was renewed for a second year. The Prevention and Combating of Corruption Bureau

turned a blind eye to these activities. The procedural defects in this contract of more than €100 million that had not brought in any improvement in electricity production were so flagrant that Parliament, upon request of the Parliamentary Committee for the Economy, Business and Investment, launched an enquiry. Three months later, on 6 February 2008; the Committee presented a report, that did not spare politicians, accused of having accepted bribes at all levels. As a result



The Central Bank of Tanzania twin towers under construction Dar es Salaam 2005

of this, Lowassa, the Prime Minister and final decider, was driven to resignation, followed closely by other actors of the Richmond contract.

These two scandals that shook the country at the beginning of 2008 seem to be just the tip of the iceberg in the grand corruption that dogs politicians and local businessmen. Every week comes with new issues. A corruption case in the acquisition of military radars from a British military arms group recently re-emerged after having been buried since 2005. Fingers were pointed at Andrew Chenge, the Minister for

Infrastructure since October 2006. Accused of having received bribes, he acknowledged the deposit of \$1 million in an off-shore account in the British island of Jersey before resigning from his position in April 2008. The industrial and commercial port Dar es Salaam, national railway companies, the mining sector and pharmaceutical companies—all were liable to this wave of corruption exposés and embezzlement of public funds. Today, it is the former president Benjamin Mkapa (1995–

2005) who is under investigation. He is accused of having made dubious payments worth billions of shillings during his last weeks in power. Contrary to declarations that these funds were intended to fund the presidential campaign, it is said that the former president and his entourage were the main beneficiaries.

These monies were transferred mainly through the Bank of Tanzania. Part of the embezzled funds went to a former parastatal mining business, which was privatised in mid-2005 under the name Kiwira Coal and Power Ltd. The enterprise had an 85% ownership by the Mkapa family and Daniel Yona the then Minister for Energy and Minerals.

Reactions to this groundswell of *ufisadi* (grand corruption in Kiswahili) need to be carefully scrutinised as they give indications of the effects of the new political and economic context in Tanzania on governmental practices. Since the end of the socialist

system established at independence under the leadership of the first president Julius K. Nyerere and the adoption of neo-liberal economic policies in the 1980s, a strong collusion has developed between politicians and the financial world. Whereas economic liberalism has turned out to be slow in showing results for most Tanzanians, it has been the root of a new enriched middle-class, emanating from former parastatals and the former single party, Chama Cha Mapinduzi (CCM – Party of the Revolution). The benefits of economic reform have flowed more into the pockets of this new bourgeoisie than into State coffers. This explains why the Tanzania economy depends 50% on international aid.

In this brief outline, three major factors must be emphasised in order to better understand governmental reactions to the current scandals—the growing desire for democracy within the civil society and the population at large, relayed by a highly critical media; the disparity between the promises of economic development for all and a daily sluggish reality; and finally, the country's dependence on international aid. Tanzania's history has known different scandals which, as opposed to those that occurred over the last few months, have always been smothered without tarnishing the political class. To date, the media have not let up on reminders of how Nyerere's government stood out by its lack of corrupt practices. Whether this absence was real or a result of closely guarded secrets in an era when the press were controlled by the government,<sup>5</sup> there is an apparent

growth in the number of dubious dealings operating today in a democratic and political pluralist set-up. Despite a relatively weak mobilisation of the civil society in Tanzania, several organisations have been quick to harshly criticise the government while certain newspapers have specialised in investigative reporting. Opposition parties are eager to send out their contesting voices through the media. Having been cradled in the gentle arms of democracy, the people are greedy for change in governmental practices. Grand corruption is even less accepted now that general economic development as promised by the tenets of liberalism has not shown up. Tolerance for embezzlement of funds declines according to the population's level of prosperity, to almost nil. Nevertheless, one must remember that the current president of the United Republic of Tanzania, J.M. Kikwete, voted in by an overwhelming majority, was elected on the platform of the fight against corruption. It is in this domain, therefore, that people will hold him to his promises. The last major factor is that Tanzania's dependence on international aid necessitates governance to yield transparency and accountability.

These three factors have been a great weight since the end of 2007. The media have relentlessly followed the latest developments in corruption investigations. Civil society organisations and opposition leaders have demanded the resignation of ministers and the Bank of Tanzania's administrative council; the seizure of personal property; the indictments of protagonists implicated; and the proceeding of external audits in all

institutions attached to the State. Even members of the former single party, still in power today, added their voice to this call for justice. The International Monetary Fund (IMF) put Tanzania on its guard, requesting her to go straight. We may even assume that President Bush's visit to Tanzania (17–19 February 2008) significantly contributed to Kikwete's determination. Indeed, in his wake, Bush left aid amounting to \$ 662 million, together with the ambivalent declaration to Kikwete that "You are a strong leader. I say this simply and clearly. America does not want to spend its money on people who will steal that money."<sup>6</sup> Caught between internal criticism from the party, challenges from the civil society and pressure from international institutions and bilateral donors, the President expertly managed the situation. Though it cannot be compared with Stalinist purges, the resignation of the Prime Minister Lowassa and his shady accomplices, followed by a Cabinet dissolution and other new resignations with every fresh scandal, proved a means to get rid of cumbersome personalities and undermining affairs, thus saving the presidency and the CCM party. Indeed, although the occasion has not been seized to get rid of some of the former leading lights of the political scene, the re-composition of a reduced cabinet comprising a few large ministries satisfied donors and allowed Kikwete to reaffirm his decision-making powers. The appointing of Mizengo Kayanza Pinda as Prime minister, widely renowned for his incorruptibility, satisfied the public and reassured international bodies. Ultimately, Jakaya Kikwete emerges as the clear victor in this internal feat of strength. There have even been some who

reproached politicians for daring to put the President to task by forcing him to dismantle his Cabinet—as if Kikwete could be free of all suspicions. In other words, the Tanzanian President has skilfully been able to come out of all these scandals with a clean presidency, reinforced power, seemingly democratic practices and a satisfied public opinion. In this sense, one can say that this African State, albeit ‘imported’ and ‘artificial’, has proved to be as “democratic” as any European democracy, if by the term “democratic” one refers to actual governmental practices founded on political strategies rather than on abstract ideals of justice and equality.

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May 2008

## Notes

- <sup>1</sup> More than half of Tanzania’s national budget comes from foreign aid.
- <sup>2</sup> D.-C. Martin, 1988, *Tanzanie, l’invention d’une culture politique*, Presses de la Fondation nationale des sciences politiques, Karthala, Paris.
- <sup>3</sup> Among these are Noble Azania Ltd, Noble Autopart, Bank M Ltd, Bora Apartment, Changanyikeni Frank Ltd, Gimoafrica Properties Ltd, B.V. Holdings, Navy Cut Tobacco Ltd, New Matallan Mining, Kagoda Agricultural Co. Ltd, etc.
- <sup>4</sup> A former employee of the International Monetary Fund (IMF) in the United States, Ballali became the presidential financial advisor upon his return to Tanzania in 1995. He was appointed Central Bank Governor in 1997.
- <sup>5</sup> The Newspaper Act of 1976 conferred to the President the right to appoint the heads of the main information media.
- <sup>6</sup> Sarah McGregor, « Pas de dépenses sur ceux qui volent », Inter Press Services News Agency , 18 February 2008. [http://ipsinternational.org/fr/\\_note.asp?idnews=3971](http://ipsinternational.org/fr/_note.asp?idnews=3971).

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