

University of Warwick institutional repository: <http://go.warwick.ac.uk/wrap>

**A Thesis Submitted for the Degree of PhD at the University of Warwick**

<http://go.warwick.ac.uk/wrap/3950>

This thesis is made available online and is protected by original copyright.

Please scroll down to view the document itself.

Please refer to the repository record for this item for information to help you to cite it. Our policy information is available from the repository home page.

(i)

THE ROLE OF INSURANCE AND ITS REGULATION  
IN DEVELOPMENT : SUDAN AND TANZANIA

Mirghani Mohmed EL-Hassan

LL.B. (Khartoum), LL.M. (London).

Thesis submitted in fulfilment of the requirements for  
the degree of Doctor of Philosophy, University of Warwick,  
Law School, June, 1981.

TABLE OF CONTENTS

	<u>Page</u>
Acknowledgements	vii
U.S. \$ value of £S and T.Shs.	viii
Summary	ix
<u>CHAPTER 1 : INSURANCE, UNDERDEVELOPMENT AND ECONOMIC DEVELOPMENT</u>	
I Introduction	1
II Insurance and Underdevelopment	
(A) The Early Imperialist Epoch : 1870-1914	7
(B) The Concentration of Insurance Capital	11
(C) Overseas Insurance Business	12
III Insurance and Underdevelopment Under Monopoly Capitalism	17
Reinsurance and the Extraction of Insurance Capital	21
IV Insurance and Economic Development	
(A) Insurance in the Economy	38
(B) Insurance and Development in Underdeveloped Countries	41
<u>CHAPTER II : ON THE POLITICAL ECONOMY OF THE SUDAN</u>	
I Introduction	49
II The Roots of Underdevelopment in the Sudan:	
(A) Colonial Rule : 1820-1956	
(1) Turko-Egyptian Colonialism 1820-1885	54
(2) Condominium Colonialism	57
(B) Economic, Social and Political Underdevelopment under British Colonialism	59
(C) The Rise of Sectarian Capitalists	65

III	The Neo-Colonial State and the Persistence of Under-development	
(A)	The Politics of Continuity	70
(B)	Neo-Colonial Governments and the Expansion of the Private Sector	
(1)	The Neo-Colonial Governments up to 1969	73
(2)	The Expansion of the Private Sector	76
IV	State Power and Capital Accumulation	76
(A)	Who Controls Political Power in the Sudan?	80
(B)	Control of Labour Organizations	83
(C)	Foreign Investment and Foreign Aid	85
(D)	Credit Facilities to the Private Sector	87
(E)	National Capitalism and the Development of Underdevelopment	88

CHAPTER III : INSURANCE AND DEVELOPMENT IN THE SUDAN

PART ONE

I	Introduction	93
II	Background	
(A)	Structure of the Insurance Market in the Sudan : 1898-1960	94
(B)	1960-1970	96
(C)	1970 and After	103
III	Insurance Regulation in the Sudan	
(A)	Raison d'être of Insurance Regulation	109
(B)	Sources of Insurance Regulation	111
(C)	The Structure of the Regulation Machinery.	114
(1)	The Minister	114
(2)	The <u>I.A.C.</u>	115
(3)	The Controller of Insurance	116

	<u>Page</u>
(D) The Scope of Insurance Regulation	117
The Islamic Company	119
(E) The Quality of Insurance Regulation in the Sudan	
(1) The Capacity to Regulate	123
(2) The Power of the Sudanese Insurance Industry	128

PART TWO

Insurance Business, Insurance Regulation and Economic Development in the Sudan	134
I Insurance and Capital Formation in the Sudan	
(A) The Volume of Insurance Capital Formed: 1970-1977	135
(B) Who is the Principal Policyholder in the Sudan?	139
(C) The Problems of Public Sector Insurances in the Sudan	141
(D) Regulations Related to Capital Formation	
(1) Rate Regulation	148
(2) Management Expenses	149
II Investment of Insurance Funds	151
Regulation of Investment	153
1 - Establishment of Technical Reserves	154
2 - Investment of Technical Reserves	156
III Insurance in the Balance of Payments of the Sudan	163
Regulations Affecting the Volume of Reinsurance Ceded Abroad	
(A) Reinsurance Arrangements	168
(B) Capital Requirements	171
(C) Concentration of the Market	173

	<u>Page</u>
IV Protection of Policyholders Under the Act	
(A) The Standard of Solvency	180
(B) Valuation of Assets and Liabilities	182
(C) Detecting Insurers' Solvency	
(1) Information pertaining to the Solvency of Insurers	184
(2) Other Information	185
(3) Business Returns	186
(D) Consequences of Insurers - Solvency	188
(E) Regulation of Insurance Marketing	
(1) Regulation of Intermediaries	193
(2) Performance of Insurers and Policyholders Complaints	195
V The Goals of Insurance Regulation: What has been Achieved?	199
<u>CHAPTER IV : ON THE POLITICAL ECONOMY OF TANZANIA</u>	
Introduction	203
I The Pre-colonial and Colonial Economy and Society	205
II Uhuru and After	215
(A) The Arusha Declaration	221
(B) Rural Development Strategy	226
(C) Workers Participation in the Management of the Economy	228
III The Bureaucracy, the Peasantry and the Workers	
(A) The Bureaucracy and the Transition to Socialism	229
(B) The Bureaucracy and the Peasantry	232
(C) The Bureaucracy and the Workers	238
IV Towards A Socialist Tanzania	241

	<u>Page</u>
<u>CHAPTER IV : INSURANCE AND DEVELOPMENT IN TANZANIA</u>	
Introduction	245
I    Background	246
II   Raison d'être of Insurance Regulation	253
III  The Head Office Bureaucracy	255
IV   The Machinery For State Control and Supervision of <u>N.I.C.</u>	257
V    The Effects of Insurance Nationalization on Tanzania's Economy: 1970-1977	
(A) Insurance and Capital Formation	
(1) Non-Life Business	272
(2) Life Insurance Business	279
(B) Insurance Investment	284
(C) Insurance in the Balance of Payments in Tanzania	289
VI   The Objectives of Insurance Nationalization : What Has Been Achieved?	299
(A) Insurance Law and Practice in Tanzania	
1. Insurance Law	299
2. Business Practices : Service or Profitability?	302
(B) Solvency and Policyholders Protection	
1. The Corporation's Solvency	308
2. A Fair Value for Insurance Premium?	313
VII  Insurance Business and the Transition to Socialism	319
 <u>CHAPTER VI : INSURANCE AND DEVELOPMENT : STATUTORY REGULATION OR               NATIONALIZATION?</u>	 324
Bibliography	351

Acknowledgements

I owe a debt of gratitude to a number of people. My greatest debt is to Professor Yash P. Ghai and Miss Jill Cottrell of Warwick Law School who guided my studies with endless patience and good humour. Their detailed comments and criticisms have been of great value in aiding me to clarify my ideas. It is also a pleasure to be able to acknowledge the stimulus I received from my friend Dr. Siddik ET-Tijani El-Mardi, formerly of the Economic and Social Research Council, Khartoum, who took the time to suggest many improvements both of substance and style. The personnel of the Insurance Section in Khartoum and of The National Insurance Corporation in Dar es Salaam were extremely generous in giving time to interview and in providing liberal access to documentary information.

At Warwick University my friend Miss Julia Finch shared the innumerable discomforts of research and provided unwavering support and encouragement. Without implicating any of the persons mentioned above in my errors, I appreciate their help and kindness for which I am more grateful than it is easy to say.



(viii)

As of June 1981:

One Sudanese Pound (£S)  $\approx$  U.S. \$1

10 Tanzanian Shillings (T.Shs.)  $\approx$  U.S. \$1

Summary

This thesis examines the experiences of Sudan and Tanzania in attempting to control their respective insurance industries to serve their economic development. The socio-political chemistry in each country has produced a certain policy towards the insurance institution. The Sudan opted to control its industry through a regulation code; Tanzania adopted nationalization as an ultimate form of control. The thesis examines the respective roles of the two regulation models in the development process, and argues that, on balance, a direct model of insurance control such as in Tanzania is more appropriate to the needs of underdeveloped countries than a regulatory model of the Sudanese type. This conclusion derives from insurance theory itself, and from the need to avoid the problems which afflict the regulatory model such as the technical difficulties which regulation involves, the weakness of the regulation agency *vis-à-vis* the industry, the influence of the latter upon the agency, the difficulty of monitoring solvency, and of enforcing investment regulations. In theory, the state is also more capable of protecting the public which seeks insurance cover from its own institution than when cover is purchased from private insurers.

Most information relates to the period 1970-1977, and the thesis is largely based on fieldwork research in the Sudan and Tanzania and on secondary resources. Although the methods of control examined are largely legal methods an attempt is made to transcend law for a better understanding of the problems which afflict the institution. A legal doctrinal study preoccupied with the analysis of rules and procedures is unlikely to provide an insight into how the institution operates. Even less is it likely to be of value when legal rules are not truly reflective of practice. It is for this reason that the institution is studied in the wider political economy of the two countries.

---

## CHAPTER ONE : INSURANCE, UNDERDEVELOPMENT AND ECONOMIC DEVELOPMENT

'We need constantly to remind ourselves that since this country [Britain] has never been well endowed with natural resources and is now no longer the manufacturer for the rest of the world,... it is increasingly dependent upon the sale of its export services, such as banking and insurance.'

Per Edger Bowing, The Chairman of B.I.A.,  
Journal of the Insurance Institute of London: Vol.60,  
October, 1971

### I. Introduction:

The theories of modernization<sup>1</sup> which envisaged development as an evolutionary movement from an original state of 'underdevelopment' to an idealized version of western capitalist countries<sup>2</sup>, shared the notion which conceived of underdevelopment as being a natural phenomenon, original and self-inflicted.<sup>3</sup> However, toward the end of the first Development Decade

- 
1. see e.g. D.E. Apter, The Politics of Modernization, (Chicago: University of Chicago Press, 1965); S.P. Huntington, Political Order in Changing Societies, (New Haven: Yale University Press, 1968); M. Weiner (ed.), Modernization: The Dynamics of Growth (New York: Basic Books, 1966).
  2. As Lloyd argues, modernization theories 'confidently assumed that the rest of the world will not only become like the United States but that it wishes to do so'. see, P.C. Lloyd, Classes, Crises and Coups: Themes in the Sociology of Developing Countries, (London: Paladin, 1973), p.69.
  3. See e.g., S.W. Rostow, The Stages of Economic Growth: Annon - Communist Manifesto, (London: Cambridge University Press, 1960); R. Nurkse, The Problems of Capital Formation in the Underdeveloped Countries. (Oxford: Oxford University Press, 1953); P.N. Rosenstein-Rodan, Capital Formation and Economic Development, (London: Allen and Unwin, 1964); but see, Paul A. Baran and E.J. Hobsbawn, The Stages of Economic Growth: A review, in Charles K. Wilber (ed.), The Political Economy of Development and Underdevelopment, (New York: Random House, 1973), pp. 45-53.

(1960-70), in which economic thinking was dominated by modernization ideas, the conditions of underdeveloped countries deteriorated further, and the theories of modernization were relegated more and more to the limbo of academic history.<sup>1</sup> Ideas rival to 'modernization' soon dominated the mainstream academe on 'underdevelopment'. But, as will follow shortly, these ideas were not 'a sort of mental thunderclap that occurred at a given time and place'<sup>2</sup> i.e. in the aftermath of the downfall of modernization theories, and taken together the ideas do not 'constitute a unified body of theory that is entirely coherent, internally consistent, and relatively unchanging'<sup>3</sup>. In political economy circles, however, and perhaps for convenience alone, these ideas form 'the theory of underdevelopment'.<sup>4</sup> Virtually all writers who contributed to the theory of underdevelopment rejected the ideological

- 
1. The Cocoyac Declaration, for example, stipulated that '[w]e reject the unilinear views which see development essentially and inevitably on the effort to imitate the historical model of countries that for various reasons happened to be rich today. For this reason we reject the concept of 'gaps' in development. The goal is not to 'catch up' but to ensure the quality of life for all with a productive base compatible with the needs of future generations.' Quoted by José Ripoll, 'Some Thoughts on Insurance and Development', Best's Review, February, 1976, p.49.
  2. F.H. Cardoso, "The Consumption of Dependency Theory in The United States", 12 Latin American Research Review 7, p. 8. quoted by Francis G. Synder. "Law and Development in the Light of Dependency Theory", Law and Society Review, Vol. 14, No.3, Spring 1980, p.724.
  3. Ibid.
  4. The major writers on the political economy of underdevelopment include: Paul A. Baran, The Political Economy of Growth, (New York: Penguin Books [reprinted 1973]); Andre G. Frank, Capitalism and Underdevelopment, (New York and London: Monthly Review Press, 1967); Latin America : Underdevelopment or Revolution, (New York and London: Monthly Review Press, 1970); Arghiri Emmannel, Unequal Exchange, (London: Monthly Review Press, 1972); Samir Amin, Accumulation on a World Scale. (New York and London: Monthly Review Press, 1974); Geoffrey Kay, Development and Underdevelopment: A Marxist Analysis, (London: Macmillan, 1979); Colin Leys, Underdevelopment in Kenya: the Political Economy of Neo-Colonialism, (London: Heinemann, 1975) etc...

misconception once propagated by modernization theorists on the causes and nature of underdevelopment. To these writers development and underdevelopment were partial, interdependent eventualities that were not just contemporaneous, but inter-connected. The development of Western Europe, in particular, depended upon, and caused the underdevelopment of Africa.<sup>1</sup>

The theory of underdevelopment begins with the works of Marx and Lenin, although voluminous contributions to its main body were made after the Second World War. Marx analysed the effects of British capitalist expansion<sup>2</sup>, and Lenin examined the development of capitalism in Russia<sup>3</sup> up to 1899, and formulated a general theory of imperialism.<sup>4</sup> Two distinct, albeit inter-related, aspects of Marx's treatment of the phenomenon of underdevelopment are most relevant to the study of the role of colonial insurance institutions in the now underdeveloped countries with which this chapter is concerned. Firstly, Marx saw the invasion and plundering of 'undeveloped' regions by British capitalism as part and parcel of the process of 'primitive accumulation of capital'. This accumulation was necessary to lay the foundation for the transition from mercantile capitalism to industrial capitalism. Secondly, he saw the destruction of stagnant or non-evolutionary social formations as a

- 
1. See e.g., Walter Rodney, How Europe Underdeveloped Africa, (London: Bogle- L'Ouverture Publications, [2nd. ed. 1978]).
  2. For example in India, see K. Marx, "British Rule in India", in K. Marx and F. Engels: Selected Works, (Moscow, Foreign Language Publishing House: 1962), Vol. I.
  3. V.I. Lenin, The Development of Capitalism in Russia, (Moscow : Progress Publishers, 1964).
  4. V.I. Lenin, Imperialism: the Highest Stage of Capitalism, (Moscow : Progress Publishers, [17th printing, 1970]).
-

pre-condition for the attainment of a higher level of economic development. This destruction could only be brought about by capitalist penetration which transforms land into a commodity with value, exploits minerals, and ultimately forces the creation of vast markets for the consumption of capitalist industrial products.<sup>1</sup> Marx, however, writing around the middle of the last century, could only see, and concentrate on, the positive or rather 'progressive' aspects of capitalist penetration in the colonies. He 'failed to consider the consequences for underdeveloped countries of the removal of a major portion of their economic surplus to Europe'<sup>2</sup> and argued that the operation of capital in the backward regions would eventually speed up the industrialization of these regions.<sup>3</sup> In fact he was so certain of this 'inevitable' industrialization that he feared 'lest a developed bourgeois East may become the essential force preventing victory of the socialist revolution in Europe'<sup>4</sup>. But there can be no doubt that the writings of Marx provided a solid theoretical foundation upon which the modern neo-Marxist version of the theory of underdevelopment is based.<sup>5</sup> Indeed, neo-Marxist literature on underdevelopment is largely an application of Marx's methods and central ideas to the question of the failure of backward regions to achieve a level of development comparable to the developed regions after they had been incorporated into the world system. Baran<sup>6</sup> (a leading

- 
1. K. Marx, Pre-Capitalist Economic Formations, (London:Lawrence & Wishart 1964).
  2. Francis G. Snyder, "Law and Development in the Light of Dependency Theory", Supra., p.738.
  3. See e.g. S. Avinevi (ed.), K. Marx on Colonialism and Modernization, (New York: Doubleday Anchor, 1969), p.464.
  4. Samir Amin, Accumulation on a World Scale, Supra., p.147.
  5. Not all theorists of underdevelopment were Marxists.
  6. Paul A. Baran, The Political Economy of Growth, Surpa.
-

Marxist) for example, offers a framework of analysis which emphasizes an historical perspective and its importance for understanding the structure of underdevelopment as well as an analysis of the interactions between the developed and underdeveloped worlds. Like Marx, Baran argues that the contact between the two worlds at the dawn of colonialism had subjected the periphery to the hegemony of capital and had accelerated the decomposition of the pre-capitalist structure and established the base for the development of a new mode of production. But the method of contact *extracted an important part of the surplus* which was used in the colonial powers' industrial sectors, and thus the possibility of progress and industrialization which Marx had predicted was prevented. Indeed, it was impossible for the colonies to develop under a system of division of labour which compelled them to specialize in the production and export of primary goods. And central to the extraction process was the fact that the owners of capital invested in India, for example, lived in Britain, not in India, and the returns of investment were ploughed into the British, not the Indian, economy. But there can be no doubt that 'had the economic surplus that Britain has torn out from India, been invested in India, India's economic development to date would have born little similarity to the actual sombre record.'<sup>1</sup> It was this 'extraction' from the periphery, then, which *inter alia*, caused its underdevelopment. At a later phase of colonialism and under neo-colonialism, this extraction depended not so much upon brute force or plundering as on the fact that the socio-economic structures of the periphery underwent a process

---

1. Ibid., pp.281-2.

of adaptation and change which made this extraction possible and self-reproducing. Bernstein<sup>1</sup> maintains that:

The original centres of capitalism established their wealth and their power through incorporating and exploiting other parts of the world. The primary accumulation of capital in the metropolises or centre was fed through a drain of wealth from the satellite or peripheral countries typically involving their colonization, a 'surplus drain' which continues to the present day even if its forms may have changed and direct colonial rule is no longer a necessary condition of this process.

The two hypotheses basic to the Marx-Baran approach to the study of underdevelopment appear to apply to the metropolitan insurance institutions which had transacted business in the periphery in that: firstly, those institutions had performed a category of services alien to the domestic economic structures which had prevailed in the periphery before the operation of capital.<sup>2</sup> Secondly, metropolitan insurers appear to have contributed a great deal to the extraction of surplus, and hence, the underdevelopment of the periphery. In the light of these hypotheses the role of insurers (mainly British) in the colonial and neo-colonial underdevelopment is examined below within the context of the dialectical relationship between the periphery and the metropolises in the early imperialist epoch and under monopoly capitalism. This approach necessitates an account of the economic and historical developments which paved the way for the imperialist hegemony in the periphery and facilitated the operation of insurance companies on a world scale.

- 
1. H. Bernstein, "Sociology of Underdevelopment v. Sociology of Development?" in David Lehmann (ed.), Development Theory: Four Critical Studies, (London: Frank Cass, 1979), p.83.
  2. As discussed in Chapters Three and Five below, various measures were enacted to exclude the African population in the Sudan, Uganda and Tanganyika from the field of insurance.
-



## II. Insurance and Underdevelopment

### A. The Early Imperialist Epoch : 1870 - 1914

Towards the end of the nineteenth century the capitalist world was caught in a severe economic depression which caused grave social problems. The primary factor which had speeded up the depression was the over-production of capital that had continued for a long time. Industrial expansion, earlier in the century, whilst providing an opportunity for more expansion and extraction of greater surplus value, brought home to the minds of industrialists and statesmen that the growth of constant capital i.e. machines etc, coupled with the stagnation of variable capital i.e. labour, ultimately leads the rate of profit to fall.<sup>1</sup> The expansion of British exports, which had risen by one-third between 1860 and 1873, came to a sudden end, and by 1876 exports of British produce shrank by 25 per cent in value.<sup>2</sup> Investment in Britain attracted little capital because of meagre returns. The same conditions prevailed in most of the Western European countries.

The fall of the rate of profit gave a stimulus for two developments: the imperialist expansion abroad in search for cheap raw materials and markets, and the concentration of capital at home in order to cope with the demands of capital investment. The expansion of capital abroad and the low cost of extracting materials were related in that the expansion of capital in the periphery had often been accompanied by massive displacement of the population, at mining cities, for example, while the penetration of manufactured goods ruined indigenous crafts and industries, and the function of both processes

---

1. K. Marx, Capital. Vol. III (London: Lawrence & Wishart, [6th ed. 1977]), pp. 211-66.

2. D. Wadada Nabudere, The Political Economy of Imperialism, (Dar es Salaam, Tanzania Publishing House, [2nd. ed. 1978]), p.96.

was to create an imbalance between the supply of labour and the demand for it. In other words, the operation of capital had created the conditions for reducing the reward for labour. On the other hand, raw materials extracted at a low cost could be sold cheaply in the metropolises, and thus the owners of capital could pay lower wages to labour, on a global scale, and retain an enormous rate of surplus value.<sup>1</sup> Thus the rate of profit was, among other things, dependent upon the exchange of primary and manufactured goods between the centre and the periphery.<sup>2</sup> As Marx observed:<sup>3</sup>

Since foreign trade partly cheapens the elements of constant capital and partly the necessities of life for which the variable capital is exchanged, it tends to raise the rate of surplus value and lowering the rate of constant capital. It generally acts in this direction by permitting an expansion of the scale of production.

The Scramble for overseas territories and markets, assumed the utmost importance in European political and social life as a means of easing the crisis of capitalism. There was a frantic European race for the acquisition of 'places in the sun'. In Africa, towards the end of the last century, the French Republic founded a French empire extending from Lake Chad to the Atlantic Ocean.<sup>4</sup> Britain controlled parts of West Africa, South Africa and West Africa. Germany occupied South West Africa (Namibia), Cameroun, Togo, Tanganyika and Guinea. Belgium acquired the Congo, and Portugal grabbed Angola and Mozambique. Spain and Italy also had their share in the African pie.<sup>4</sup>

---

1. Samir Amin, op.cit. pp. 175-6, also, Latin American Perspectives, issue 21, Vol. VI, No. 2, Spring 1979, pp.62-86.

2. A. Emmanuel, Unequal Exchange, Supra.

3. K. Marx, Capital, Vol. III, Supra. p.238

4. M.E. Chamberlain, The Scramble for Africa, (London: Longman, [3rd. ed. 1977])

Another feature of the early imperialist epoch of capitalism was the export of capital for investment abroad. Bukharin<sup>1</sup> explains the movement of capital southwards:

The more developed a country, the lower is the rate of profit, the greater is the over-production of capital, and consequently, the lower is the demand for capital and the stronger is the expulsion process. Conversely, the higher the rate of profit, the lower the organic composition of capital, the greater is the demand for it and the greater is the attraction.

By 1907, British capital invested overseas was 75 per cent higher than in 1890, and on the eve of the Great War, British foreign investments may have exceeded net home investments.<sup>2</sup> By 1904, there were 50 British colonial banks with 2,279 branches, and 72 banks with 5449 branches in 1910.<sup>3</sup> French, Dutch and German banks had, at about the same time, a total of 274 overseas branches between them.<sup>4</sup> Britain controlled the economy of Egypt by acquiring a large share in the Suez Canal Company, and of East Africa through the British East Africa Company.<sup>5</sup> Italy incorporated Libya and (later) Ethiopia into the capitalist system through the activities of Prasso Company, Banco di Roma and Banco di Napoli; while French capital dominated West Africa through various institutions such as the compagnie Francaise de L'Afrique, and the whole of North Africa by seven giant French

- 
1. N. Bukharin, Imperialism and World Economy. (New York and London: Monthly Review Press, 1973), p.315.
  2. Maurice H. Dobb, Studies in the Development of Capitalism (London and Henley: Routledge paperback, 1963 [reprinted 1978]), p.315.
  3. V.I. Lenin, Imperialism: The Highest Stage of Capitalism, Supra, pp.63-4.
  4. Ibid.
  5. See generally, L. Woolf, Empire and Commerce in Africa, (London:Allen and Unwin, [2nd. ed. 1968]).

banks.<sup>1</sup>

Thus European economic imperialism manifested itself in the invasion of colonies and their conversion into huge markets for manufactured goods and sources of cheap raw materials. Each colony was forced to trade with a 'mother country' by receiving most of its imports from it, and exporting its products to it, with enormous profits in the process accruing to 'some citizens of the European state.'<sup>2</sup> The services which insurance rendered to colonialism will be discussed later, suffice it to say here that in this imperialist scenario insurance and banking had set the stage for an economic exploitation of the colonies on a scale unparalleled in history. They had financed the railways, harbours, missionary activities and imperialist expeditions, they invested enormous capital and reaped astronomical profits.

The British insurance industry was not isolated from the economic and social conditions then prevailing in Britain; and as a capital market institution it also had a role to play in the underdevelopment of the periphery as was mentioned earlier. In the following section an attempt is made to show how British insurers responded to the changing economic conditions in Britain, and the nature of their activities overseas.

---

1. Siddik Et-Tijani El-Mardi, "African Insurance Markets: Structure and Development", Economic and Social Studies Research Council (Khartoum, 1976). pp.3-4.

2. L. Wolf, Empire and Commerce in Africa, Supra. p.19.

## B. Concentration of Insurance Capital

The economic depression, mentioned above, affected the British insurance industry as much as it affected other industries. There was an unprecedented decline in the yield of traditional insurance investments. In mortgages, for example, previously a popular field, investments fell from about a half to less than a quarter of total insurance investments between 1870 and 1913.<sup>1</sup> The creed of free competition was also forcing companies to close down, and between 1850-1884, there were 165 company failures,<sup>2</sup> and another 399 companies were wound up between 1850 and 1899.<sup>3</sup>

Insurance capital, then, had to amalgamate in order to avoid competition by controlling national markets, and in order to reduce the costs of management, but also to cope with the demands of other finance institutions engaged in colonial investment. The early part of this century was marked by the intensification of insurance capital concentration reflected in the joining together of very large offices as when the Royal acquired the Lancashire in 1901, the Atlas acquired the Manchester in 1904, or the Alliance acquired the Law Fire and Country and the Imperial in 1906.<sup>4</sup> The Commercial Union Group began its amalgamations in 1861 when it acquired the Mercantile Fire, and

- 
1. Barry Supple, The Royal Exchange Assurance, 1720-1970, (London:Cambridge University Press, 1970), p.331.
  2. H.A.L. Cockerell and Edwin Green, The British Insurance Business, 1547-1970, (London:Heinemann Books, 1978), pp.62-4.
  3. The Insurance Directory and Year Book, 1964-1965, (Post Magazine Almanack, London:Buckley Press,1965). List of companies wound up, amalgamated and allied companies, pp.278-96.
  4. Barry Supple, "Corporate Growth and Structural Change in a Service Industry: Insurance" in, Barry Supple (ed.), Essays in British Business History, (Oxford:Oxford University Press, 1977), p.82.
-

its later subsidiaries included 24 other companies.<sup>1</sup> Between 1891 and 1915, there were 230 amalgamations.<sup>2</sup>

In addition to the formation of insurance giants, this century witnessed the appearance of Insurance Associations and Tariff Groups such as the Accidents Offices Association, Engineering Offices Association, The Fire Offices Committee, and over 20 other associations across all the branches of the industry. The object of these associations was to mitigate competition by concluding agreements on premiums to be charged in order to uphold rates at business levels.<sup>3</sup> By 1900, the Tariff Offices accounted for 90 per cent of the home premiums, and for 95 per cent of overseas premiums.<sup>4</sup>

#### C. Overseas Insurance Business:

As mentioned earlier, one of the motives behind the concentration of insurance capital was to strengthen the financial base of the companies so that they could meet the demands of other giant enterprises in the capital market. The transfer of capital by banks and bank-like institutions, for example, needed the intercessionary and complementary role of insurance to secure the safety of capital invested abroad and to ensure its repatriation to the lenders. The early colonial insurance offices were in fact set up, in many colonies, by the help of colonial banks which had financial traders

- 
1. Cockerell and Green, The British Insurance Business 1547-1970, *Supra*, pp. 83-101, see also H.E. Raynes, A History of British Insurance, (London: Pitman & Sons Ltd., [2nd. ed. 1964]), pp.366-72.
  2. Barry Supple, The Royal Exchange Assurance, *Supra*, p.298
  3. Ronald Beale, After the V & G. Crash, (London: City Press and Compton Press, 1972), pp.26-31.
  4. Barry Supple (ed.), Essays in British Business History, *Supra.*, p.75.

and had sought to ensure the repayment of the loans advanced by them.<sup>1</sup> Colonial insurers covered the invested capital against destruction, labour riots, fire and weather conditions, and secured the transfer of investment returns, primary goods and raw materials etc by providing cover against accidents in the course of cargo loading or ships and against the sea perils of the voyage until the goods were safely dispatched at the metropolis. At this end they were manufactured into processed goods and food stuffs, and again insured and shipped for marketing in the colonies. Part of the returns of marketing were invested in the extraction of further resources and again protected by insurance cover at all stages until they reached their final destination, and so on. The role of insurance institutions was to underwrite the success of colonialism as an economic venture.

British insurance offices set up their branches abroad from a very early date in America, South Africa, Latin America and the Far East, and wherever Britain had made its influence felt. Between 1797 and 1829, a very large number of companies were established in India including seven marine insurance offices.<sup>2</sup> By 1866, the Ocean, the Imperial, the London Assurance, the Royal Exchange and four other companies were represented in Valparaiso, and between 1875-1883, twenty one British companies were operating in Lima and Buenos Aires.<sup>3</sup> By 1910, the Royal Exchange had overseas branches in Lima, the West Indies, Egypt, Argentina, Russia, South Africa and 22 other countries.<sup>4</sup>

---

1. see generally, M. Grossmann (ed.), Insurance Markets of the World, (Zurich: Swiss Reinsurance Co. 1964).

2. Ibid., p. 472.

3. Charles Jones, "Insurance Companies" in D.C. Platt (ed.), Business Imperialism, (Oxford: Oxford University Press, 1977), p.54.

4. Barry Supple, The Royal Exchange op.cit. p.472.

The head offices in London or Paris controlled overseas branches through regional satellite offices which, in turn, had their sub-satellites to supervise. Through its regional office in Lagos, for example, the Royal Exchange transacted business in Liberia, Ghana and Siera Leone.<sup>1</sup> The company's branch in Cairo had oversight of Sudan, Palestine, Malta and Cyprus, while the Levant office controlled other sub-offices in Constantinople, Smyrna and Rumania.<sup>2</sup> Insurers who transacted business in East Africa did so by establishing regional offices in Nairobi.<sup>3</sup> British insurers had dominated the world.

For all British insurers *without exception*, overseas business was - and still is - the one whence most of the profit came. The overseas premiums of the Sun Fire Office between 1882-1891, were £1.2m. and in 1891 alone, overseas premiums stood at £551,900 while home premiums were £405,500.<sup>4</sup> At the turn of this century the Commercial Union Group derived three-quarters of its total premium income from abroad;<sup>5</sup> and by 1914, the Royal Exchange had an overseas income of £590,000 as fire premiums in a total fire portfolio of £856,000.<sup>6</sup> Although many examples of the profitability of overseas branches could be given, it is difficult to estimate the total capital repatriated by insurers. As to the colonies whence this capital was extracted, the capital has been lost for ever.

- 
1. M. Grossmann (ed.) Insurance Markets of the World, Supra. p.384, p.346 and p.355.
  2. Barry Supple, The Royal Exchange, op. cit. p.484
  3. For example, The Prudential, see R.W. Barnard, A Century of Service: The Story of the Prudential, 1848-1948 (London: Witherby Ltd., 1948), p.100.
  4. P.M. Dickson, The Sun Fire Office, 1710-1960, (Oxford:Oxford University Press, 1960), Appendix I, pp.304-5.
  5. B. Supple, The Royal Exchange, op.cit., p.214.
  6. Ibid., Table 11.2, p.242.
-



Apart from being efficient agencies for the impoverishment of the former colonies, British and other European insurers, one may speculate, might have played a role in the suppression of labour movements which characterized colonial rule, in view of the fact that insurers would have had to foot the bill for whatever insured property that was damaged by strikes and labour riots. But what was beyond doubt was the fact that British offices abroad had formed great centres of power and had adversely influenced developments in the field of insurance in more than one territory. They delayed the emergence of indigenous insurers, contained them when they were set up, and sabotaged official attempts to impose restrictions upon themselves. In Chile, for example, a bill proposed for the regulation of insurance business in 1888, only became law in 1904, and even then, after British insurance offices had influenced the authorities to reduce the required deposits for life insurance by 80 per cent and for fire insurance by 40 per cent.<sup>1</sup> Similar attempts to regulate insurers were also contained in Argentina and Columbia, and with equal success.<sup>2</sup> The methods employed by British offices in their campaigns against national legislatures included the media, access to the centres of power in congresses, reliance on British diplomatic support and, more effectively, the threat of denying reinsurance facilities in London.<sup>3</sup>

---

1. Charles Jones, "Insurance Companies" in D.C. Platt (ed.), Business Imperialism, Supra, p.66.

2. Ibid.

3. Ibid., pp. 69-70.

The expansion of British insurers abroad provided them with great opportunities to minimize the effects of competition at home, and at the same time, a particular office could continue to serve its clients of officers, colonial bureaucrats and traders who followed the Union Jack. Francophone Africa provided similar opportunities to the French Companies.<sup>1</sup> But there was yet another important aspect for the expansion of insurance offices abroad which was - and still is - central to insurance business imperialism. This was *the spread of the insured portfolio on a global scale* which was absolutely indispensable to successful underwriting. Insurance itself is a device which is based on the law of large numbers i.e. on the assumption that the combination of uncertainties produces greater certainty.<sup>2</sup> It follows that the more spread the insurance portfolio, the better the results will be, the higher the profits made, but also the less reinsurance will be needed. This is so because every policy added to the portfolio, though a source of potential profits in itself, also increases the retention capacity of an insurer by strengthening its financial base thereby reducing its needs for reinsurance.<sup>3</sup> The success of insurance business is, undoubtedly, synonymous with its geographical spread.

- 
1. See e.g. I.W. Hurley, "Insurance in the Former French Territories of North, West, and Equatorial Africa - The Changing Scene". Journal of the Insurance Institute of London, Vol. 52, pp.30-40.
  2. See generally, Robert I. Meher and Emerson Cammack, Principles of Insurance, (Illinois, R.D. Inc. 1976).
  3. José Ripoll, "UNCTAD and Insurance", Journal of World Trade Law, Vol. 8, 1974, p.76.

### III Insurance and Underdevelopment Under Monopoly Capitalism

The introduction to this chapter outlined two hypotheses (postulated as propositions which link the study of the insurance institution to the mainstream rhetoric on underdevelopment) which underlay the operations of metropolitan insurance institutions in the periphery: (a) that *vis-à-vis* the dominant economic formations in the periphery insurance was an alien institution, (b) that the extraction of surplus by insurers played a part in the underdevelopment of the now underdeveloped countries. In this section we will see how changes in the economic and social structures in the former colonies have facilitated, fostered and maintained underdevelopment through insurance institutions in the neo-colonial epoch. This examination is rather brief because the subject is dealt with in all the remaining chapters.

The extension of the capitalist relations in the former colonies under the hegemony of capital had introduced the laws of motion of the capitalist mode of production, and the relations of production that emerged were a function of this mode. Hence, in the majority of former colonies the transition to political independence took the form, largely, of a replacement of colonialists by an indigenous bourgeoisie which acted as a 'resident ruling class'<sup>1</sup> promoting its interest and that of its metropolitan partner. This indigenous bourgeoisie controlled export-import activities, insurance and credit institutions, and above all, state power to maintain its interests indefinitely.<sup>2</sup> Thus in nearly all neo-colonial situations the external orientation of the economy continued, the international division of labour persisted and the capitalist trajectory for development was accepted as an article of faith.

---

1. Peter Fitzpatrick, Law and State in Papua New Guinea, (London:Academic Press, 1980), p. 174.

However, in a large number of countries the fortunes of metropolitan insurers were affected, as we shall see, in form rather than in substance. Direct insurance outflows from the underdeveloped countries gradually declined in importance in relation to reinsurance outflows; and insurance business imperialism became dependent upon the extraction of reinsurance premiums rather than on direct insurance premiums. This statement, however, must be qualified. Undoubtedly, in many former colonies foreign insurers still operate,<sup>1</sup> and in others it is still possible to place a local risk with an insurer situated abroad. But despite the dearth of information, it appears that reinsurance transfers to the metropolises are rapidly overtaking direct insurance transfers. In 1971, for example, the Commercial Union Groups (U.K.) reported that it had ceased operating in 22 countries during the decade 1961-1971.<sup>2</sup> In the same decade ending in 1971, the proportion of foreign business to total premiums for Swiss insurers was 25 per cent for life insurers, 59 per cent for non-life insurers, but reinsurers obtained 92 per cent of their portfolios from abroad.<sup>3</sup>

- 
1. In Francophone Africa, in particular, little has changed since independence was obtained. For until 1975, D homey, Upper Volta, Mauritania and Chad had no indigenous insurance companies, while in most former French colonies French companies still rule supreme, see O. Lijadu, "Government Control of Operations of the Insurance Industry in Developing Countries", Journal of West African Insurance Consultative Association, Vol. 1, 1975, p. 41.
  2. Robert L. Carter, "Multinational Insurance Companies", Discussion Papers in Industrial Economics, No. 34, (University of Nottingham, 1975), p.6.
  3. Karl Uster, "The International Activity of Swiss Insurers and Reinsurers", International Insurance Monitor, May, 1974, p.177.

In many former colonies the growth of reinsurance business ceded abroad was caused by the same process which reduced direct insurance transfers: in many countries insurance was nationalized and in others the ownership of insurance companies was confined to indigenous entrepreneurs. In both categories of insurance markets it is not possible to cover a local risk abroad. The former category includes big markets like India (only life assurance was nationalized), Iran, Iraq, Egypt, Libya, and smaller markets like Tanzania, Ethiopia and Burma. The second category of markets includes big ones like Brazil and Argentina, and smaller ones like the Sudan. Both categories of markets, however, soon become the hunting grounds for professional reinsurers.

The increasing demand for reinsurance coincided with and stimulated basic structural changes in the metropolitan insurance markets. Side by side with the amalgamation of industrial and commercial capital under monopoly capitalism went the concentration of insurance companies<sup>1</sup> into giant international insurers and reinsurers. In Britain, in the 1950s and 60s, there were about 30 large mergers, acquisitions, sales or amalgamations, between insurers.<sup>2</sup> The seven giant British insurance companies<sup>3</sup> took their

- 
1. Kwame Nkrumah, Neo-Colonialism: The Last Stage of Imperialism, (London: Panaf, 1965), p.64 and p.78.
  2. Cockerell & Green op. cit., pp.74-118.
  3. These are: the Guardian Royal Exchange, the Commercial Union Group, the Sun Alliance and London, the Legal and General, the Royal, General Accident and the Prudential. These companies took their present shape in the post-World War II period.

present size during this period which was also marked by the fusion of banks, industrial and insurance capital through methods such as sales and interlocked directorships. Each of the giant British banks i.e. Barclays, National Westminster, Midland and Lloyds, for example, possesses an insurance company, and Barclays, in addition, owns Barclays insurance Brokers International and Barclays Brokers of South Africa.<sup>1</sup> Other giant financial enterprises in London either own insurance companies or are owned by insurance and reinsurance companies.<sup>2</sup>

The extraction of surplus from the underdeveloped countries through the operation of insurance branches now continues, thanks to monopoly capitalism, under the reinsurance veil. The expansion of world reinsurers in these markets was facilitated by a corresponding need, albeit exaggerated, in neo-colonial markets, by former colonial ties and by various other factors (see below) all of which stem from the attempt to follow a capitalist trajectory of development, the seeds of which were planted by the hegemony of the capitalist mode of production. In the section following the role of reinsurance in the renewed extraction of surplus is examined.

- 
1. Who Owns Whom (U.K.) 1978/79, Vol. II, (London: Dun & Bradstreet, 1979). During the decade 1961-1971 fire insurance companies were set up by five different British banks starting with M & B Trust and Abbey in 1961, Tyndall in 1964, Hambro in 1965, and Barclays Griffin in 1971, see Stephen Wynn, World Trends in Life Insurance (London,: Associated Business Programmes, 1975), p.30, footnote 2.
  2. Abbey Life Assurance and Abbey Life 'Australia' are owned by ITT Hartford Europe Ltd., Grindlays Ltd owns Grindleys Brandts insurance brokers Ltd and Grindleys Brandts insurance services, while Britania steamships Insurance Association is managed by Tindall Riley and Co., see Cockerell & Green op. cit., p. 78.

## Reinsurance and the Extraction of Insurance Capital

Reinsurance is a contract whereby an insurance company agrees to reinsure, and a reinsurance company agrees to accept, a certain fixed share of risks upon terms agreed upon by the two parties.<sup>1</sup> When an insurance company gives part of its business to a reinsurer, it is said to have ceded it and becomes 'a ceding company'.

Reinsurance contracts fall into two main categories:<sup>2</sup> facultative, or optional reinsurance, and treaty reinsurance. Facultative reinsurance is a contract whereby a risk is considered separately by a reinsurer(s) on a risk-by-risk basis. The ceding company provides the reinsurer with all information pertaining to the particular risk(s), and the reinsurer decides upon the information given whether to accept the risk or reject it, or share a fraction of it with other reinsurers. It involves a large amount of clerical work and is characterized by high administrative costs. Hence the commissions paid in respect of it are invariably less than in most forms of treaty reinsurance. This category of business is suited to giant risks which an insurer with a small capacity has no option but to reinsure.<sup>3</sup>

- 
1. C.E. Golding, The Law and Practice of Reinsurance, (London: Buckley Press, [4th ed. 1965]), p.5. See also Liquidators of Glasgow Assurance Corporation v. Welsh Insurance Corporation Ltd [1914] S.C. 320, and Attorney-General v. Forsikring S. National (of Copenhagen). (1975), A.C. 639.
  2. R. Philippe Bellerose, Reinsurance For the Beginner. (London: Witherby & Co., [2nd. ed.] 1980), also R.L. Carter, Reinsurance, (London: Kluwer Publishing 1979).
  3. Ibid.

Treaty Reinsurance on the other hand, consists of two main categories: proportional treaties, and non-proportional treaties. Proportional treaties are of two kinds: quota share treaties, and surplus treaties.<sup>1</sup> A quota share treaty is an arrangement between the parties to reinsurance under which the ceding company agrees to cede a fixed proportion of every risk which it underwrites and the reinsurer agrees to accept every risk ceded. It is very simple to operate, involves virtually no costs and is most profitable to the reinsurer. It gives the reinsurer access to most of the cedant's business - more so than any other reinsurance arrangement, while the ceding company becomes bound to pass away tiny risks, even though they might fall within its retention capacity. However, because of its commissions, the highest of all reinsurance commissions, and the minimal costs and technical expertise it involves, it tends to encourage companies, especially small ones, to cede most of their business away thereby degenerating into *de facto* reinsurance brokers (see Chapter Three). For insurers in underdeveloped countries with their lack of expertise and know-how, quota-share reinsurance is, no doubt, an attractive method for ceding risks.

The other form of proportional treaty is the surplus reinsurance treaty under which the ceding company cedes to the reinsurer a surplus only after its retention capacity is exhausted. This type involves enormous administrative expenses and professional knowledge of adequate retention-fixing. The commissions paid by the reinsurer under this class of business are generally far less than under the former type and, therefore, a ceding company is likely to be more inclined to resort to quota share instead of surplus reinsurance, especially if it lacks a reinsurance expert.

---

1. Ibid.



Non-proportional treaties include excess of loss treaties and stop loss treaties. Under the former, the reinsurer agrees to indemnify the cedant for losses which exceed a certain fixed point i.e. a monetary limit in respect of any one event; and under the latter he protects the total results out of a certain class of business from additional losses over an agreed loss point. Both types of non-proportional treaties appear to be well suited to branches with a high loss ratio such as motor insurance,<sup>1</sup> and as a rule no commissions are paid under them because the benefits accruing to reinsurers are minimal in relation to other categories of business.<sup>2</sup>

Thus, it can be seen that reinsurance naturally operates in the interest of the reinsurer, sometimes at the expense of the ceding company. For where a ceding company has no option but to reinsure a big risk the method available (facultative reinsurance) confers little commission, and in fact the reinsurance market tends to be less competitive. But where the reinsurer extracts the largest possible share of the cedant's business at the expense of the latter's retention capabilities (quota share) the reward is higher; and where the cedant keeps some risks within its capacity and cedes less desirable risks (surplus reinsurance) its commissions shrink, until they virtually disappear under non-proportional treaties where the retention potential of the ceding company is utilized more.

- 
1. It could be used for other branches of business if the ceding company's retention capacity is sufficiently large to accommodate large risks. In this case only a minimum net outgo could be released.
  2. Henry T. Kramer, "The Nature of Reinsurance" in, Robert W. Strain (ed.), Reinsurance, (New York: College of Insurance, 1980), pp. 1-31, also a reply by Professor M. Grossmann to a questionnaire sent by UNCTAD Secretariat, 1967, also UNCTAD Secretariat, "Reinsurance Problems in Developing Countries", TD/B/C.3/106/Rev. 1, (U.N. New York, 1975), paras. 20-38, pp.9-13.

However, reinsurance, no doubt, serves various functions to a ceding company especially a small one; but as discussed below, the methods of reinsurance and the technical problems it entails, primarily make it a lucrative trade for reinsurers who also enjoy a better bargaining position *vis-à-vis* a ceding company from the Third World.

The basic function of reinsurance is to help the ceding company to maintain stable results by preventing fluctuations in its accounts from one year to the other, the *quid pro quo* being the willingness of the ceding company to share its good results with the reinsurer in return for the latter's support in hard times. The concept of insurance itself, being a method of balancing the effects of chance according to the law of probability, requires that some sort of reinsurance must be taken out by the direct insurers. For in order to obtain good results in any portfolio there must be a great number of insured risks which have in common a comparable size and a comparable degree of exposure to the happening of the event against which insurance was taken out.<sup>1</sup> But this does not always happen especially in underdeveloped countries where the portfolios are often so small that the law of probability does not operate sufficiently well in favour of an insurer.<sup>2</sup> The other problem with small portfolios is that they can easily be made uneven by the acceptance of giant risks such as jets, refineries, big factories etc. And as the capacity to retain is dependent upon the size

---

1. UNCTAD Secretariat, "Reinsurance Problems in Developing Countries"  
Supra. p.1.

2. It goes without saying that the more the divided the portfolio in any country i.e. the national portfolio, the more reinsurance will be needed since each portfolio creates a need for levelling by reinsurers independently of other portfolios.

of the portfolio, it follows that the smaller the portfolio the more reinsurance will be taken out. Sometimes a variety of insured events such as catastrophes, earthquakes and conflagrations may occur and cause chain losses which disturb the balance of a portfolio and cause greater losses than anticipated. In this situation reinsurance can help to prevent the impact of catastrophic accumulations at the level of the ceding company.

Thus reinsurance directly encourages the direct insurer to assume risks greater (in money value) than its own resources can permit, and which involve more liability than it can safely assume, it stabilizes the profits of the company and enables it to underwrite more business. For direct insurers of underdeveloped countries the ratio of added reinsurance capacity to the net capacity of the company may be as high as a hundred to one,<sup>1</sup> i.e. a company may multiply its capacity to take risks by 100 by use of reinsurance as opposed to relying on its own resources - a fact which makes reinsurance particularly attractive. Also, a significant function of reinsurance is to strengthen the ceding company's financial position by increasing the ratio of its assets to its liabilities, thereby enhancing its solvency (insurance regulation statutes require certain standards of solvency, see Chapter Three). The effect of reinsurance upon a company's capacity may be illustrated by the following example: assume that a company's assets stood at £500 and its liabilities at £250 i.e. a ratio of assets to liabilities of 2:1. If this company

---

1. Robert A. Baker, "The Purposes of Reinsurance", in Robert W. Strain (ed.). Reinsurance, Supra; see pp.33-4.

accepts a risk for an annual premium of £200, for example, which was paid at the inception of the contract with a cost of £20, then the position of the assets and liabilities will change in this order: the assets will increase from £500 to £680 i.e. £500 plus the £200 paid as premiums, minus the £20 cost of underwriting. The company's liabilities, on the other hand, will change drastically as the entire sum of £200 must be put into the unearned premium reserves, thus increasing total liabilities to £450 i.e. £250 plus £200. The ratio of assets to liabilities, then will have changed from the former 2:1 to 1.53:1, i.e. £680:450. However, if the company decides to reinsure this risk the ratio of its assets to its liabilities will again be enhanced. In particular, if the company decides to reinsure 50 per cent of the risk then its assets will decrease from the former £680 to £590 i.e. £680 minus 50 per cent of the premiums actually earned (the other 50 per cent or £90 being ceded to the reinsurer). Liabilities will also decrease from £450 to £350 consequent upon the unloading of 50 per cent of the total premiums of £200 (£100 i.e. 50 per cent of total premiums will be released to the reinsurer). But this transfer will increase the ratio of assets from the former level of 1.53:1 to 1.7:1 i.e. to £590:£350.<sup>1</sup>

Finally, the need for reinsurance by a direct insurer is, fundamentally, analogous to that which animates an ordinary purchaser of insurance to seek the protection of a specialized risk-taker. And as much as insurance is community pooling of risks through which an individual seeks to distribute

---

1. For illustration of how reinsurance affects new and existing business see Ibid, pp. 37.8.

his risk among other individuals, reinsurance is a method by which risk-takers seek to distribute their risks between them through the services of a reinsurer.

Undoubtedly, the more competent the ceding company, and particularly, the more accurately it assesses its reinsurance needs, the less 'unnecessary reinsurance' will be taken out and the more adequate the cover obtained can be. The assessment of reinsurance needs is known as reinsurance planning which is an elaborate process <sup>1</sup> in which the company should retain the optimum in respect of which its financial strength can still provide a cushion against adverse fluctuations in the portfolio while discharging a minimum net release. In a nutshell a reinsurance plan must ensure an adequate protection while achieving an economic cost. <sup>2</sup> But it is precisely in this process that most difficulties lie. For fixing a company's retention capacity is a difficult matter to assess with any precision with the result that ceding companies often err on the side of caution by over-reinsuring - a method which reinsurance science itself advocates. <sup>3</sup> Over-reinsurance is characteristic of Third World insurers where the lack of reinsurance expertise is most acute. Coupled with this, as mentioned earlier, there is the problem of the small and uneven portfolios which encourage reinsurance cessions even to the extent of undermining one's own retention potential.

- 
1. Richard F. Gilmore, "Planning and Managing a Reinsurance Programme" in Strain (ed.) op.cit., pp.347-417.
  2. "Reinsurance Problems in Developing Countries", op.cit., paras 9-10, p.7.
  3. See for example, R.S. Riegel & J. Miller, Insurance Principles and Practices, (Englewood Cliffs, Prentice-Hall Inc.1966), pp.95-100.

The temptation to receive reinsurance commissions also has a direct bearing on the volume of business ceded to reinsurers,<sup>1</sup> especially in cases of small portfolios where management costs eat up a high proportion of the premium income. A ceding company which underwrites an unfamiliar risk may also be tempted to seek the help of a professional reinsurer who is familiar with it for appraisal<sup>2</sup> i.e. to fix the appropriate premium level. The need to increase the underwriting capacity and to improve the ratio of assets to liabilities were dealt with earlier.

Because of all these services which reinsurance renders to a ceding company, and because of the problems obtaining in underdeveloped countries regarding reinsurance planning, the flow of reinsurance premiums to developed countries is increasing steadily (see below). This flow, however, appears to be entirely incommensurate with the real needs of reinsurance purchasers from underdeveloped countries; and, indeed, reflects adherence to underwriting methods that are flagrantly unsound. The explanation of this touches on a technical and a fundamental aspect of insurance: the retention potential of an insurer. This potential is said to depend upon the difference between the total amount of losses in each class of business, as anticipated within a short period of time, for example one year; and the mean value of these losses as calculated over a longer period of time, for example, 10 years.<sup>3</sup> The smaller the difference, the higher the potential

---

1. "Reinsurance Problems in Developing Countries", op. cit. para. 130, pp. 128-9.

2. Riegel & Miller, Insurance Principles and Practices, Supra. p.99

3. José Ripoll, "Some Thoughts on Insurance and Development", Supra, pp. 43-8.

for retention, and the less urgent reinsurance becomes for the particular insurer if the potential is utilized. Thus the cost of reinsurance to a direct insurer should be proportionate to its retention potential, and should fluctuate according to the need for reinsurance protection, as indicated by the loss experience. But if this flow of reinsurance premiums abroad for a country or company is uniform and regular or is constantly increasing then the only conclusion that can be made is that reinsurance by the particular cedant country or company is absolutely unrelated to any need for protection supposedly deriving from random contingencies and misfortune.<sup>1</sup> This is so, to repeat an earlier statement, because the essence of insurance business is the randomness and fluctuation of final results as the loss experience dictates.<sup>2</sup> An example of market cessions which are divorced from actual needs are those ceded by the Middle East insurance market. This market, the biggest of its kind in the Third World, ceded 80 per cent of its business in 1977 to London reinsurers<sup>3</sup> although the flow back of claims had little to do with this enormous transaction. In 1967, a rough estimate placed the size of insurance operations in underdeveloped countries at \$550-700m. of which \$300m. or about 50 per cent was ceded to western reinsurers.<sup>4</sup> On the other hand, while excessive reliance on reinsurance reduces the chances for optimum utilization of

---

1. Ibid., also José Ripoll, "UNCTAD and Insurance", Journal of World Trade Law, 1974, p.79.

2. Ibid.

3. The Financial Times, 25 March, 1977

4. UNCTAD, "Insurance and Developing Countries", Journal of World Trade Law, 1967, p.230.

capacity and retards the development of insurance on sound basis, the dependency on international reinsurers has meant in practice that economic development in underdeveloped countries is readily reflected in increasing outgoing cessions. Development plans in Saudi Arabia and Iraq totalling \$187.5 billion between 1976-1980, automatically resulted in massive re-insurance transfers to London.<sup>1</sup>

Another factor which divorces the flow of reinsurance from adequate local need - as measured by the flow back of reinsurance claims - is the price which reinsurers charge for their services. Reinsurance premiums, especially for non-proportional business, are fixed by international reinsurers on the basis of their global results (which include the results of their own markets) rather than on the experience of the particular country seeking reinsurance, despite the fact that non-proportional business from the Third World tends to be more-profitable than the business ceded by metropolitan-based insurers.<sup>2</sup> Also, where the risk is ceded on facultative basis, the reinsurer may fix the premiums which the policyholders of the ceding company must pay,<sup>3</sup> and the same applies to a risk which entails difficult technical matters or is new as far as the ceding company is concerned.<sup>4</sup> Undoubtedly, premium rates are fixed at profitable levels.

- 
1. Mustafa Rajab, "Current Developments of Arab Insurance Markets and Their Relationship with London and other International Markets", a paper presented to the Arab Insurance Conference, London, 1977, p.7.
  2. "Reinsurance Problems in Developing Countries", op.cit., para 53-4, p.15.
  3. Answers by Professor M. Grossmann to a questionnaire sent by UNCTAD, Supra, p.17.
  4. Ibid., pp. 16-17.



Another important factor behind the dissimilarity of reinsurance transfers and the transfers back of reinsurance claims is, of course, the inequality of the bargaining power of Third World insurers *vis-à-vis* professional reinsurers which enables the latter to obtain the best possible deal from the former. The balance of power in reinsurance transactions is constantly in favour of the professional reinsurer. In fact, the conditions of the reinsurance market appear to be worsening rather than improving for Third World insurers. It is no longer possible to describe the international reinsurance market as being 'completely divorced from competitive restrictions'.<sup>1</sup> In London, the biggest international insurance market, a Reinsurance Offices Association (R.O.A.) was formed in 1969 in order 'to facilitate and encourage co-operation between [reinsurance] companies on technical matters of general interest'.<sup>2</sup> So far the Association has undertaken the study of various matters of interest to its members such as reinsurance premium rates, currency fluctuations, stability classes (see below) and rates of interest.<sup>3</sup> In reinsurance transactions there are no standard terms and the provisions of each treaty are agreed upon between the contracting parties. Undoubtedly, the less experienced the ceding company, the more restrictive and onerous are the conditions and clauses that could be imposed upon it.<sup>4</sup> At any rate, it is not uncommon for a

---

1. Ibid., p.8

2. "Progress of R.O.A.", Policy, 1971, p.678.

3. Ibid.

4. "Reinsurance Problems in Developing Countries," op. cit. para. 62, p.17.

treaty to incorporate a clause enabling a reinsurer to interfere in the business of the ceding company by compelling it to keep all its books and documents available for inspection by the reinsurer on demand.<sup>1</sup> It is also common for reinsurers to insist on a 'revision clause' by which they could adjust the rates to cope with inflation in their countries.<sup>2</sup> But treaties do not always protect a leading company against inflation in its own country, and at best, the effect of such inflation could be apportioned equally between the two parties.<sup>3</sup> A clause to this effect is the stability clause which limits the amounts to be paid by the reinsurer and the power of the ceding company to settle claims in excess of a certain amount without the reinsurer's consent.<sup>4</sup>

Thus the extraction of capital from underdeveloped countries, a function formerly carried out by metropolitan insurers, has now become the function of indigenous entrepreneurs or the state, as the case maybe, but the destination of the extracted surplus has remained the same over the years. In theory, of course, the flow of reinsurance could change directions if big losses were met by the reinsurer, or if sufficiently large deposits were established by him in the ceding company's country of origin.<sup>5</sup> It must be added, however, that this is a rare exception in

---

1. See for example, R. Philippe Belbrose, Reinsurance for the Beginner, Supra. pp.65-78.

2. Policy, July 1971, pp. 666-78.

3. Gunnar Benktander, "Inflation, Insurance and Reinsurance", International Insurance Monitor, April 1975, pp. 47-9.

4. R. Philippe Belbrose, op.cit., p.48.

5. M. Grossman, "Reinsurance", in UNCTAD Secretariat", Inter-Regional Seminar on Insurance and Reinsurance-Prague, 20-30 October, 1969", TD/B/C.3/83, (Geneva, UNCTAD, 1971), p.94.

reinsurance transactions. As Golding maintains:<sup>1</sup>

This is a reversal of ordinary trade procedure and illustrates the difference between insurance and other forms of commercial undertaking. [But] it is of technical interest only, for in the long run reinsurance must produce a profit to the reinsurers or it cannot continue...

Unfortunately, information pertaining to the volume of reinsurance ceded from underdeveloped countries, and hence the effect of the transactions on their balance of payments, is only fragmentary and scattered. In 1953, Professor S.J. Lengyel, attempting to analyse the scope of international insurance transactions, commented that:<sup>2</sup>

It sounds strange, and yet it is true that insurance business, itself based on statistical experience, in many countries lacks proper statistics about the state and development of its own affairs. Either no statistics are available at all, or else they are very defective.

Although nearly 30 years have elapsed since Lengyel attempted to study the problem, the situation has not changed much. In fact, information pertaining to the size of world insurance and reinsurance transactions is deliberately concealed by professional insurers and reinsurers especially in Britain, and rarely finds its way to the insurance press, in view of the sensitivity of the developing countries over the possible earnings of outside insurers in their territories.<sup>3</sup> No proper statistics exist in

---

1. E.C. Golding, The Law and Practice of Reinsurance, Supra. p.30.

2. S.J. Lengyel, International Insurance Transactions, (London: Wadley and Ginn, 1953), p.17.

3. Policy Holder Insurance Journal, London, 11 September, 1970.

underdeveloped countries either. But there can be no doubt that the loss of insurance and reinsurance premiums by the underdeveloped countries is reflected in the gains which the professional insurers and reinsurers draw from these countries. In Britain, about two-thirds of the premium income of non-life insurers and reinsurers, and about one-fifth of the life business, are earned from abroad.<sup>1</sup> The surplus generated from invisibles - and particularly from insurance and reinsurance - has financed visible trade deficits throughout the last 200 years.<sup>2</sup> During the five year period 1967-1971, for example, *insurance earnings offset all visible trade deficits and made a surplus of £296m.*<sup>3</sup> The contribution of Lloyd's in British foreign earnings increased both relatively and absolutely during the decade 1965-1975, as it rose from £14m., or 17.2 per cent of all insurance earnings, to £217m. or 48 per cent of the same, a fact which, no doubt, explains the bestowal upon Havelock Hudson, the Chairman of Lloyd's of a knighthood in 1975 for his 'services to exports'.<sup>4</sup>

- 
1. Committee to Review the Functioning of Financial Institutions, Second Stage Evidence, Vol. 2 (London: HMSO, 1979), p.8.
  2. Ibid., pp.10-11.
  3. The U.K. Balance of Payments, 1972, Annex 5 (London: HMSO, 1972).
  4. Sir Francis Sandilands, "The Role of the City in the Export of Invisibles including insurance and reinsurance", A speech given at the C.11. in 1976, see also, Committee to Review the Functioning of Financial Institutions, Supra. Vol. 2., Appendix B., p.65.

Little wonder then that the British insurance industry which is the largest internationally-operated industry of its kind in the world,<sup>1</sup> has been the most vocal antagonist of the 'domestication of insurance' slogan advocated by some underdeveloped countries. In 1972, for example, in a U.N. Conference in Santiago, Britain alone abstained on, and later voted against, a recommendation to the effect that in underdeveloped countries transactions must be carried out largely by domestic companies, and that technical reserves must be invested locally. Britain has, for many years, been an advocate of the 'freedom of insurance doctrine' which argues that restrictions on the foreign supply of insurance 'can only mean that the insured may be prevented from buying the sort of cover he needs at the price he can afford.'<sup>2</sup> This doctrine is also popular in European insurance circles elsewhere. That is hardly surprising in view of the enormous income travelling annually from underdeveloped countries. But the general thinking in European countries, ironically, members of the E.E.C., appears to be that premium income generated in their territories should be invested in government paper in order to prevent insurance outflows and to protect policyholders.<sup>3</sup> In some E.E.C. countries the freedom to transact insurance business has become more restricted for British companies than it was before Britain joined the E.E.C.<sup>4</sup>

---

1. John H. Dunning, Insurance in the Economy, (London:Institute of Economic Affairs, Occasional Paper No. 34, 1971), p.7.

2. Per Sir Havelock Hudson, The Chairman of Lloyd's, in Best's Review, Oldwick New Jersey, April, 1976, p.48.

3. The Times, "Supplement on Insurance", 8 Feb. 1971.

4. Per Sir Havelock Hudson, Lloyd's List, 4 March, 1977.

The Economist<sup>1</sup> tells the following story:

A British Insurance Company, applying to the French insurance control authorities in the usual way for permission to underwrite in Paris, was kept waiting for so long that it finally demanded an explanation. In reply it was told that things would be easier if foreign companies could get into the Institute of London Underwriters, the club of the company marine underwriters in the London market ... It then emerged that other British companies had also been getting nowhere in their applications to write in France. French insurance companies are not alone on the Continent in their complaint that *in practice the London insurance market ... is hard to get into, even though in theory it is open to all comers having routine Department of Trade and Industry permission.* [emphasis added.]

So far, a genuine common market in insurance is no more than a fiction.<sup>2</sup> Each market in Europe appears to be closed for its domestic companies,<sup>3</sup> although relations with the companies of former colonies are strongly maintained. Emerging companies of the former colonies are, in fact, regularly warned against attempting to 'go international', while their goals to build their own industries are castigated as 'nationalistic'<sup>4</sup>, or as 'a misdirection of efforts'<sup>4</sup>. For professional insurers and reinsurers on the other hand, the expansion across boundaries is most essential for successful underwriting.

---

1. The Economist, 12 Feb. 1972 (London).

2. See T.H. Ellis, European Integration and Insurance: Creating a Common Insurance Market, (London: Witherby, 1980).

3. Until 1974, the number of foreign insurers in any one E.E.C. country did not exceed 13 and in some countries there was only one foreign insurer. The share of foreign offices in domestic premiums in some of those countries was not more than 1.5 per cent, see International Insurance Monitor, May 1974, pp.177-9.

4. Journal of the Insurance Institute of London, Vol. 53, pp.111-126, see also, Financial Times, 22 November, 1976.

5. G. Frederick Richardson, "The Effect of Legislation in Latin America Limiting the Freedom to Reinsure Internationally" CCPU Journal, December, 1979, p.207.

The effect of this expansion on direct insurance portfolios was dealt with earlier; for reinsurers expansion serves the same purposes, and every reinsurance risk included in the portfolio spreads the portfolio further, reduces the frequency of loss, and stabilizes global results.

There is yet another reason behind the desire to expand a reinsurance portfolio on a global scale. It was mentioned earlier that the bulk of business in the British reinsurance market comes from abroad and that the flow of reinsurance premiums from overseas does not correspond to any genuine need for reinsurance protection. However, had it not been for the unbalanced expansion of British reinsurers, i.e. underwriting more foreign than domestic business (the same applies to direct insurers), the British insurance industry could not have possibly been what it is now. This is so because reinsurance in particular, taken out by British insurance companies with British reinsurers (with whom they share the bargaining power) is, undoubtedly, nearly almost commensurate with their appropriate needs as indicated by their loss experience. British reinsurers could, therefore, only make meagre profits on the home front. But what keeps them in business to continue to serve their clients (and the British economy as a whole) are the large premiums coming from overseas and never returning in any sizeable quantity. *The function of these premiums thus retained in Britain is to subsidize the services rendered to domestic purchasers of reinsurance.* For in any collectivity where the bulk of revenue is contributed to by a segment that claims less than it contributes, the segment which contributes less and claims more will undoubtedly reap all the benefits of risk-distribution. The uneven expansion of British reinsurers (and direct insurers) has produced exactly this result. It has

made it possible for them to provide the widest possible range of reinsurance (and direct insurance) services at the lowest cost,<sup>1</sup> all at the expense of overseas insurers whose demand for reinsurance appears to be enormously exaggerated in relation to their actual needs.

#### IV. Insurance and Economic Development

##### A - Insurance in the Economy:

The treatment of the subject so far suggests that professional insurers and reinsurers do have a role in the polarization of wealth at one end of the world and of misery and want at the other end. In that the insurance institution is not different from other capitalist institutions. But this is a result of, not a reason for, its existence. In every country be it socialist or capitalist, developed or underdeveloped, insurance does perform valuable services to the economy. The role of insurance, anywhere, centres around the minimization of the effects of risks by distributing risks among a very large number of enterprises or individuals who wish to have the burden of risk transferred away from them in consideration for small payments to the insurer. In other words, the person or corporate body who seeks the help of an insurer, substitutes the certainty of a known, fixed and small premium for the uncertainty of incurring losses which are unknown in time, and unpredictable in size and severity.<sup>2</sup> Risks are spread by a risk-taker in two directions: over time and between a large group of

- 
1. Committee to Review the Functioning and Financial Institutions, op. cit. Vol 2, p.2.
  2. R.L. Carter, Economics and Insurance (Cheshire: P.H. Press, 1972)



risk averse individuals or enterprises. Long term insurance, or life assurance, has an emphasis on spreading risks over a long period of time, sometimes a life time; whereas general or non-life insurance pools the risks between a large group of individuals or enterprises to soften the effects of any one risk when the event insured against occurs. <sup>1</sup>

Two further aspects of insurance must be examined: firstly, an insurer cannot eliminate the risk of misfortune altogether, but an enterprise which transfers its risk through insurance, could venture into hitherto unexplored fields without fear of loss. In this way insurance directly promotes economic activities by enlarging their scope. Likewise, for an individual who takes out a life policy, for example, insurance cannot prevent the risk of death or misfortune, but in case of premature death insurance secures the payment of an agreed sum of money to a deceased policyholder's dependants. In this latter case, insurance represents a very important means for the mobilization of individual savings and a useful institution for society. Secondly, although it is true that the covering of anticipated losses causes a reduction in national income represented by the small premiums paid to an insurer, <sup>2</sup> the premiums accumulated by insurers are readily invested back into the economy with enormous benefits to the society in which such investments are made.

- 
1. J.S. Revell, The British Financial System (London: Macmillan, 1973), p.401.
  2. A.R.N. Ratcliffe, "Services to the Economy", Journal of the Insurance Institute of London, Vol. 71, pp. 155-64, at p.155.

Thus the capital reduction at one end is paralleled by capital formation at the other end. In performing their economic functions, therefore, insurance companies have the most serious implications for the capital markets in which they operate in that they act as intermediaries between those who wish to lend their money and those who wish to borrow it. In this process, insurers are part of the financial network which leaves no sum of money to remain idle.

The assumption of risk by insurers, and the accumulation of capital for investment, were interwoven and concomitant processes upon which the development of capitalism in Britain was, in part, dependent. British insurers underwrote the economic hazards which characterized each phase of capitalist development, and amassed great wealth which promoted capitalism to a more advanced phase. Under commercial capitalism, for example, (a phase which witnessed the expansion of trade across the seas) insurers protected vessels against perils of the sea, thieves, rovers and enemies.<sup>1</sup> In the slave trade period, half the total trade was carried by British ships<sup>2</sup> for which insurers provided cover against sea voyage disasters, while the owners of insurance companies took an active part in the lucrative trade.<sup>3</sup> The massive capital accumulated by the slave trade

- 
1. See for example, the original marine insurance policy in E.R. Hardy, Ivamy, Marine Insurance, (London: Butterworths [2nd.ed.], 1974), pp. 103-6.
  2. Sir R. Coupland, The British Anti-Slavery Movement, (Oxford: Oxford University Press, 1933 [reprinted Cass, 1964]), pp.19-24.
  3. For the role of insurance men in the slave trade see Cockerell & Green op.cit, p.8, and for the involvement of Lloyd's, Phoenix Assurance and the Liverpool Association of Underwriters, see Eric Williams, Capitalism and Slavery, (London: Andre Deutsch, [3rd ed. 1972]), pp.104-5.

and the trade with the East, laid the foundations for the industrial revolution. The increasing rate of fire and other industrial hazards consequent upon industrialization gave rise to the practice of fire insurance by the early fire offices which rose from only 12 in 1790 to 50 by 1881.<sup>1</sup> Towards the end of the nineteenth century, liability insurance appeared after the Employers Liability Act, 1880 had made the master liable for injuries caused to certain classes of employees. The economic depression of the 1870s and 80s, resulted in massive unemployment, defalcations and burglaries, and led to the emergence of certain categories of insurances viz: fidelity, cash in transit, housebreaking and burglary insurance.<sup>2</sup> Thus the assumption of risk by insurance companies, though inevitable for economic development, appears to be a means to an end: capital accumulation, and the investment of accumulated capital.

B. Insurance and Development in Underdeveloped Countries:

In recent years there has been a sudden burst of interest regarding the insurance industry in the majority of underdeveloped countries. Two reasons appear to have been responsible for this: firstly, most of those

- 
1. Supple, The Royal Exchange, op.cit., pp.212-3, P.M. Dickson, the Sun Fire Office, Supra. p.73.
  2. See e.g. W.A. Dinsdale, History of Accident Insurance in Great Britain, (London: Stone & Cox, 1954), pp.263-6.

countries - especially non-oil producing ones - are characterized by severe shortages of capital (although this was not the reason for their underdevelopment), and insurance has been suggested as one of the important sources for financing economic development through domestic means.<sup>1</sup> Foreign supply of capital, despite its problems<sup>2</sup>, does not appear to be a substitute for domestic capital, and has not been an effective vehicle for economic progress.<sup>3</sup> But the problem which insurance gives rise to in these countries is that the historical origin of the industry still bears heavily on its present day roles in that the industry has largely remained as a conveyor belt for the transfer of capital to the metropolises thereby adding to capital shortages at the other end. Secondly, there has also been much concern about the 'domestication of insurance' so as to make it function in the interest of underdeveloped countries by underwriting their specific socio-economic hazards. Two reasons call for the domestication of the insurance institution in these

- 
1. U.N., "Domestic Financing of Economic Development". (U.N., New York, Inter-Department of Economic Affairs, 1950, pp.13-87.
  2. See e.g. U.N. Secretariat, "The Tying of Aid: Progress Report", TD/7/ Supp.4, (U.N., New York, 1967), also Robert I. Rhodes (ed.), Imperialism and Underdevelopment, (New York and London: Monthly Review Press, 1970); and Teesa Hayter, Aid As Imperialism, (New York: Penguin Books, 1974).
  3. In some countries economic progress took place without any significant flow of aid, and in others, like India, foreign aid had little impact on economic development, see J.E. Spero, The Politics of International Economic Relations (London: Allen & Unwin, 1978), p.141.

countries: (a) insurance practices which obtain today in these countries were largely the result of economic and social developments in Europe where the institution developed as a handmaiden of other enterprises in society. In the periphery, where the institutions were superimposed through the operation of capital, they remained an alien body to the economic structures which had prevailed before. And as indigenous insurers later emerged, their institutions followed the European model and copied its business tradition. Hence, many of the socio-economic hazards characteristic of peripheral societies are still difficult, indeed impossible, to marry with insurance principles. Famines, for example, fall outside the scope of insurable hazards because in these societies famines are bleak certainties rather than random contingencies to which the law of probability can apply.<sup>1</sup> Fire insurance is not available to straw huts (which form the majority of residences) because of their high exposure to fire! Property insurance only benefits a miniscule, privileged class of property owners; and life insurance is virtually unheard of in rural areas where a variety of epidemic diseases take their tolls of human life every year. Thus, it appears that in underdeveloped countries, insurance is unlikely to contribute to economic development if it remains divorced from the basic socio-economic needs i.e. of providing cover against the specific hazards which prevail there. (b) By following principles developed elsewhere, insurers in the periphery cannot develop to the same size and strength as their metropolitan counterparts, for neither the past nor the present of Third World insurers resembles in

---

1. José Ripoll, "Some Thoughts on Insurance and Development" op.cit., p.48.

any way the past of metropolitan insurers; and the conditions which stimulated the development of the latter such as slave trade and wars, cannot be repeated in favour of the former.<sup>1</sup> It follows that a meaningful role for insurance in emerging countries is primarily dependent upon the evolution of novel insurance functions which could add to the functions which insurance serves at the present.

It appears that a rational policy aimed at the utilization of the insurance institution in order to contribute to economic and social development in underdeveloped countries, could address itself to four basic areas: (a) it could enhance the capital formation role of the institutions, (b) it could direct its investments to the appropriate fields, (c) it could direct the institution to play as positive a role as possible in the country's balance of payments, and (d) it could ensure an adequate protection to the public who purchase insurance policies. With regard to a redefined role in the formation of capital-which caters for social demands - it has been suggested that agricultural insurance schemes could be initiated in underdeveloped countries so that small farmers could be assured of financial backing during a time of natural calamity such as a bad harvest or drought, all in return for very small fixed premiums.<sup>2</sup>

---

1. The war against Napoleon, for example, which made England great also ended with the greatness of Lloyd's see F. Martin, The History of Lloyd's and of Marine Insurance in Great Britain, (London: Macmillan, 1876).

2. José Ripoll, "Contributions of Agricultural Insurance Toward Economic Development", The Platform, Jan/Feb. 1980.

A programme of this kind is particularly relevant to countries where no agricultural credit system exists for small farmers who often resort to traditional credit from money lenders who, in turn, charge exorbitant rates of interest. Also, the programme could promote increased and selected agricultural production, improve crop specialization, increase intensive investments, credit facilities and might even become a means for the re-allocation of resources to ensure a more even national development.<sup>1</sup>

The success of a programme of this nature will depend upon the level of premiums to be paid by farmers. The smaller the premium, the more likely a farmer can afford to participate. Although this may mean a smaller fund for the insurer i.e. insufficient contribution to capital formation, the fund could be made to grow gradually under state control (and support in its early phase). Also life insurance could be made to function on a very large scale, especially in countries with no adequate social insurance systems. Based on small premiums life insurance could have significant implications for a particular economy, especially if the accumulated funds were invested in social services such as low-cost housing, health and education.

To the extent that an agricultural insurance programme and a life insurance scheme could contribute a great deal to the financial solvency of a particular insurer, the country in which such insurer operates could derive several benefits. Its balance of payments, in particular, could improve because vast coverage could become available for insurance buyers at home and there would also be a reduction in the need for reinsurance

---

1. Ibid.

consequent upon the increased retention capacity. The balance of payments could also be enhanced through tightened controls upon reinsurance cessions. This could be achieved in two ways: (a) regulations could be made to the effect that only risks which have foreign exchange implications i.e. those which would have to be met by foreign currency, could be reinsured abroad, (b) the market could be concentrated into few companies (ideally one concern only) to increase its retention capacity and minimize the need for reinsurance. A redefinition of the functions and practices of the institution appears inevitable for an optimum allocation of resources, because every dollar spent on insurance or reinsurance by an underdeveloped country is, no doubt, a dollar lost for capital goods or some other matter, and must be evaluated against the benefits which other goods or equipments would have brought to the country had the dollar been spent on such goods or services.<sup>1</sup>

The underlying theme of our discussion so far is that the insurance institution has had a role to play in the underdevelopment of the Third World and that it now continues to do so under the veil of reinsurance. As we have seen, in view of the 'services' which reinsurance renders to companies of emerging countries and in view of the methods and techniques which underlie the trade the interests of the developed and the underdeveloped countries are in constant conflict in the field of insurance. And as we have indicated above, the institution could only be of value to underdeveloped countries if it ceased to be a factor of underdevelopment and if its functions could be redefined to serve the goals of economic and social change (some of the

---

1. José Ripoll, "Some Thoughts on Insurance and Development", op.cit. p.44.



reforms which could go some length towards creating an institution with redefined roles were outlined above).

The promotion and implementation of novel insurance strategies and hence, the utilization of insurance for economic development, appears to depend upon the degree to which insurance is regulated or controlled toward the achievement of redefined goals. The case studies of the Sudan and Tanzania examined in this Thesis represent two different models of insurance control: *a regulatory model and a direct interventionist model*. The Sudan adopted a regulatory model; Tanzania adapted a direct interventionist model. Under the former the state sought to regulate or influence the conduct of private economic actors in society through a regulation law which set out the norms and rules of action: under the latter the state itself became the economic actor and no regulation code was deemed necessary. Under the regulatory model the extent to which insurance could lend itself to serve development is limited to *the provisions of the law* under which it is regulated toward that end; under the direct model the achievement of development goals through insurance is the task of *wider state action*. Therefore, under the regulatory model the implementation of national strategies tends to depend upon the quality and nature of the regulation code, the ability to enforce it, and the degree of the industry's conformity to the code. Under the direct model the state is in a position to implement its strategies directly through an intermediary administrative body set up to govern the insurance concern by carrying out state policy, and the problems which afflict the regulatory model are generally avoided.

The remaining chapters of this Thesis attempt to show how the differences between the two models of control have influenced the chances of each country regarding the utilization of insurance for economic development. In other words, the object is to see how the same institution has responded to the problems common to the two countries, and how the different characteristics of each market viz: juridical ownership of the institution, the market structure and the quality of control, have enhanced, or otherwise frustrated, the attempt to redefine the functions of the insurance industry so as to make it serve the interest of the particular country rather than the metropolitan centre.

Before the Sudanese case is examined some aspects of the political economy of the Sudan (which ultimately affect the insurance sector) are investigated in the following chapter.

CHAPTER TWO : ON THE POLITICAL ECONOMY OF THE SUDAN

'You are aware that the end of all our effort and this expense is to procure negros [from Sudan]. Please show zeal in carrying out our wishes in this capital matter.'

Mohmed Ali Pasha Khedive of Egypt to Defterdar, September 1825, quoted by M.P. Holt, A Modern History of the Sudan (London: Weidenfeld and Nicolson, 1972), p.33.

I. Introduction

What has been said so far brings out the role of one institution i.e. insurance, in the underdevelopment of the periphery. However, insurance was only one factor of underdevelopment and the investigation of its role to the exclusion of other factors could only tell part of the story of underdevelopment. In this chapter, therefore, (and at the cost of touching on arguments made earlier) the emphasis is on the wider processes of colonial exploitation and distortion of the economies and societies of the periphery i.e. the rise of underdevelopment, and on the structural underpinnings of underdevelopment in neo-colonial situations. These aspects are examined with reference to the Sudan. The object, however, is to set the stage for the examination of the Sudanese insurance industry with which the following chapter is concerned. Undoubtedly, proper understanding of any institution - insurance included - begins with the study of the economic and social framework in which the institution operates. And only an interdisciplinary approach which considers some major social and economic aspects of the Sudan could meaningfully assess the chances of the country in utilizing its insurance industry to further economic and social development in the manner outlined in the last chapter. The issues examined here should, therefore,

provide answers for some basic questions concerning the sort of environment in which the institution operates, and the likelihood of the promotion of novel insurance strategies to suit the needs of the country.

The task of investigating a country's conditions of underdevelopment appears easier to achieve if such conditions are examined against the background of some theoretical propositions common to the experiences of all underdeveloped countries. The search for propositions underlying colonialism imposes no strain on originality for, as was mentioned earlier, the theory of underdevelopment has provided a wealth of propositions on the origin and causes of underdevelopment. But what makes the background of common experiences a reliable framework of reference is the fact that colonialism, though uniform in its ends and purposes, adhered to no one policy of exploitation, and even within the same colony, sometimes displayed a multitude of economic and social policies all ultimately leading toward the achievement of imperial designs. In some colonies, and due to certain colonial policies, peculiar conditions and characteristics existed. It is therefore, 'safer' to test the propositions available in the literature in the case of each individual country lest the peculiarities of that country blur the vision for a full understanding of its conditions of underdevelopment.

In the literature on underdevelopment an underdeveloped country (especially one that adheres to a capitalist trajectory of development after the termination of colonial rule) is the one to which the following hypotheses apply:

(A) Before its incorporation into the world system, the country was not underdeveloped, though it may have been 'undeveloped'.<sup>1</sup> It had met the demands of its people, and more often than not, had possessed most of the conditions necessary for human progress.

(B) Underdevelopment of such a country was the function of imperialist hegemony of the centre in that: the acquisition of subsistence farms for large-scale plantations or mining, and the shunting around of human resources and their forced engagement in such plantations and in mines, upset the self-sufficiency of the country and appropriated, for colonial ends, the social labour upon which its progress depended.<sup>2</sup>

(C) Underdevelopment was also the product of imperialism, as mentioned in the previous chapter, in that the surplus accruing to a country was exported to the centre the development of which was not possible without a concomitant situation of underdevelopment in such a country.<sup>3</sup>

---

1. A.G. Frank, Latin America: Underdevelopment or Revolution, Supra.,

2. Paul A Baran, the Political Economy of Growth, Supra., pp.275-6.

3. See e.g. G. Ospiev, Sociology, Problems of Theory and Method, (Moscow: Progress Publishers, 1969), pp.8-9.

(D) An underdeveloped country experienced a change in the nature of the social relations of production consequent upon the operation of a capitalist mode of production and the relations of production in it generally followed those under an advanced capitalist country.<sup>1</sup>

(E) If an underdeveloped country attempts to develop along a capitalist path, its development becomes 'a development of underdevelopment'.<sup>2</sup> In a number of underdeveloped countries which experienced this retrogression, two factors related to the manner of surplus appropriation featured prominently:

1. The maintenance of colonial economic structures by a bourgeoisie in a country, has meant that this bourgeoisie could appropriate an enormous part of the surplus accruing to society just as the foreign entrepreneur did under colonial rule. This surplus, however, is either wasted in lavish consumption or it is hoarded. But as this bourgeoisie controls state power, it initiates economic and social policies which maintain the underlying structures of underdevelopment and thus reproduce underdevelopment.<sup>3</sup>

2. The continuing economic relations between the centre and the underdeveloped country has meant that the centre could continue to drain a large part of the surplus made in such a country through the exchange of advantages between them. This exchange is an 'unequal exchange'.<sup>4</sup> This is so because the continued

---

1. A.G. Frank, Lumpenbourgeoise:Lumpendevlopment, (New York and London: Monthly Review Press, 1974), passim.

2. Andre G. Frank, Capitalism and Underdevelopment in Latin America, Supra.

3. See e.g. Colin Leys, Underdevelopment in Kenya, The Political Economy of Neo-Colonialism, Supra., passim

4. Arghiri Emmannel, Unequal Exchange, Supra., Passim.

division of labour manifested, at the peripheral end, in the export of agricultural products, together with the persistence of low reward for labour, make the goods exported from the periphery relatively cheaper than the goods coming from the opposite direction. Thus the centre with its high wages could benefit from the lower wages obtaining in the periphery by being able to purchase goods at lower prices than if goods were produced locally. The periphery, however, could only lose because it pays higher prices for goods produced in high wage countries than if goods were produced locally. This exchange tends to perpetuate underdevelopment of the periphery in that the lack of surplus necessary for development becomes cumulative and technological progress becomes difficult to achieve.

The remaining part of this chapter is an attempt to test the application of these characteristics and hypotheses to the Sudan. A close look at the hypotheses suggests that the conditions of underdevelopment in a particular country could be investigated with reference to three basic areas: (a) the conditions of a country before its incorporation into the world system, and the manner in which such incorporation was achieved, (b) the effects of such incorporation upon future developments in the country, and (c) the degree to which the interests of the bourgeoisie play a role in the maintenance of colonial economic structures in a neo-colonial form. Without adhering to this order, these areas are examined below in the case of the Sudan.

---

## II. The Roots of Underdevelopment in the Sudan:

### A. Colonial Rule : 1820-1956

#### 1. Turko-Egyptian Colonialism 1820-1885

Like fellow Africans elsewhere, Sudanese people eked out their living from subsistence agriculture and herding for many centuries. The Nile Valley was the most populated part of the country. It provided a means of communication, a path for migration and invasion from the North, and was the cradle of early Sudanese civilizations. Occasional tribal conflicts ensued from time to time over pastures and spheres of influence, and consequent economic hazards were not entirely unknown. But undoubtedly, nearly all the conditions necessary for human development had existed in one way or another.

The nineteenth century, however, opened with a disadvantage to the Sudan. The Turkish occupation of Egypt had upset the balance of power in the Nile Valley and, militarily, Egypt became the most powerful country in Africa. An imperialist power was born. And from earlier times Egypt was anxious to secure the sources of the Nile upon which its livelihood depended, to exploit the gold mines of the Sudan, and to enslave Sudanese who could man the Turko-Egyptian armies.<sup>1</sup> In the wake of these imperial ambitions, the Sudan was annexed to Egypt in 1821. The nature of primitive accumulation from the Sudan under Turko-Egyptian colonialism corresponded

---

1. M.P. Holt, A Modern History of the Sudan, Supra., pp.35-7.



to the low level of capitalist development in Egypt. Egypt was a feudal society dominated by a landed aristocracy. There was, therefore, no attempt to destroy rural handicrafts or to turn the Sudan into a market for Egyptian goods, nor was there any serious attempt to build a communication network to link the Sudan to Egypt. But in a frantic orgy of resource accumulation, the colonial administration exploited products such as gum arabic, ground nuts, ostrich feathers and opium, although only ivory, captured cattle and heavy taxes could swell its coffers satisfactorily.<sup>1</sup> In fact, as no gold could be found, the administration resorted to heavy taxation upon native Sudanese. Taxes, however, bordered on confiscation, and the manner in which they were levied was 'cruel and extortionate to the last degree'.<sup>2</sup> And when Southern Sudan was annexed to the Egyptian empire, slaves became the most important 'item' of the booty. The nearest to a modern colonial plantation was a small scheme in Eastern Sudan developed to augment Egyptian cotton exports in the cotton boom during the American Civil War, but was later abandoned.<sup>3</sup>

This rule which lasted over six decades, was a great economic and social setback for the Sudan. Two developments, in particular, which took place during this time featured prominently as factors of great importance in the underdevelopment of the Sudan. Firstly, the hunt for men and elephants of the Sudan and the battles against the natives who defaulted in taxes or

- 
1. Richard Hill, Egypt in the Sudan, (Oxford: Oxford University Press, 1959), pp.49-57.
  2. Muddathir Abd Al-Rahim, Imperialism and Nationalism in the Sudan, (Oxford: Oxford University Press, 1969), p.73.
  3. Holt, op.cit., p.73.

showed some independence, were primary factors in the depopulation of the Sudan (which is now one of the most sparsely populated countries in Africa). This depopulation process was intensified at a later phase of colonial rule because, as common in slave-trade ridden societies of Africa in the nineteenth century, the procurement of slaves depended not solely upon series of raids which permitted the extraction of human hunt by sheer brute force. Rather, the entire structure of society underwent a process of adaptation and change<sup>1</sup>, all ultimately leading toward the export of slaves to Egypt. Slave raids had initially caused the disintegration of the clan organization and speeded up the emergence of 'nomad feudalism' founded on a territorial basis and dominated by warrior nobles.<sup>2</sup> Warrior nobles were, in turn, encouraged to invade their enemies whose virtual physical removal from the vicinity became possible under the slave trade institution.<sup>3</sup> Secondly, the onerous taxes and the forced recruitment of men into the colonial army, resulted in an unprecedented human dislocation of Sudanese society north and south. Peasants fled in thousands, abandoned their homes along the Nile, and often had to settle for a lower standard of living in barren areas, beyond the reach of the administration, but in circumstances which inhibited human innovation and progress.

- 
1. See e.g. G. Dupré and P.P. Rey, "Reflections on the Pertinence of a Theory of Exchange", Economy and Society, Vol. 2, No. 2, 1973, pp.131-163.
  2. Samir Amin, "Underdevelopment and Dependence in Black Africa", (1971), A paper presented for the U.N. African Institute for Economic Development and Planning, Dakar, Senegal, quoted by Carole Collins, "Colonialism and Class Struggles in the Sudan", Middle East Research and Information Project, No. 46, p.5.
  3. See e.g. M. Omer Beshir, Southern Sudan: Background to Conflict, (London: Hurst, 1968), pp.11-12.

It was against this background that Sudanese people united under the leadership of al-Mahdi to throw off the yoke of foreign rule and establish their 'Mahdist state' in 1885. Though largely peasant-dominated, the Mahdist movement's failure 'to understand the dynamics of its own oppression led to the entrenchment of a new system of semi-feudal social relationships',<sup>1</sup> and a tribal autocracy which accelerated its own eclipse.<sup>2</sup> At any rate, as was shown in the earlier chapter, the close of the nineteenth century was a period of European scramble for Africa, and throughout its short life (1885-1898), the nascent state was regularly harassed by Italians from the East, Belgians from the South, and the French from the West, until it was finally invaded by an Anglo-Egyptian army from the North in 1898. After one major battle with the invading force, the Mahdist state was over.

## 2. Condominium Colonialism

Soon after the reconquest of the Sudan by Britain and Egypt, the Condominium agreement 1899 was signed to establish a formal link between the Khedive (of Egypt) and Britain in a joint sovereignty over the Sudan. The relevance of this agreement to the issues examined in this chapter will appear later, suffice it to say here that the agreement was no more than

- 
1. Carole Collins, "Colonialism and Class Struggle in the Sudan", Supra., p.5.
  2. M.P. Holt, The Mahdist State in the Sudan, 1881-1898, (Oxford: The Clarendon Press, 1958).

a legal fiction. There was no provision governing 'sovereignty' over the Sudan<sup>1</sup>, and it seemed quite clear that Britain simply regarded the Sudan as its own colony. The agreement provided for a post of Governor General of the Sudan who was to be appointed by a Khadival decree, and who was to be an Egyptian official (not citizen); but the agreement provided that such appointment could only be made by the recommendation of the British Government.<sup>2</sup> However, all Governors of the Sudan until independence in 1956 were British, and the upper echelons of power in the bureaucracy were filled by British officials. Egyptians only served in the lower ranks and with little chance of promotion. More significant, however, were the provisions dealing with the non-applicability of Egyptian laws to the Sudan, and the imposition of import duties upon goods coming to Sudan from Egypt.

The implications of the agreement for the Sudan were that the Sudan was to respond primarily to the needs of Britain, a highly industrialized capitalist country, rather than to the needs of the landed aristocracy of feudalist Egypt. The nature of capital accumulation or extraction of surplus from the Sudan was to undergo a tremendous change from the previous Turko-Egyptian period to satisfy the needs of British Capitalism. Thus some of the present conditions of underdevelopment in the Sudan, though with roots in earlier colonialism, must largely be sought in this second phase of colonial hegemony when the impact of colonialism was, no doubt, greater.

- 
1. See e.g. M.A. Mahgoub, Democracy on Trial, (London: André Deutsch, 1974) p. 35.
  2. Article X of the agreement, see Mudhathir Abd Al-Rahim, Imperialism and Nationalism in the Sudan, Supra.,

B. Economic, Social and Political Underdevelopment Under British Colonialism:

The British administration did not seek to make the Sudan a settler colony in view of its unfavourable weather conditions, and accordingly, their land policy differed from that in some other colonies such as Kenya for example. Though land was converted into a commodity, the intention was to end confusion in land tenure caused under Mahdism, to prevent speculation in land and to create a landed class of yeoman farmers to lead the support for British policies in the Sudan. Legislation passed in this connection consisted of the Title to Lands Ordinance 1899, under which absolute title to land was obtained after uninterrupted possession for five years, and the Land Settlement Ordinance passed in 1905.

The primary colonial task was to orient the economy toward the outside world. Railways were built (at the expense of Egypt) to link production areas to world markets. One such line extended to Gezira in central Sudan to transport, at first, gum arabic. Port-Sudan was developed into a modern port and was linked to Kassala in the East by rail to facilitate the export of eastern products, while Nile steamers linked remote production areas to the nearest railway loading terminals.<sup>1</sup> It was equally important to annihilate rural handicrafts and small industries such as cloth, shoes and kitchenware in order to create a market for manufactured good from abroad.

---

1. C. Wilkins, "Transport in the Sudan," in Ali Mohamed El-Hassan, (ed.). An Introduction to the Sudan Economy, (Khartoum: Khartoum University Press, 1976), pp.102-3.

Britain was, of course, the major supplier of these imports and the principal customer for Sudanese exports, while the share of Egypt in Sudanese trade was falling constantly.<sup>1</sup> Also, all major investments in the Sudan were British. These included the Sudan Light and Power Company, the Sudan Meat Products and a mining firm which exploited all gold deposits it could lay its hands on, in Eastern Sudan.<sup>2</sup> And all loans advanced by the Government were made available to British entrepreneurs. These amounted to £10m. between 1919-1924, and were mainly advanced for railway construction and development of agricultural schemes.<sup>3</sup> The monetary system was yet, another field in which British interests ruled supreme. Nearly all banks and most insurance agencies were branches of British enterprises and were administered from abroad through regional satellite offices in Cairo and elsewhere.

The major colonial development in the Sudan was the establishment of the Gezira scheme (the biggest farm in the world) for cotton production. The development of the scheme was primarily a response to pressures upon the British Government by the British Cotton Growing Association and Lancashire MPs in the House of Commons to develop a cotton scheme in view of the competition to the British textile industry by the U.S., Japan and

---

1. Mekki Abbas, The Sudan Question, (London: Faber and Faber Ltd, 1951), pp. 93-7.

2. Ibid., p.93.

3. Abdel Rahman M. Wahab, "Development Planning in the Sudan," in An Introduction to the Sudan Economy, Supra., p.217.

Egypt, and the uncertainty of cotton supplies to Britain.<sup>1</sup> As Gaitskell maintains:<sup>2</sup>

The failure of the American and Egyptian crops in 1909 brought home to Lancashire spinners the perils of relying on these two countries, especially for the longer and finer cotton increasingly demanded for better quality yarns.

With greedy eyes upon the Sudan the British Cotton Growing Association pressurized the British Government to carry out the type of 'development' which the Association desired there. In the words of a member:<sup>3</sup>

Experiments have abundantly proved that the Sudan is not only the finest cotton growing country in the whole of the British Empire, but what is more important, that it can grow the sort of cotton Lancashire requires.... [A] loan will develop the resources of the Sudan under British guidance in a way which will ensure the more permanent prosperity of the cotton industry.

Thus a loan of £3m. (described by a Lancashire MP as a 'bounty to Lancashire')<sup>4</sup> was granted by the British Government to the Sudan Plantation Syndicate and Kassala Cotton Syndicate to construct a dam and a main canal at Sennar on the Blue Nile for irrigation. When production started, cotton was marketed by the Gezira Marketing Board which had its headquarters in

---

1. Tony Barnett, The Gezira Scheme : An Illusion of Development, (London: Frank Cass, 1977), pp.4-5.

2. A. Gaitskell, Gezira: A story of Development in the Sudan, (London: Farber and Farber Ltd, 1959), p.54.

3. Quoted by Tony Barnett, the Gezira scheme, Supra., p.5.

4. Ibid., p.6.

London and which sold mainly to British manufacturers. The success of the scheme depended—depends—upon the supply of cheap labour from western Sudan through the customary colonial methods of heavy taxes upon the inhabitants of a region designed to force them to seek employment. It must be mentioned, however, that the proceeds of the Gezira cotton are the backbone of Sudanese economy now.

The development of the scheme confirms the argument made earlier that it was in the interest of Britain, not Egypt, that the Sudan was developed/underdeveloped during this period. For the construction of a dam had a direct bearing on the share of Nile waters accruing to Egypt, while the development of a cotton scheme of the Gezira size threatened the Egyptian economy which depended heavily on cotton exports.

British rule in the Sudan was a period of great economic stagnation. The reason behind this was the administration's concern about maintaining self-sufficiency and balanced budgets in each colony in order to minimize the pressures on the British Treasury.<sup>1</sup> Thus, in the Sudan 'development policy' was made subservient to fiscal policy, and all capital projects planned were to be financed from a General Reserve Fund. Economic development was, therefore, constrained by the level of reserves accumulated each year.<sup>2</sup> While those developments represented 'expenditures' (incidentally these were largely services to the European personnel), the bulk of 'revenue'

- 
1. E.A. Brett, Colonialism and Underdevelopment in East Africa: The Politics of Economic Change 1919-1939, (London: Heinemann, 1973), pp.141-3.
  2. Abdel Rahman Abdel Wahab, "Development Planning in the Sudan" in Ali M. El-Hassan, (ed.), An Introduction to the Sudan Economy, op.cit., p.212.



was drawn from fiscal levies on import and export activities related to foreign trade.<sup>1</sup> In the aftermath of World War II, and as a concession to the Nationalist movement, the administration embarked on two development programmes for the periods 1946-1951 and 1951-1956. The first of these devoted a sum of £14m. for 'an odd collection of about 200 unrelated projects',<sup>2</sup> and the second listed another 312 schemes at a cost of £E.45.5m., but was no better than the former programme.<sup>3</sup> On the political and social planes, two colonial policies must be mentioned before this section is concluded. The one concerns the customary 'divide and rule' policy which characterized British colonialism, the other concerns the colonial educational policy.

Because of the distance of Southern Sudan from the port on the Red Sea, and because of weather conditions, and the dominance of peculiar tribal values in the South which did not encourage a demand for manufactured goods, the British administration ignored southern Sudan as being too expensive to exploit.<sup>4</sup> Later, however, it was envisaged that the administration should encourage the development of the Southern region along distinctly African or negroid lines to the exclusion of Afro-Arab and Islamic influence

- 
1. A. El-Musin Mustafa. "The Structural Malformation of the Sudanese Economy". (Economic and Social Research Council, Khartoum 1977), Part I, p.19.
  2. Abdel Rahman Abdel Wahab, "Development Planning in the Sudan" in A.M. El-Hassan (ed.), An Introduction to the Sudan Economy, op.cit. p.218.
  3. Sayyed Nimeri, Economic Planning in the Sudan (in Arabic), (Khartoum: Khartoum University Press, 1978), p.28.
  4. Joseph Gararg, "On Economic and Regional Autonomy" in Dunstan M. Wai (ed.), the Southern Sudan: the Problem of National Integration, (London: Frank Cass, 1973), p.88.

obtaining in the North, as much as possible, in an attempt to undermine the unity of the country. Thus as late as 1945, the Governor General of the Sudan could still argue that:<sup>1</sup>

The approved policy is to act upon the fact that the people of Southern Sudan are distinctly African and negroid, and that our obvious duty to them is therefore to push ahead as fast as we can with their economic and educational development on African and Negroid lines, and not upon the Middle Eastern and Arab lines of progress which are suitable for the Northern Sudan. It is only by [separate] economic and educational development that these people can be equipped to stand up for themselves in the future, whether their future lot be eventually cast with the Northern Sudan or with East Africa.

The administration began its separation policy by outlawing Muslim dress in the South, superimposing English as a *lingua franca* instead of Arabic and restricting travel and communications between the two regions. Also Christian missionary activities were encouraged, Islamization prevented, and independent Equatorial Battalions were set up as separate units from the Sudan Defence Force of Northern Sudan. It was a classical example of 'divide and rule' in which ethnic, religious and cultural factors could not have operated any better in the interests of British designs.<sup>2</sup>

- 
1. Quoted by Peter Russel & S Torrs McCall, "Can Cession be Justified? : The Case of Southern Sudan", in, the Southern Sudan the Problem of National Integration, Supra., p.96.
  2. M. Omer Beshir, Southern Sudan: Background to Conflict, Supra.,

The colonial policy on education<sup>1</sup> was to establish a rudimentary institution to train native Sudanese to occupy the lower posts in the colonial bureaucracy. To this end the Gordon Memorial College was set up early this century and consisted of a primary school, a secondary school, an industrial workshop and training college.<sup>2</sup> Any form of higher education was vehemently opposed by the administration. In the words of a colonial bureaucrat:<sup>3</sup>

I can conceive much harm and no utility from higher education among a people so profoundly backward as the Sudanese.

### C. The Rise of Sectarian Capitalists

The rise of sectarian capitalists in the Sudan, with economic interests and political 'ideologies' identical to those of their colonial masters, is inseparable from the question of the continuity of colonial policies under neo-colonialism which this chapter examines later. This part of the section deals with the changing social relations of production in the Sudan under colonial rule with reference to the rise of a class of indigenous capitalists.

- 
1. For details of Government Educational Policy under colonialism, see M. Omer Beshir, Educational Development in the Sudan 1898-1956, (Oxford: Clarendon Press 1969).
  2. University of Khartoum Calendar, 1974-6. (Khartoum: Khartoum University Press, 1976), p.117.
  3. Quoted by Gabriel Warburg, Islam, Nationalism and Communism in a Traditional Society: The Case of Sudan, (London: Frank Cass, 1978), p.36.

Upon the reconquest of the Sudan and the extension of commodity relations on a large scale, the social structures underwent the change which is inevitable in such circumstances. A class of capitalists appeared. Notable among these was al-Mirghani the leader of the Khatmiyya sect (an Islamic Order), who had accompanied the Anglo-Egyptian armies to the Sudan (having been forced into exile by the Mahdists), and who became the true protégé of the colonial state which subsidized his activities in an attempt to fill the politico-religious vacuum in the country in the aftermath of the fall of Mahdism.<sup>1</sup> But when the Khatmiyya became a sizeable sect with thousands of adherents, the administration suddenly promoted a Mahdist rival. This was Abd al Rahman al-Mahadi, the posthumous son of al-Mahadi. With British support, al-Mahadi immediately pursued economic interests in order to establish a base for his new movement. Vast plantations, confiscated in 1899, were returned to him, and along the White Nile, north of Khartoum and various other places fortunes for the new Mahadi were to be found. Al-Mirghani had already established himself. His fortunes depended upon the activities of his agents who acted as middlemen in getting the produce of his supporters from northern Sudan to markets up the Nile and to Egypt,<sup>2</sup> with phenomenal profits in the process accruing to the Khatmiyya sect. While the two Sectarian leaders strove to the utmost to form their respective bases, in their rivalry only the colonial administration could enhance its position. In fact as early as 1924 and with the approval of the two leaders (who openly competed in loyalty to Britain), the British

---

1. Ibid., pp.21-22

2. Carole Collins, op. cit. p.6.

administration evacuated all Egyptian troops and tightened its grip on the country. This was, however, only to make a *de facto* situation *de jure*.<sup>1</sup>

Later on, the position of the two leaders was enhanced by yet another development. In the 1930s native bureaucrats in the colonial service began to play an active role in politics after their association, the Graduates Congress, was formed in 1938. The graduates, however, could not maintain an independent position as a political rival to the two leaders, and soon had to split into two factions each supporting a leader.<sup>2</sup> Al-Mirghani whose commercial interests necessitated close relation with Egypt became a patron of the Ashigga (blood brothers) faction of the Congress which advocated the 'Unity of the Nile Valley' policy i.e. union between Sudan and Egypt. Al-Mahadi who was suspicious of a union with Egypt which might enhance the position of al-Mirghani, gave his support to the Umma (nation) faction of the Congress which advocated 'the Sudan for the Sudanese' slogan and insisted on a formal link with Britain against Egyptian ambitions.<sup>3</sup> The two factions later became the most powerful political parties in the country (the Ashigga splitting into the People's Democratic Party and the National Unionist Party), they fought and won the (verbal) battle for independence and controlled political power.

---

1. Peter Woodward, Condominium and Sudanese Nationalism, (London: Rex Collings, 1979).

2. M.A. Mahjoub, Democracy on Trial, Supra., pp.40-44.

3. Peter K. Bectold, Politics in the Sudan, (New York: Washington & London: Praeger Publishers, 1976), pp.77-88, also Islam, Nationalism of Communism in a Traditional Society, Supra, pp.21-66.

At the eve of independence the two leaders and many of their supporters were really powerful in economic terms. The deliberate economic encouragement by the administration was yielding quick results. A Mahdist landed-aristocracy was well established in Gezira, north of Khartoum, and in the mechanized farming regions along the White Nile. In urban areas Khatmiyya supporters controlled trade and industry. Their fortunes were enhanced a great deal by small industries (all dependent upon colonial schemes) such as ginning, oil milling and textile industries. Import-substitution industries stimulated by shortages of materials during World War II were partly owned by this category of capitalists. And although most of those industries closed down at the end of the war,<sup>1</sup> sizeable capital was accumulated and later ploughed into commerce. This class of capitalists, however, was overwhelmed by Greeks, Syrians and Asian traders who had followed the colonial armies into the Sudan.<sup>2</sup> But it was the grievances of Sudanese capitalists against foreign entrepreneurs which speeded up the transition to independence. In January, 1956, the Sudan became independent of both Britain and Egypt, but real political power was still in the hands of the two sectarian leaders whose rise to power was no more than a move to cement colonial rule in the Sudan.<sup>3</sup> It must be added here that one year before independence a Civil War between the north and south was in full swing.

- 
1. A. El-Muhsin Mustafa, "The Structural Malformation of the Sudanese Economy", Supra., pp.22-3.
  2. Carole Collins, op.cit. p.13.
  3. For the collaboration of the Mahadist and Khatmiyya with the British administration see, Ronald Robinson, "Non-European Foundations of European Imperialism: Sketch for a Theory of Collaboration", in, Roger Owen and Bob Sutcliffe, (eds.), Studies in the Theory of Imperialism, (London: Longman, (6th impression, 1980), pp.135-7.

Thus, the development of the Sudanese economy and society under colonialism was a development of underdevelopment. Under Turko-Egyptian colonialism, the accumulation of capital was geared toward the needs of the Turkish landed-aristocracy in Egypt, and the social disruption which followed, i.e. depopulation, human dislocation and so on, were characteristic of the dominance of a feudal mode of production.<sup>1</sup> The economic and social structures in the Sudan were forced to undergo the necessary changes which this accumulation demanded. Under British colonialism, capital accumulation depended, for the most part, upon restructuring the economy and society to cope with the needs of a highly industrialized capitalist economy by creating economic institutions and imposing economic conditions which could only continue to function by being dependent upon the British centre. This system was maintained, under the second colonial rule, through the collaboration of indigenous sectarian capitalists who supported colonial rule in return for economic benefits.

In the following section an attempt is made to show how this development of underdevelopment was maintained by the neo-colonial state.

---

1. For the economic and social consequences of primitive accumulation under a feudal mode of production, see K. Marx, *Capital*, Vol. I., (London: Lawrence & Wishart [reprinted, 1977]), Part VIII, pp.667-724.

III. The Neo-Colonial State and the Persistence of Underdevelopment.

A. The Politics of Continuity

A flag independence which brings to power those who have collaborated with colonial rule so faithfully, is bound to be little more than a mere sham. Rarely has a transition to independence, anywhere in Africa, been a different exercise. In Kenya 'the post-colonial state... has been dominated by the hegemonic fraction of indigenous capital and the apparatus and functions of the state have been realigned since 1963 to foster the development of this class'.<sup>1</sup> In the Sudan the rising bourgeoisie whose fortunes depended upon the colonial economic structures i.e. export of primary goods and import of manufactured goods, took control of state power through political organizations or parties. It was in the interest of this class to maintain those structures. Left wing groups, consisting of the Sudanese Communist Party (SCP) and the Sudan Workers Trade Union Federation (SWTUF), who vigorously opposed traditional elements and who advocated a transition to socialism as a path for development, were represented by one MP only following the first elections.<sup>2</sup>

Little wonder then, in the absence of strong opposition, virtually all colonial economic and social policies remained intact, and were in fact reinforced by post-independence developments. The economy still reflected the legacy of a prolonged colonial rule. The share of manufacturing in the Gross Domestic Product (GDP) was a mere 1 per cent. The agricultural sector,

---

1. Nicola Swainson, The Development of Corporate Capitalism in Kenya: 1918-1977. (London: Heinemann, 1980), p.182.

2. G. Warburg, op.cit., p.99.



which constituted 61 per cent, provided employment for 85 per cent of the work force, and contributed to over 90 per cent of the total value of exports.<sup>1</sup> Cotton remained the backbone of the economy. The dominant thinking about economic policy was a mere colonial hangover i.e. the allocation of funds for unrelated schemes and an obsession with budget balancing. In the colonial tradition of post-war planning, annual programmes known as the 'new scheme programmes' were to be implemented between 1956-1961, with a total allocation of £S69m.<sup>2</sup> These consisted largely of public utility services such as the railways, ports, electricity etc and the development of small industries dependent on agricultural materials such as cotton ginning, oil pressing and textiles.<sup>3</sup> Private enterprise was assigned a leading role in the economy and the activities of the public sector were to be complementary i.e. confined to areas where private enterprise and knowledge were wanting; and private capital was either shy or not forthcoming.<sup>4</sup> Industry, in particular, was 'reserved' for private enterprise, and there was to be no discrimination between foreign and private firms. This policy was confirmed by the enactment of the Approved Enterprises (Concessions) Act, 1956. Under the Act approved

---

1. Sadiq El-Raheed, "The Experience of Public Industrialization in the Sudan" in Ali M. El-Hassan, (ed.), Essays on the Economy and Society of the Sudan, (Khartoum: Khartoum University Press, 1977), p.83, footnote 1.

2. Abdel Rahman A. Wahab, op.cit. pp.219-20.

3. Saad edin Fawzi, The Labour Movement in the Sudan: 1946-1955 (Oxford: Oxford University Press, 1957), p.9.

4. Sadiq El-Raheed, "The Experience of Public Industrialization", Supra., pp. 83-4.

enterprises were automatically entitled to a relief from business profit tax for two to five years, and profits up to 5 per cent of the capital employed were exempted from all sorts of taxes.<sup>1</sup> Various forms of 'assistance' were also made possible for entrepreneurs, foreign and indigenous.<sup>2</sup> On the other hand, the monetary system still reflected a strong colonial flavour. Virtually all insurance services were controlled by foreign agencies which exceeded 100 before 1960, and all banks were foreign too (see next Chapter).

Nor was the political arena any different, of course. The same old sectarian parties simply carried their feuds into the post-independence era, and the public continued to be swayed by evasive issues behind the facade of a democracy.<sup>3</sup> A secessionist movement in southern Sudan was dealt with in a manner only equalled in colonial situations. The leaders of independence were completely insensitive to southern demands for regional autonomy or self-rule. They had all insisted on forced cultural assimilation of the south as a condition for political participation. The first Prime Minister had, as early as 1944, urged for 'Unity of the Nile Valley' as 'a necessary safeguard against incorporation in an African system'<sup>4</sup> [sic], and the Minister of Interior in 1958 clearly stated in response to the southerners demand for an Afro-Arab policy in the Sudan, that:<sup>5</sup>

---

1. Francis A. Lees & Hugh C. Brooks, The Economic and Political Development of the Sudan. (London:Macmillan Press, 1977), pp.72-3.

2. Ibid.

3. Such as the border dispute with Egypt at a time of falling cotton prices in the world market.

4. Quoted by G. Warburg, op.cit. p.54.

5. Quoted by Peter Russell & Storrs McCall, "Can Cession be justified?" Supra., p.104.

the Sudan is an integral part of the Arab world ... anybody dissenting from this view must quit the country.

The colonial policy of intra-regional conflicts could not have been preserved by an 'indigenous government' any better.

Equally bad, social gaps were widening between Sudanese and at an appalling rate. Wage differentials were fuelled by the maintenance of a colonial salary structure and the promotion of a very large number of bureaucrats into the upper echelons of the administration under the Sudanization policy which followed the departure of the colonists. The mass of workers occupied the 'unclassified' lower scales of service, irrespective of skills or responsibilities.<sup>1</sup> It was mentioned earlier that 85 per cent of the population had no regular jobs. Thus at all economic, political and social levels the formal termination of colonial rule over the Sudan has meant little difference to the mass of the Sudanese.

## B. Neo-Colonial Governments and the Expansion of the Private Sector

### 1. The Neo-Colonial Governments up to 1969.

It may be recalled that this chapter is an attempt to outline some social and economic factors which could be of some guidance to the understanding of insurance problems as discussed in the following chapter. While most post-independence developments were, in one way or another, related to this question the growth of the private sector and the control of state power by the bourgeoisie at present (both topics are examined later)

---

1. Saad edin Fawzi, The Labour Movement in the Sudan, Supra, p.130 and p.135.

appear to have a more direct relevance to insurance matters. We will, therefore, briefly sketch the political developments which led to the present state of affairs in the country.

The first government (1956-58) was overthrown by, or rather, handed over to, the Military in November, 1958.<sup>1</sup> The Military were, in turn, thrown out of office by a popular uprising in 1964. Parliamentary politics were restored, and traditional parties alternated in power, but all political and economic developments were geared towards the interests of the Mahdist landed-aristocracy, or the urban-based Khatmiyya industrialists and traders, depending upon which party was in power. In May 1969, the Military stepped in again, seized power, and has remained in office (except for a three-day interval in 1971 as will be seen) up to now. Unlike former governments, however, the May regime regarded itself as a revolutionary, anti-sectarian mass-movement whose aim was to develop Sudan along a socialist path. A five year plan (1970-1975) was drafted by a team of Soviet experts, and an independent Ministry for Planning was set up for the first time in the country.<sup>2</sup> On the first anniversary of the coup, the Nationalization of Banks Act, 1970 was passed and the Insurers (Control) Act, 1960 was amended. Under the former, all foreign and national banks (6 in number) were nationalized, and the latter required all foreign insurance agencies in the Sudan to cease issuing new policies and to transfer their portfolios to Sudanese insurers who were to be merged into three companies (see next chapter). And virtually all major foreign

---

1. It was 'a coup by courtesy, set a foot by an army commander... in response to the demand for emergency measures by the head of the government', R. First, The Barrel of Gun, (New York: Penguin Books, 1972), p.223.

**BEST COPY**

**AVAILABLE**

TEXT IN ORIGINAL IS  
CLOSE TO THE EDGE OF  
THE PAGE

companies were nationalized under the Nationalization of Companies Act, 1970. Also, 18 companies dealing in the export of cotton and import of textiles were taken over and merged into four companies which were to form the Cotton Marketing Corporation.<sup>1</sup> Between May and July, 1970, a number of 33 companies and the properties of 10 foreign entrepreneurs were confiscated.<sup>2</sup> Land reform policies were initiated, plans for educational reforms, housing improvements and rural development were drafted, and the Sudan became a host country for freedom fighters from the Southern African complex. And in line with the regime's socialist rhetoric, workers participation in management was seen as a necessary condition for the success of nationalized corporations. Trade unionists were encouraged to sit in the various boards of directors and there were even plans for profit-sharing by workers in all industries.<sup>3</sup>

Thus never had the neo-colonial economic and social structures been shaken off so strongly ever since independence. However, before the transition to socialism could have any real impact, a sudden 'gallop to the right'<sup>4</sup> took place, and a complete swing followed in all economic and social fields. This sudden change of heart was, *inter alia*, a response to a coup d'état in July 1971 (which lasted for 3 days) for which communists were held responsible. To the effect that the reversal of socialist policies reintroduced the bias for capitalist development in the absence of small foreign enterprises, this regime has promoted the rising Sudanese bourgeoisie - insurers included - both Mahdist and Khatmiyya, as no other national government has done in the entire history of the Sudan.

- 
1. A.A. Taha & A.H. Saeed, The Liberation of Sudanese Economy, (in Arabic), (Khartoum: Khartoum University Press, 1971), pp.12-18.
  2. Ibid.,
  3. Ibid., p.37.
  4. Norman O'Neill "Imperialism & Class Struggle in the Sudan" Race and Class, Vol. XX, No. 1, 1970.

In the remaining part of this section the development of Sudanese capitalism before and after the May regime will be outlined.

## 2. The Expansion of the Private Sector

It was seen earlier how political developments after independence were divorced from the needs of the masses until the early part of the Junta's second rule in 1969. Party governments benefited those supporters who were traders, industrialists and cotton growers. Military governments benefited the same categories. After all the difference between a big farmer and an industrialist is one of degree not of kind. The Umma government (1956-58) sought to establish an Agricultural Bank in 1958 to finance Mahdist cotton growers who had been refused access to loans from the foreign commercial banks after the cotton failure of 1957.<sup>1</sup> U.S. aid was sought for the purpose. Leftist opposition led the party in power to hand power to the military who immediately accepted the loan and established the Bank in 1959. From its inception, the Agricultural Bank was to finance agribusiness of big farmers. 30 per cent of every loan was to be provided for by the former applicant himself, in order 'to create a sense of responsibility and... ensure ... commitment'.<sup>2</sup> The only forms of security acceptable by the Bank for short-term loans were movable property and crop guarantees, and for long-term loans, real estate security, deeds, shares and other

---

1. Sayed Ali A. Ali, "Sudanese Financial Institutions and Their Functioning" in Ali M. El-Hassan (ed.), Growth, Employment & Equity, (Khartoum: Khartoum University Press, 1976), pp.14-18.

2. Lees & Brooks, The Economic & Political Development of the Sudan, Supra, p.93.

collaterals. The value of security offered in all cases was to be 30 per cent more than the amount of loan obtainable.<sup>1</sup> Thus ordinary peasants had (indeed still have) absolutely no access to any form of credit apart from *shail* (traditional credit) from moneylenders at the extortionate rate of 250 per cent interest, sometimes.<sup>2</sup> For urban-based capitalists, the junta's favour took the form of yet another credit institution. This was the Industrial Bank of Sudan established in 1961. Under the Industrial Bank Act, 1961, the Bank was to provide medium and long-term loans for the expansion or establishment of private industrial enterprises, by way of giving secured guarantees for payments in acquisition of machinery and material assets, extending liquid assets and technical advice.<sup>3</sup> On the other hand, the Insurers (Control) Act, 1960, was passed, among other things, to remove onerous conditions imposed upon national insurers by a British-backed Council of Ministers in 1954 (see next chapter). Soon after the Act was passed two Sudanese insurers emerged to transact insurance business. Although a ten year plan (1961-1971) launched by the regime was the first modern plan of its kind to be made in the Sudan, much emphasis was laid on the importance of the private sector for the fulfilment of the plan. In the words of the regime's Ministry of Finance:<sup>4</sup>

---

1. Ibid.,

2. Tony Barnett, op.cit., p. 79.

3. Lees & Brooks, op.cit. p.93.

4. The Ten Year Plan (1961-1971) (Khartoum, Government Printer, 1961), p.7.



I would like to reaffirm the Government's belief in the effective role which private enterprise whether local or foreign, can play in economic development; especially in the field of industry. It is also the intention of the Government to review the facilities and concessions which are currently granted to approved enterprises .... to determine their effectiveness in achieving the role to be played in the plan by the private sector.

The Federation of British industries was said to have expressed its immediate satisfaction with the facilities offered by the plan and with the country's continued reliance on British Industries for capital and equipment.<sup>1</sup> On the other hand, the lack of adequate sectoral distribution in the plan encouraged private capital to increase its investments at the expense of the public sector. These investments increased from the planned ratio of 26 per cent of total investments in 1962/63, to about half the total investments in the terminal year of the plan.<sup>2</sup>

With official backing the rise of Sudanese entrepreneurs continued throughout the 1960s. Government contracts were assigned to Party supporters, manufactured goods were purchased from Party industrialists for Government Schools and Colleges (which, incidentally, increased in number but adhered to the old colonial educational system) and vast ranches were granted to cattle-raisers. Insurance companies increased in number from only two in 1961 to six by 1969, and invested enormous amounts in real estate. Banks, foreign and national, financed traders and public corporations, and trading firms grew to an unprecedented size.

---

1. Dina S.E. Osman 'The Problems of Public Corporations and Development in the Sudan' Unpublished Ph.D. Thesis, (Harvard University, 1978), p.112.

2. Abdel Rahman A. Wahab, op.cit. p.223.

But it was really under the May regime that what might be called 'Sudanese Capitalism' was to flourish, albeit under foreign dominance by giant multinationals. As mentioned earlier, the change of development strategies came in the aftermath of the abortive communist coup, especially as Lonrho<sup>1</sup> and Western Intelligence<sup>2</sup> helped to reinstate the regime. Lonrho was immediately rewarded by a concession for a huge sugar factory at Kenana, was made the sole agent for the Sudan Government in London for the purchases of capital goods, and with the help of the Sudan became the Economic Advisor for the O.A.U. (Organization for African Unity) on oil matters.<sup>3</sup> The reversal of socialist policies brought in its train the denationalization of several industries which were restored to their original owners. Land reform policies, which had hit the Mahdist landowners, were denounced, and confiscated properties again passed to their original owners who had been blamed earlier for tax evasion, alleged relations with metropolitan-based Zionists, and illegal transfers of money abroad.<sup>4</sup>

The Five Year Plan (1970-1975) with its socialist flavour, ceased to be a guide to action and was replaced by a more pragmatic Interim Action Programme (I.A.P.) 1972-1977. This entailed not only a change of strategies, but also of the volume of capital to be invested, in view of the termination of aid embargo (imposed in 1970) by Western countries. This, in fact, coincided with the normalization of diplomatic relations with the U.S. and West Germany,

- 
1. Suzanne Cronje, Margaret Ling & Gillian Cronje, Lonrho: Portrait of a Multinational, (New York: Penguin Books, 1976), p.181.
  2. The Times, 8 August, 1971.
  3. Lonrho: Portrait of a Multinational, Supra., p.182 and p.193.
  4. A.A. Taha & A. Saeed, The Liberation of Sudanese Economy, Supra, pp.16-18.

the latter being wooed by the withdrawal of recognition of the German Democratic Republic. Under the I.A.P., the private sector could no longer be guided by the public sector, and in fact positive action was taken to restrict the expansion of the latter. This perhaps explains the drop in the government's share in exports from 84 per cent of total exports in 1971 to 80 per cent by 1972, and the rise in the share of private sector imports from 52 per cent in 1971 to 64 per cent of total imports by 1972.<sup>1</sup>

#### IV. State Power and Capital Accumulation

The concern, so far, has been with the historical process of underdevelopment in the Sudan, and with the way in which this underdevelopment is fostered and maintained through political and economic decisions in a neo-colonial situation. In so far as the bourgeoisie is the principal beneficiary of this situation the manner in which state power is made subservient to the needs of the bourgeoisie is central to the question of the continuity of underdevelopment. In this section, therefore, we shall see how state power is controlled by the Sudanese bourgeoisie and how this control serves the goals of capitalist accumulation.

##### A. Who Controls Political Power in the Sudan?

Upon the reinstatement of the present regime in the aftermath of the 1971 *coup d'état* some major political institutions were set up in the country. The leader of the regime was reinstated, not as the Chairman

---

1. Ali Ahmed Suliman, Issues in the Economic Development of the Sudan, (Khartoum: Khartoum University Press, 1975), p.5.

of the Revolutionary Command Council, as he was before, but as a President of the Republic, following a hasty referendum in which 'voters' had no option but to agree to the President's self-promotion.<sup>1</sup> The so-called Sudanese Socialist Union (S.S.U.) was set up as the sole political party in the country in the early part of 1972. The S.S.U. was meant to be an alliance between workers, peasants, elites, soldiers and indigenous capitalists who are not tied to imperialism(!). The party structure drew heavily on the Arab Socialist Union of Nasser's Egypt, though ironically, the Sudanese party was emerging at a time which marked the beginning of the end of its Egyptian model under President Sadat's administration which castigated it as bureaucratic, corrupt and inefficient. But the founders of the Sudanese party, undeterred by developments in Egypt, seemed to have spent 'very little time analysing the functional requisites for single party effectiveness',<sup>2</sup> and, perhaps too intoxicated by 'the glittering facade and clever publicity of [the] Egyptian phantom organization',<sup>3</sup> in earlier years, that Egypt's denunciation of its own invention simply passed unnoticed.

But what is important for our purposes here is the control of the S.S.U. by the Sudanese bourgeoisie. Unlike the rank and file of the civil service, the bourgeoisie rushed into the party of its own free will. It was assured of an atmosphere of prosperity for the private sector by the regime's swing to the right. On the other hand, the grant of licences for export, import, rationed foodstuffs and petrol, depended upon party

---

1. For the method of voting and the Psychological coercion exercised upon voters, see M.A. Maghoub, op.cit. p.244.

2. P.K. Bectold, Politics in the Sudan, Supra., p.123.

3. Ibid.

membership. Monopoly retail trade in specific rural communities was not possible without the control of the licence-granting machinery of the party.<sup>1</sup> At present, cement, sugar, flour and basic consumer goods are marketed through official licences controlled by the National Capitalist's Panel of the S.S.U., and government contracts, tenders for the supply of capital goods and joint ventures between the public sector and the private sector are, largely, confined to the members of this panel. Little wonder then, that almost every notable capitalist in the Sudan is a member of the panel. The other twin organization to be formed was the People's Assembly, or the Sudanese Parliament, established to share with the President his legislative powers,<sup>2</sup> although the president was given powers to dissolve it altogether.<sup>3</sup> The Assembly is largely dominated by big rural farmers, rural retail businessmen, tribal leaders and urban-based capitalists, and about one-tenth of its seats are reserved for unelected party members to be appointed by the President.<sup>4</sup>

In the pages below, an attempt is made to show how this control of state power through the Party and parliament was made subservient to the goals of capital accumulation by indigenous and foreign entrepreneurs. Three areas in particular deserve some attention. These are: control of

---

1. Carole Collins, op.cit. p.15

2. Article 118 of the Permanent Constitution of the Sudan, 1973.

3. Article 108 of the Constitution.

4. Article 120, ibid.

the labour movement, foreign aid and foreign investment and credit facilities to the private sector. To these areas we now turn.

#### B. Control of Labour Organizations

The Interim Action Programme, mentioned earlier, required the creation of the 'right' atmosphere to woo foreign capital into the country. This was sought to be achieved by subduing labour organizations through increased government intervention in union affairs. Immediately after the reinstatement of the regime, some prominent left wing trade unionists were put to death, and various laws affecting trade union rights were passed. The Sudan Workers Trade Union Federation, the 21 year old radical labour organization, was dissolved under The Trade Union Act, 1971. Under the Act, the Minister of Labour (now Public Service and Administrative Reform) has power to 'determine the economic sectors, industries, crafts and professions in which workers are entitled to establish trade union organizations, and to determine the number and type of those unions.'<sup>1</sup> Two further regulations were passed in 1972 to empower the Minister of Public Service and the Trade Union Registrar to dissolve any trade union, to appoint any person into a trade union, and to pass regulations to govern trade union activities.<sup>2</sup>

---

1. S.9(1).

2. see e.g., Al-Midan (the Sudanese Communist Party Circular), No. 696, May, 1979.

A new and complaisant union leadership was superimposed by the regime. The leadership of the now renamed Sudan Workers Union, was said to be lacking in administrative and union affairs experience.<sup>1</sup> This encouraged the government to interfere even more in labour organizations under the guise of providing administrative support - an intervention which was made possible by the incorporation of unions in the politburo. This containment of unions has stimulated a trend among multinationals in the country to enter into agreements with their labour force to prevent any possibility of a strike or lock-out.<sup>2</sup> It is scarcely necessary to add that the former policy of worker participation in management no longer exists. At any rate, and even before July 1971, worker participation has meant no more than the physical existence of worker -representatives in the boards of directors of some corporations, and in some corporations this participation was confined to special production units<sup>3</sup> in an attempt to prevent workers intervention in management affairs.

- 
1. A.E. Ali Taha, "The Industrial Relations System in the Sudan" in Ali M. El-Hassan. An Introduction to the Sudan Economy, Supra. p.192.
  2. One such agreement was made between Shell Co. (Sudan) and its labour force in 1971, ibid., p.197.
  3. A.E.A. Taha & A. Saeed op. cit. pp.38-9.

### C. Foreign Investment and Foreign Aid

In many a neo-colonial situation in Africa indigenous capital serves and complements foreign capital, but does not replace it.<sup>1</sup> In fact, it is only under the hegemony of foreign capital that an indigenous bourgeoisie could flourish.<sup>2</sup> This was true of the Sudan as it was elsewhere. Soon after the reversal of socialist policies by the Khartoum Government, the U.S. opened up \$18m. worth of credit to Sudanese importers. The I.M.F. granted the Sudan a further \$40m (denied in 1970) and Britain paid another £25m., while an Anglo-American consortium agreed to finance \$600m. worth of development projects.<sup>3</sup>

In order to create an hospitable investment climate, a spate of legislation followed between 1972-1980 to entice foreign private capital into the country. Control of the state machinery by the bourgeoisie has made this possible and desirable. Legislation passed during this period consisted of the Development and Promotion of Industrial Investments Act, 1972, the Organization and Encouragement of Investment in Economic Services Act 1973, the Development and Encouragement of Industrial Investment Act, 1974 (which repealed the 1972 Act), and the Agricultural Investment Act, 1976. Under the various Acts, foreign and national enterprises which

- 
1. Colin Leys, Underdevelopment in Kenya, op.cit. p.149.
  2. Issa G. Shivji, Class Struggles in Tanzania. (Dar es Salaam, Tanzania Publishing House, 1975), pp. 163-78.
  3. Africa Confidential, Oct 6, 1972, also Carole Collins, op.cit. p.15.



invest in industry, agriculture, tourism, transportation and warehousing, were entitled to various concessions including the exemption from business profit tax for varying periods, custom duties, surcharges, local government taxes etc in addition to reduced rates of electricity, freight and the provision of land, raw materials, intermediary commodities, spare parts etc. Profits resulting from investment of foreign capital are transferable abroad at the prevailing rate of exchange. It was, perhaps, for this purpose that exchange control regulations were liberalized gradually until they were finally abolished in 1979.

There is, however, no evidence that foreign or national investors have had a positive effect on the Sudanese economy to the extent which might justify the various concessions granted private capital. On the contrary, it has been argued<sup>1</sup> that the benefits which investors claim under the various laws, far exceed all possible benefits to Sudanese economy through private investment, especially in industry. No statistics are available after 1970, but it was estimated that between 1961-1970, about £S60 m. of revenue must have been lost to the country (under two less generous statutes compared to the post-1970 legislation) because of exemptions of private and foreign enterprises from business profit tax, custom duties etc although the total amount of private investment in manufacturing and mining (two major fields of investment) did not exceed £S34m.<sup>2</sup> And although the post-1970 Acts have recently been consolidated

---

1. Ali Ahmed Suliman, Issues in the Economic Development in the Sudan, Supra., pp.43-5.

2. Ibid.

in the Investment Act 1980, this might have worsened the government's chances of earning revenue judging by similar occasions in the past as each of the Acts mentioned above had extended tax holidays granted under an earlier Act, with the result that enterprises continued to enjoy exemptions much longer than the government had wished.<sup>1</sup>

#### D. Credit Facilities to the Private Sector

Central to the promotion of private enterprise is the existence of efficient credit facilities. In Sudan, finance institutions, which had existed before 1970 were strengthened, and new ones were created in a bid to stimulate economic growth. The Industrial Bank, mentioned earlier, received two loans of £S7m. and £S5m. respectively,<sup>2</sup> in 1975 in order to enhance its lending capacity to serve national and foreign enterprises. At the present, commercial banks feature prominently as credit institutions for the private sector. During 1974-1979, a total of £S1,513m. was loaned by commercial banks to private business, foreign and national.<sup>3</sup> In fact, in 1975 and 1976, commercial loans for businesses exceeded total deposits of all banks with the result that the Central Bank had to finance the deficit of the banking system.<sup>4</sup>

And to complement agricultural credit by the Agricultural Bank, a Mechanized Farming Corporation was set up under the Mechanized Farming Corporation Act, 1969. At present, the Corporation undertakes to prepare

- 
1. S. Nimeri, "Industry in the Sudan" in Ali M. El-Hassan (ed.). An Introduction to the Sudan Economy, op. cit. p.89.
  2. Dina S.E. Osman, 'The Problems of Public Corporations of Development' Supra., p.133.
  3. The Economic Survey (Sudan) 1978/79, (Khartoum: Government Printer, 1979), p. 90.
  4. Ibid

the land for an intending farmer, surveys and distributes farms, grants loans to farmers and markets crops,<sup>1</sup> all for a development fee of £s 100.<sup>2</sup> In 1974, the Sudan Development Corporation was formed through a 200m. Eurodollar loan in order 'to bring local entrepreneurs and foreign private capital together.'<sup>3</sup> This 'unity' is achieved through financial support for revenue-earning profits in industry, foreign trade and agriculture.<sup>4</sup> There was also an influx of foreign banks and monopoly finance institutions into the country. The giant finance institutions which exist in Khartoum at present include: the Arab African Bank, the Arab Bank for African Economic Development, the Arab Investment Company, Citibank, Chase Manhattan, the National Bank of Abu Dhabi, the Bank of Credit and Commerce and Société Générale.

#### E. National Capitalism and the Development of Underdevelopment

The discussion so far suggests that the hypotheses outlined in the introduction to this chapter apply to the Sudan just as well as they apply to the rest of capitalist underdeveloped countries. The expansion of the private sector and the control of state power by the bourgeoisie

- 
1. M. Mirghari A. Salaam, "Agriculture in the Sudan", in Ali M. El-Hassan (ed.). An Introduction to the Sudan Economy, op. cit. p.56.
  2. "Mechanized Farming of the Development of Capitalism in the Traditional Sector", (SCP Publications), No. 4, 1976.
  3. Dina, op.cit. p.133
  4. Ibid. In February 1981, the U.S. increased its 'aid' to Sudan from \$64m. to \$104m., provided that 50 per cent of the 'aid' i.e. \$52m. must be used to purchase American goods by the Sudanese Private Sector, see Asharq Al-Awsat, Sunday 22, February, 1981.

which inherited the affairs of the former Sudan colony were presented as being central to the continuation or persistence of underdevelopment in the country. In this part of the section this line of argument is continued in an attempt to show how the expanding private sector - as sponsored by state power - has reproduced this underdevelopment. Three areas in particular viz: foreign trade, industrial expansion, and agricultural activities by the private sector appear to have a leading role in this reproduction of underdevelopment.

(1) The expansion of the private sector in the field of foreign trade, and under the conditions of trade prevailing between the metropolis and the Sudan, has meant an intense balance of payment crisis. Taking 1953 = 100, the price of imports rose from 94.5 in 1965 to 138.2 in 1972, although 'real imports' fell from 98.6 to 89.1 during the same period.<sup>1</sup> And while the growth of exports in the 14 years ending 1974 has been in the region of 4.5 per cent, imports grew by about 6 per cent, and the 'terms of trade' deteriorated from 112.5 in 1953 to 94.1 in 1973.<sup>2</sup> Thus the 'unequal exchange' between the periphery of Sudan and the outside world only benefits private trading firms national and foreign, and especially metropolitan-based exporters. As the Lloyd's Bank Report puts it:<sup>3</sup>

- 
1. Ali A. G. Ali. "Money, Banking and Foreign Trade" in Ali M. El-Hassan, (ed.) An Introduction to the Sudan Economy, op.cit. p.152.
  2. Ali M. El-Hassan, "Structure of the Sudan Economy" in Ali M. El-Hassan (ed.). An Introduction to the Sudan Economy, op. cit. pp.17-18.
  3. "SUDAN - Economic Report", published by Lloyd's Bank Ltd., Overseas Division, March, 1980, p.1.

The good relationship traditionally enjoyed between British and Sudanese businessmen holds some additional hope for the United Kingdom exporter in this time of economic difficulty for the Sudan.

The deterioration in the terms of trade coupled with the transfers of profits, insurance and reinsurance premiums, and other forms of capital led to excessive reliance on foreign sources of supply, and increased the balance of payment problems. Sudan's total indebtedness was nearly \$3.5 billion around the middle of 1980.<sup>1</sup> For 1980-1981, the trade deficit is estimated at \$1,245 m., and remittances and balance of payment support will mean an overall balance of payment deficit of an extra \$2,400 m. - a parlous economic future, no doubt.<sup>2</sup>

2. The expansion of the private sector in industries has created problems of regional imbalance in terms of economic development. Industries tended to concentrate in urban areas for reasons such as availability of markets, electricity, finance etc in these areas. This imbalance tends to perpetuate itself in that new industries tend to concentrate in industrial areas where other industries and services exist. Between 1962-1972, over 60 per cent of total advances made by the Industrial Bank to private entrepreneurs benefited businesses in Khartoum<sup>3</sup> and until 1971, over 70 per cent of all industries in Sudan concentrated around Khartoum.<sup>4</sup>

---

1. "Statement to the People of the Sudan", S.C.P. Circular, April, 1980.

2. Middle East Economic Digest, 14 July - 10 August, 1980, p.12.

3. Dina Osman, op.cit. p.131.

4. Lees & Brooks, op.cit. p.74.

3. The expansion of private capital in agriculture has been even greater than in trade and industry, consequent upon the reversal of industrialization policies and the change to agriculture in an attempt to convert the Sudan into a granary for the Arab world. After the enactment of the Agricultural Investment Act, 1976, massive foreign and national capital flowed into rural Sudan. Arizona-Colorado for land and cattle with Saudi capital has been granted an investment licence to exploit one million feddans (a feddan is 1.038 acres) for cattle raising and agriculture. A West German Company obtained another 2 million feddans while the Arab Authority for Development and Agricultural Investment has acquired areas totalling 5 million feddans,<sup>1</sup> and undertaken to invest \$6 billion in ranches and large scale agriculture.<sup>2</sup> Activities in these ranches are very highly capital intensive and their expansion has been described as 'an agricultural strip mining ... featuring an absence of long term concern for the environment'.<sup>3</sup> This expansion also forced thousands of subsistence farmers and nomads either to urban areas or across the borders to neighbouring countries. The clearance of the vegetation cover for ranching has thus destroyed subsistence life, but the displaced peasants have not been recruited into the ranches in view of their

- 
1. "Traditional Sector and the National Democratic Revolution", (S.C.P. Publications), February, 1976, pp.24-5, also Mechanized Farming and the Development of Capitalism in the Traditional Sector, Supra.,
  2. The Banker, January, 1978, p.34.
  3. K.M. Barbour, "The Sudan Since Independence", Journal of Modern African Studies, Vol. 18, No. 1, p. 79.

capital intensive bias. Little wonder then that famines were reported in areas where ranches existed such as in Southern Funj.<sup>1</sup>

Thus, the fruits of the May regime's gallop to the right appear to have been claimed by private businesses both foreign and national. In the eyes of astute Sudanese on the other hand, twenty five years of political independence have meant very little in terms of real economic and social transformation. This situation is not unique to Sudan. For when a bourgeoisie controls state power in an underdeveloped country, it could only foster reaction and underdevelopment under the guise of economic development, as it did in the Sudan, and the conditions of the masses could only stagnate, or even deteriorate.<sup>2</sup>

- 
1. A.G.M. Ahmed, "The Relevance of Indigenous Systems of Organization of Production to Rural Development: A case from Sudan". in, Ali M. El-Hassan, (ed.) Essays on the Economy and Society of the Sudan, (Khartoum: University of Khartoum Press, 1977), p.63.
  2. A.G. Frank, Lumpenbourgeoisie: Lumpendevelopment, Supra., Passim.

CHAPTER THREE : INSURANCE AND DEVELOPMENT IN THE SUDAN

Part One

" [I]n the Sudan, the situation is very different [from other countries] as many accidents occur here, but the relatives of a deceased or injured person do not bother to claim compensation. Indeed, it is considered ..... a grave social stigma to do so. But there is no reason why we should not benefit by this state of affairs..... 'nature has decreed that when some suffer; others prosper' ..... and, at any rate, most accidental deaths and injuries occur to pedestrians in that class of society for whose members compensation would be minimal ... ."

From a letter by the National Trading Co.  
(now Khartoum Insurance Co. Ltd.) to the  
Minister of Finance and Commerce, 25 May,  
1954

I. Introduction:

There are two sides to the picture which emerges from the discussion so far: (1) on the one hand, there is the distinct role which insurance, the alien institution, has played in the underdevelopment of the periphery under colonial rule; and in the neo-colonial situation under the veil of reinsurance. But as was shown, this historical role could be challenged, and insurance could be utilized to achieve economic development in the now underdeveloped countries. (2) On the other hand, we have seen that the insurance institution was only one part of a whole system of underdevelopment, and that in many a neo-colonial situation the attempt to follow a capitalist path of development, following the footsteps of former colonial powers, has only fostered and maintained underdevelopment. It is hoped that the case of the Sudan studied in Chapter Two has substantiated the second side of the picture. In this chapter an



attempt is made to link these two sides in a case study of the Sudanese insurance industry. We will investigate the historical role of insurance in the Sudan (albeit briefly as the subject was dealt with, generally, in the first chapter), the changes, if any, in the nature of its operations in the neo-colonial situation, the degree to which it has been utilized to promote economic development, and the factors which prevent, or else permit, such utilization.

## II Background

### (A) Structure of the Insurance Market in the Sudan: 1898-1960

As an institution of advanced capitalism, insurance business was not known under Turko-Egyptian colonialism. It was mentioned in the last chapter that primitive accumulation of capital under this period corresponded to the low level of development in feudalist Egypt where insurance may not have been known; and no substantial capital was invested in the Sudan to have necessitated the existence of a capital market institution anyway. But not long after the invasion forces had set foot in the country, the business of insurance was transacted by the foreign (mainly British) trading houses which had dominated the export-import activities. The business of insurance during this time consisted almost exclusively of marine cargo insurance effected upon agricultural products exported to the metropolis, and consumer goods imported into the colony, in accordance with the colonial division of labour consequent upon the incorporation of a peripheral colony into the world system. At first, insurance was directly placed with metropolitan insurers as the

magnitude of business did not justify the establishment of specialized branches. But as the economic exploitation of the colony intensified later, small insurance departments were gradually formed by the trading houses which acted as agencies for foreign insurers situated abroad.<sup>1</sup> These houses were said to have insured their own transactions with their metropolitan head offices in order to preserve the secrecy of their trade transactions.<sup>2</sup>

Unfortunately, not much is known about the conditions of the insurance market in the Sudan before 1960. What is known is that *there were absolutely no restrictions of any kind upon insurance agencies*. They were not required to pay taxes, obtain a licence, or submit returns, or any document whatsoever.<sup>3</sup> In that 'ultra-liberal environment' as a U.N. study about the Sudanese insurance market concluded, 'there was scope for the unscrupulous, self-styled agents and representatives, and fictitious or insolvent companies were able on occasion to sell policies on which just claims were not met.'<sup>4</sup>

Insurance agencies in the Sudan were said to have exceeded 100 before 1960.<sup>5</sup> They were mostly British until a few Egyptian offices later joined the market, albeit in a proportion fairly representative of the nature of condominium colonialism in which Egypt was only nominally involved as a colonial power.<sup>6</sup> The clientele of insurance appeared to have been drawn initially, almost

- 
1. Siddik Et-Tijani El-Mardi, "Insurance Industry in the Sudan", in Ali M. El-Hassan (1975), *op. cit.* pp.162-181, at p.163, see also J.O. Irukwu, Insurance Management in Africa, (Caxton Press, West Africa, 1977), pp.6-10.
  2. "The Role of The Insurance Section in the Development of Sudanese Economy," A Paper prepared by the insurance section of the Ministry of Finance (Khartoum) undated, p.1.
  3. Proceedings of UNCTAD, E/CONF. 46/5, Appendix iv, 'Sudan', (New York, 1964).
  4. Ibid., p.3.
  5. M. Grossmann op. cit. pp.396-7.
  6. Ibid.

exclusively, from traders, businessmen, and civil servants. Native Sudanese had little to do with insurance until 1952 when the first indigenous company was formed by the Kordofan (a western province) Lorry Owners' Association consequent upon the refusal of foreign agencies to charge reasonable premiums for compulsory motor insurance.<sup>1</sup> But although there were no restrictions to be observed by insurance carriers, the Council of Ministers passed a resolution in 1954 requiring the promoters of the company to deposit a sum of £E40,000 with the Government (later reduced to £E15,000) as security for policyholders, to specialize in motor insurance only, and to confine the business to the company's policyholders.<sup>2</sup>

Thus the dominance of a colonial system in the Sudan seemed to have permeated the structure of the insurance market, and the functions of insurance agencies. This colonial hegemony in the field of insurance has found expression in the exclusion of indigenous population from the insurance sector; in the concentration of insurance services in the field of foreign trade; and in the repatriation of insurance surplus from the Sudan to the metropolis.

#### (B) 1960-1970

The most important development in the insurance market of the Sudan up to 1960, was the enactment of the Insurers (Control) Act,<sup>3</sup> 1960, the principal

---

1. Ibid.

2. Council of Ministers, Resolution No. 171, Meeting No. 41, dated 19.7.1954. A British actuary was first instructed by the Minister of Finance to laydown some 'suitable' requirements to be satisfied by the company before it could transact business. The Resolution was then passed on the basis of the actuary's report.

3. Act No. 27, 1960, referred to after as the Act.

legislation governing insurance regulation up to now.<sup>1</sup> Although the circumstances leading to the promulgation of the Act fall outside the period studied in this part of the section, they are extremely important to the understanding of the nature of insurance regulation in the Sudan. The Act owes its existence to a memorandum issued in August 1954 by the Minister of Finance of the first national government (1954-1956) which recommended that 'some restriction' (not specified) on the business of insurance be imposed.<sup>2</sup> In 1955, an Interdepartmental Committee headed by Mr. P.W. Glassborrow, then Actuary of the Government of the Sudan, was formed to consider the introduction of the appropriate legislation.<sup>3</sup> This responsibility, however, was immediately transferred to the British insurance offices which had informed the Actuary that they 'would welcome the opportunity of considering and commenting on any bill which might be introduced to Parliament and of offering assistance in the matter of drafting measures in the interest of the companies.'<sup>4</sup> The Minister of Finance himself had promised the agencies a leading role in the preparation of the bill, a promise which was repeated by the Attorney General<sup>5</sup> when he visited Britain in 1957. Thus the Chairman of

- 
1. Insurance regulation in the Sudan was said to have been considered for the first time when an Egyptian bill was drafted in 1938, but was later abandoned. In the second half of the 1940s the Governor General of the Sudan required that insurers issuing motor insurance policies under the Road Traffic Act, 1945, must be approved by him, see Ahmed M.E. Osman, "The Sudanese Insurance Market." Undated memorandum, p.1.
  2. Memo. by Ahmed Abdel Magid (Minister of Finance) dated 15, June, 1960. p.1.
  3. Letter by Mr. Glassborrow to Attorney General, dated 1 July, 1955, Attorney General's Records (Khartoum).
  4. Memo. by the Joint Committee of British Insurance Offices in the Sudan to Mr. Glassborrow, undated.
  5. Memo. by Mr. Glassborrow to Attorney General, dated 22 June, 1958.

the Interdepartmental Committee could write in 1957 that:<sup>1</sup>

It has .... been agreed that copies of the draft bill should be sent to the various insurance associations representing companies operating in the Sudan before the agreed draft is submitted to the Council of Ministers ..... I hope, therefore, it will be possible to have the draft ready by the beginning of October. We should then be in a position to consider it in the Committee and send it out to the industry by the beginning of November. It should then be possible to submit an agreed draft to the Council of Ministers as soon as possible after the elections.

In August 1958, the Council of Ministers formally approved a proposal for the enactment of insurance regulation legislation, and showed concern about the extra-ordinary delay which had accompanied the drafting of the bill.<sup>2</sup> The delay was said to have been caused by some government units concerned with the bill, and by the inability of the Attorney General's Office to effect the drafting of 'a difficult and complicated bill' before the arrival of an English draftsman.<sup>3</sup> But when the bill was finally sent by the last government unit<sup>4</sup> to the Attorney General, the latter was 'too busy'<sup>5</sup> with the so-called mutiny trials in the aftermath of the civil war.

- 
1. Letter by Mr. Glassborrow to Attorney General, dated 13.7.1957.
  2. Council of Ministers, Resolution No. 321 - Meeting No. 321, dated 9.8.1958.
  3. Letter by the Attorney General to the Council of Ministers, dated 1.5.1958.
  4. Letter by the Minister of Industry, Commerce and Supply to Attorney General, dated 10 July, 1958 / Att. Gen. Records.
  5. Letter by the Attorney General to the Director of Establishments, dated 8.8.1959.

**BEST COPY**

**AVAILABLE**

TEXT IN ORIGINAL IS  
CLOSE TO THE EDGE OF  
THE PAGE

It was in these circumstances that a draft bill was prepared by Mr. McKenna, a British 'expert' selected by Messrs. Linklaters and Paines of London, and was finally submitted to the Ministry of Justice in November 1959, more than five years after the Interdepartmental Committee was set up to draft it.<sup>1</sup> In December 1960, the Act was passed by the first Military Government.

Undoubtedly, the British insurance agencies were behind the move to get the draft ready, and their decision to have it prepared in London was made without the Attorney General's knowledge (or so it appears) as he requested to be 'informed'<sup>2</sup> in similar cases in the future! Thus foreign insurers appeared to have rushed to pre-empt the field of insurance regulation by a statute of their own making before Parliament could pass a more restrictive Act. The likelihood of Parliament making such a move was, perhaps, apparent from the economic conditions of the late 1950s which were discussed in Chapter Two. On the other hand, the only indigenous insurer at the time (the Lorry Owners' Association) and prospective insurers might have also campaigned for the drafting of a bill which would remove the onerous conditions upon indigenous insurers imposed in 1954 (see above).

As a product of British insurance agencies, the bill was framed largely in permissive rather than restrictive powers of control, according to British tradition,<sup>3</sup> and was an impossibly liberal document in all respects. Unlike indigenous insurers, foreign agencies were not required to deposit their paid up capital in the Sudan, and a statement by the head office as to the capital situation sufficed for the purposes of regulation.<sup>4</sup> This liberal attitude

---

1. Letter by Controller of Insurance to Attorney General, dated 15.11.1959.

2. Letter by Attorney General to Permanent Undersecretary of the Ministry of Finance, dated 9.11.1959.

3. For the general principles of Insurance regulation in Britain, see Murray Pickering, "~~The Control~~ of Insurance Business in Great Britain", Wisconsin Law Review, 1969, pp. 1141-1169.

4. S.8(3)(b) of the Act.

with respect to capital requirements - which is characteristic of Anglophone African insurance regulation statutes - was said to have enabled foreign agencies to establish their branches in many countries in Africa without having to deposit capital or any other form of security.<sup>1</sup> Also, the Act did not require foreign agencies or indigenous insurers to establish technical reserves until 1964 when it was amended (see below), nor did it, at first, require insurers to invest any sum of money in the country, and all insurers were free to transfer abroad as much money as they could make without the least restriction. In fact the underlying philosophy of the Act was that insurance could only flourish best 'if it is allowed to flow freely about the world'.<sup>2</sup> Thus the Act had no impact on the extraction of insurance surplus from the Sudan whatsoever.

The Act, however, stimulated the appearance of Sudanese insurers. The Kordofan Lorry Owners' Association, which had existed before the Act, was able to conform to the requirements of the Act because the discriminatory measures (mentioned above) could no longer be justified and were removed altogether.

S.7(1)(a) of the Act provided that:

'no person shall, after the date when this Act comes into force, begin to carry on business as a Sudanese insurer unless he is a corporate body registered under the Companies Act, 1925 and having a paid up capital of not less than £50,000.'

- 
1. In Sierra Leone, for example, the registration of a company with the British Board of Trade was regarded as 'a fact of stability', see UNCTAD Secretariat, "Insurance Legislation and Supervision in Developing Countries", TD/B/393, (U.N. New York, 1972), p.45.
  2. Memo. by the Joint Committee of the British Insurance Offices in the Sudan, supra.



Apart from the capital requirement an insurer, or an intending insurer, was required to apply to the controller of insurance (see below) for a licence to transact insurance business.<sup>1</sup> Thus with the discriminatory measures out of the way the Lorry Owners' Association registered as the Sudanese Motor Insurance Company Ltd., in 1961 (now Khartoum Insurance Company). Also the General Insurance Company Ltd., (Sudan) was licenced in 1961, and was followed by the Blue Nile Insurance Company Ltd. in 1965, and the Sudanese Insurance and (later) Reinsurance Company in 1967; but 49 per cent of the share capital of the last two companies was owned by Lebanese and Bulgarian interests respectively.<sup>2</sup> In 1968, the African Insurance and Reinsurance Company Ltd., also emerged and was followed by the United Insurance Company in 1969. Meanwhile foreign agencies continued to decrease in number and their share in the market was diminishing progressively (see Table 1 below).

Indigenous companies however, resorted to excessive reinsurance abroad, and throughout the 60s their reinsurance amounted to over 90 per cent of all gross premiums written.<sup>3</sup> And like foreign agencies, the Sudanese companies concentrated on marine cargo insurance which was the branch mostly ceded abroad (see Table 2 below). Thus, it can be seen clearly that the operations of indigenous insurers in the Sudan drew heavily on those of the foreign agencies to the extent that one can safely conclude - at this stage - that Sudanese companies could only carry out what the foreign agencies had carried

---

1. S.8(3) and S.9 of the Act.

2. "Performance of Insurance Companies", the Annual Report of the Controller of Insurance to the Minister of Finance, 1977.

3. Memo. by Mohmed Sadiq (UNCTAD expert seconded to the Sudan). "Final Report to the Government of the Republic of the Sudan" 1971, p.17.

out before them. In other words whatever role insurance had played under colonialism, this role has rested for its fulfilment upon indigenous insurers.

The composition of the Sudanese companies was - is - predominantly tribal. This was (and still is) reflected in the ethnic origin of the majority of shareholders and the management of most companies. Each company appeared to

Table 1

Percentage of Gross Premiums Written by Foreign  
and National Companies in the Sudan (1963-1970)

Year	National Companies	Foreign Companies
1963	10.3	89.7
1964	21.2	78.8
1965	27.5	72.5
1966	26.5	73.5
1967	40.4	59.9
1968	56.1	43.9
1969	59.9	40.1
1970	83.7	16.3

Source: Siddik Et-Tijani El-Mardi, 'Insurance Industry in the Sudan' in Ali M. El-Hassan (1975) op. cit. p.171.

Table 2

Gross Premiums ceded by the National Insurance Companies  
(1967-1970)  
(ts)

Year	Marine	Fire	Accident	Life
1967	235,896	106,039	119,777	23,768
1968	351,777	134,778	141,126	26,701
1969	543,742	211,718	192,911	29,427
1970	706,479	318,405	241,667	29,215

Source: Insurance Controllers' Records

have emerged to fulfil a need for economic and social reinforcement felt by a particular ethnic group; and each has primarily lent its services to other enterprises under the same ethnic control i.e. lending liquid assets and providing insurance cover. As will appear later, this ethnic composition is not without its own problems for an underdeveloped country seeking to utilize its insurance industry for economic development.

(C) 1970 and After

In the aftermath of the coup d'état of May 1969 indigenous insurers put their full weight behind the campaign for 'the liberation of the Sudanese economy from foreign hegemony' which characterized the revolutionary era

of the junta's rule.<sup>1</sup> The controller of insurance consistently echoed the wishes of the national companies in his recommendations to the regime's Minister of Finance regarding 'urgent reforms'<sup>2</sup> in the market. In April 1970, the Minister submitted to the Council of Ministers a number of recommendations aimed at the liberation of the Sudanese insurance market from foreign influence. These were: (a) the enactment of a strict Insurers (Control and Supervision) Act, (b) the formation of a local reinsurance corporation, (c) the termination of the activities of foreign insurers in the Sudan, (d) the elimination of foreign capital invested in indigenous companies, and (e) state participation in the ownership of insurance companies by at least 20 per cent of each company's share capital.<sup>3</sup> On the 25th of May 1970, the first anniversary of the coup, the Act was amended<sup>4</sup> to provide that:<sup>5</sup>

No foreign insurer licenced in the Sudan to transact insurance business in accordance with the provisions of this Act shall issue new insurance policies from such date as the Minister may specify.

- 
1. In fact this desire had been expressed by the national companies from as early as 1967, see e.g., Kamal A. Moniem (an insurance businessman). "Self-Sufficiency in Insurance", in F.B. Imam (ed.), Sudan Path to Self-Sufficiency, (Khartoum: Khartoum University Press, 1967), p.40.
  2. See e.g., memo. by the controller of insurance to the Minister of Finance, dated 13 January 1970 - Insurance-General Records.
  3. Memo. by Ahmed Suliman (Minister of Finance) to the Council of Ministers, dated 4.4.1970.
  4. Act No. 84, 1970.
  5. S.39B(1).

The Minister was also empowered to order foreign agencies to transfer their portfolios to Sudanese insurers.<sup>1</sup> In May 31, 1970, i.e. six days later, the Minister of Finance issued an order<sup>2</sup> under the above section (39B(1)) to the effect that all foreign agencies (39 in number) should cease to transact insurance business in the country, and that all their life and non-life policies should be transferred to Sudanese insurers, together with the corresponding mathematical reserves in the case of the former. As to non-life policies, a sum of £S250,000 which the agencies had collectively deposited in the Post Office Saving Bank (POSB) - as they were required to do under the Act<sup>3</sup> - was held as security for policyholders, until the corresponding commitments under such policies expired.<sup>4</sup> Though the freezing of deposits was an adequate measure for the protection of policyholders pending the cessation of the agencies' business, it provided the agencies with an excuse for not paying their taxes for 1968/69.<sup>5</sup>

With the foreign agencies out of the market the second major reform sought to be enforced was the concentration of domestic insurers into fewer companies. Concentration was to serve two fundamental purposes: (a) to undermine the ethnic composition of the companies (by allowing for increased public participation in the ownership of the share capital), (b) to reduce the number of insurers to fewer, stronger, and more efficient companies. Thus the Act was amended to empower the Minister of Finance and National Economy

- 
1. S.39B(2)
  2. Taha & Sneed, op. cit. pp.13-14.
  3. The Act was amended in 1964 to require insurers to deposit in the POSB or invest in government securities, a certain proportion of their reserves. This subject is examined later.
  4. Memo. by Ahmed Suliman to the Council of Ministers, dated 4.4.1970.
  5. Letter by the Business Profit Tax (of the Department of Taxation) to the controller of insurance, dated 13.12.1969.
-

to:<sup>1</sup>

.... merge all the existing Sudanese insurance companies into two or more companies, as he deems fit, provided that the companies so formed shall be public companies whose shares shall always be owned by Sudanese nationals and whose authorized capital and paid up capital shall not be less than three hundred and fifty thousand Sudanese pounds, and two hundred thousand Sudanese pounds respectively.

Under the Act as amended in 1970, the above measures were to be complied with within two years<sup>2</sup> (but see below), and the Minister alone was to decide which companies were to be merged. Another major goal sought to be achieved (as mentioned earlier) was the state participation in companies' share capital by about 20 per cent. No provision to this effect was included in the amendment; but the confiscations made in 1970 (discussed in the last chapter) must have come as a relief to the Ministry of Finance which was considering measures for achieving state participation in the ownership of insurance companies. This was so because the confiscations brought the government into direct ownership of the portion of shares which the confiscated interests had held in the Sudanese insurance companies. The value of these assets was £S25,366 in United Insurance Company Ltd., £S21,000 in the General, and £S2,000 in the Sudanese Insurance and Reinsurance Co.<sup>3</sup>

This was how the insurance sector in the Sudan was affected by the political conditions of the early 70s. And as will appear from the discussion in the second part of this chapter, these measures were the best ever to have

---

1. S.39A(2) of the Act.

2. S.39A(3).

3. The Controller of Insurance, 'Unclassified Records'.

been enacted to reform the Sudanese insurance market. However, when the regime renounced its earlier policies following its sudden swing to the right, a new Minister of Finance refrained from exercising his powers to reform the market. Consequently, the share capital of the companies was not increased. Enthusiasm for state participation gradually died away, and all the shares which the government had acquired following earlier confiscations were sold to other shareholders in the companies, because it was no longer possible for foreigners to own shares in insurance companies in the Sudan<sup>1</sup> and thus the shares could not have been restored to their original foreign owners. Finally, the concentration of the market (this will be discussed later) was not possible to achieve. One merger only took place between the African Insurance Co. (which was insolvent, anyway) and the Sudanese Insurance and Reinsurance Co. The former, however - despite its difficulties - was later relicenced in 1976 to do business on its own. Indeed, despite the rhetoric

---

1. It may be recalled that S.39A(2) of the Act empowered the Minister of Finance in 1970 to merge all existing companies 'into two or more companies... provided that the new companies so formed shall be public companies whose shares shall always be owned by Sudanese nationals and whose authorized capital and paid up capital shall not be less than three hundred and fifty Sudanese pounds and two hundred thousand Sudanese pounds respectively...'. The companies, however, were quite selective in interpreting this section. In a questionnaire addressed to the companies during the period of April/May, 1979, the companies argued that under the above section no foreigners could own shares in the Sudan anymore. But when they were asked why they didn't increase their capital to the amount required by the section since it became the law, they argued that the section was intended to apply to new companies to be formed by mergers, but that this had ceased to be an objective of regulation.

of concentration in 1970, the number of companies has increased throughout the decade. In an attempt to reduce the flow of reinsurance premiums abroad, the National Reinsurance Corporation (N.R.C.) was formed in 1974 as a joint venture between the government (51 per cent) and the insurance companies and the public (49 per cent). In 1976, the Regional Insurance Co. was registered as the only insurer in the Southern Region. In 1977, the Estate Bank established a subsidiary known as the Estate Insurance Co. to provide life insurance for the borrowers of the Bank's housing loans as security for redemption. The final development which undermined the concentration goal (and reversed the 1970 measures in one fundamental aspect) was the establishment in 1978 of a *foreign company* known as the Islamic Insurance Co. Ltd. This company was *completely exempted from government regulation* because of the special nature of its transactions. But as we will see shortly, these transactions are in no way special and the company does not merit any exemption from regulations. Thus at present, and apart from the National Reinsurance Corporation (N.R.C.), there are 9 insurance companies in the Sudan,<sup>1</sup> one of which is exempted from government regulation (the Islamic Co.) and another transacts one branch of business and to the borrowers of loans from its owning bank only (the Estate Insurance Co. Ltd.). So, *effectively*, the companies which transact all branches of business and which are subject to regulation by the government now are *seven in number*. These are 'the insurance companies' referred to in this chapter. At present, occasional applications for licences are made to the controller and it may not be long before insurers mushroom in the tiny Sudanese insurance market.<sup>2</sup>

- 
1. These are: the General Insurance Co. Ltd., the Blue Nile Insurance Co. Ltd., Khartoum Insurance Co. Ltd., the Sudanese Insurance and Reinsurance Co. Ltd., the Estate Insurance Co. Ltd., the Regional Insurance Co. Ltd., the African Insurance Co. Ltd., the Islamic Insurance Co. Ltd., and United Insurance Co.
  2. A number of companies (perhaps up to 3) are planned for 1981.



Thus the 70s opened with a great advantage for Sudanese insurers when the state lent its power and coercion to their expectations. Foreign agencies were terminated and their business was transferred to their Sudanese competitors who, ironically, remained to be governed by the same legal provisions previously designed by foreign insurers to give the authorities a false sense of security i.e. that insurance is regulated, while the extraction of insurance surplus from the Sudan continues. And, as we will see later, the attempt to create a 'national insurance market' does not appear to have been achieved. The Sudanese companies have remained 'national' in a purely geographical sense only. For since its early childhood the Sudanese insurance industry had been disfigured by the characteristics of a dependent industry so much that even when its metropolitan partners withdrew from the market, it could not escape or transcend its predicament as a satellite insurance industry heavily dependent upon metropolitan insurers who had introduced the rituals of the trade many decades ago.

### III Insurance Regulation in the Sudan

#### (A) Raison d'être of Insurance Regulation

The Interdepartmental Committee which was set up in 1955 to consider the preparation of the insurance bill stipulated four objectives for the regulation of insurance in the Sudan. These were: (a) to Sudanize as far as possible the insurance industry in the country, (b) to ensure that a higher proportion of Sudan funds is employed in the country for economic development, (c) to protect the insured public against weak companies which are likely to be unable to meet their liabilities towards their policyholders, and (d) to promote the development of insurance activities on a sound basis.<sup>1</sup>

---

1. Report of the Interdepartmental Committee, July 1957, also letter by the controller of insurance to Deputy Undersecretary of Finance, dated 10.1.1962, also S.E. El-Mardi, "Insurance Industry in the Sudan", in A.M. El-Hassan (ed.), An Introduction to the Sudan Economy, op. cit. pp.177-80.

The objectives do not conflict with each other, but they are complementary and overlapping. In order to protect the public and preserve their savings, for example, insurance funds should partly be kept in the country. This would stimulate investments in the country and ultimately add to domestic capital formation, but will also enhance the balance of payments' situation through sizeable retention of insurance funds in the Sudan. This interaction of objectives was well illustrated by a Ministerial speech before the Council of Ministers in connection with the proposed bill:<sup>1</sup>

Insurance undertakings are in effect trustees [of] public funds which represent - especially in the case of long term insurance business - the savings of the community. It would, therefore, be essential for many considerations to preserve part of these funds in the country where they can be used for investment purposes. The outflow of funds in the form of insurance premiums prejudices the chances of investment in the country at a time when funds are needed and sought after from abroad.

The official policy towards the industry, however, has hardly observed these objectives and the successive Ministers of Finance during 1960-1969, rarely agreed on any one policy to be adopted. Indeed contrary to the Sudanization of insurance goal, in the early 60s it was often argued that foreign agencies should be protected because their 'existence was a necessity for development.'<sup>2</sup> After May 1969, new objectives, as above, were sought to be achieved. These included: the liberation of the industry from foreign influence, the minimization of the flight of insurance funds outside the country by measures such as mergers, increase of underwriting and retention

- 
1. Speech by the Minister of Finance before the Council of Ministers, 30th July, 1958.
  2. Controller of insurance - Records for 1960-1969, see generally, Ins. 82/2/2/15 Gen.

capacities, enhancement of services etc. ... It appears, however, that the earlier objectives, though reviewed in the new economic and political situations of the 70s, have remained a broad framework of reference for official aims, and a source for new objectives.<sup>1</sup>

The extent to which the old and new objectives have been achieved will appear from the examination below of the various provisions of the Act, its amendment in 1970, and from the various Ministerial Orders and Decrees.

(B) Sources of Insurance Regulation

The principal source of insurance regulation in the Sudan is the Insurers(Control) Act, 1960 as amended in 1970. The Act consisted of 41 sections and was divided into six broad chapters comprising: a preliminary chapter, the administration of insurance regulation, restrictions on the business of insurance, conditions for licencing, the regulation of associations of underwriters (which no longer exist) and other general provisions. The Act provided for the establishment of a government bureaucracy affiliated to the Ministry of Finance, headed by a controller of insurance, and entrusted with the task of the supervision of insurance companies in the country in accordance with the Act.<sup>2</sup> An Insurance Advisory Council (I.A.C.) was also set up to advise the Minister on the operation of the Act.<sup>3</sup> Regulations in the Act may be classified into three main categories: (a) licencing and

---

1. In the controller's annual reports to the Minister of Finance, the objectives of 1955 are generally repeated from one year to the other with very minor alterations.

2. S.4.

3. S.5.

pre-licencing regulations, (b) regulations related to the management of the insurance fund and to the solvency of insurers, and (c) investment regulations. No corporate body was to carry on insurance in the country unless it was registered under the Companies Ordinance, 1925 and having a paid-up capital of not less than £50,000, or its equivalent.<sup>1</sup> A licence was to be obtained from the controller of insurance<sup>2</sup> (who may also revoke a licence in certain circumstances) before an applicant could transact business<sup>3</sup>, and once obtained, a licence could be amended on application to the controller.<sup>4</sup> Insurance agents were also required to obtain a licence from the controller.<sup>5</sup> An applicant may appeal to the Minister against the administrative decision refusing him or her a licence.<sup>6</sup> Regulations under (b) above required the maintenance of separate records of each branch of business,<sup>7</sup> and in 1964,<sup>8</sup> the setting up of technical reserves covering each branch of business.<sup>9</sup> At the end of each financial year insurers were to prepare revenue accounts, balance sheets, and profit and loss accounts.<sup>10</sup> Also, certificates of solvency showing the excess of assets over liabilities

- 
1. S.7(1)(a),(b).
  2. S.9(1).
  3. S.8(1).
  4. S.25.
  5. S.28.
  6. S.10.
  7. S.14.
  8. Act No. 4, 1965 which amended the Insurers (control) Act, see below.
  9. S.15.
  10. S.16.

were required to be submitted to the controller by every insurance carrier.<sup>1</sup> Insurers carrying on long term insurance business were required to conduct actuarial investigations into their financial affairs once every five years.<sup>2</sup> The controller may investigate all documents referred to him by the companies and may report his findings to the Minister.<sup>3</sup> When the investigation reveals a state of insolvency certain procedures will follow (depending upon the nature of business carried out by the insolvent insurer) for the protection of the public<sup>4</sup> as we will see later. Amalgamations and transfers of life portfolios were not possible without the written consent of the Minister.<sup>5</sup> Finally, insurers were made subject to investment regulations in 1964<sup>6</sup> which prescribed that a certain proportion of technical reserves was to be invested in the POSB or in government paper or in both<sup>7</sup> as we will discuss later. In 1970, as we have seen above, the Act was amended to compel foreign agencies to cease issuing new policies to the public and to transfer their portfolios to Sudanese insurers. A number of measures (discussed above) were also enacted to reform the market.

In 1962, the Insurers (Control) Regulations<sup>8</sup>, 1963 were passed under S.41 of the Act (which had empowered the Minister to issue regulations) and dealt with some general matters such as the I.A.C., the licencing of agents and canvassers etc. Two circulars were issued in 1964 and 1969, respectively, to regulate the investment of insurance funds. In 1977, the Financial and

---

1. S.18.

2. S.20.

3. S.23. He could also seek the help of an actuary under S.24.

4. S.36.

5. S.21.

6. Act No.4. 1965.

7. S.22 and investment circulars discussed below.

8. Sudan Gazette No. 983, May, 1963 (L.R.O. No. 10), 1963.

Accounting Procedures Act, 1977 was passed to govern, *inter alia*, the insurance of public sector risks with respect to the types of public properties to be insured,<sup>1</sup> and the manner in which cover should be obtained,<sup>2</sup> and other related provisions. In part two below the important aspects of all regulatory instruments will be examined.

(C) The Structure of the Regulation Machinery

The structure of the insurance regulation bureaucracy in the Sudan consists of the Minister of Finance and National Economy, the Insurance Advisory Council (I.A.C.) and the controller of insurance. The role of each in the regulation process is examined below.

1. The Minister

The Minister is entrusted with the major aspects of regulation and supervision and with general policy matters. In particular, he appoints the Chairman of I.A.C.<sup>3</sup> and the controller of insurance.<sup>4</sup> He prescribes the types of public properties to be insured, the manner in which insurance cover should be obtained<sup>5</sup> and the risks which should be covered by insurance.<sup>6</sup> He prescribes the amount of reserves to be invested by insurers, the manner in which they should be invested<sup>7</sup> and the portion of premiums to be refunded to the policyholders of an insolvent insurer.<sup>8</sup> He is the appellate authority

- 
1. S.78(1),(2) of the Financial and Accounting Procedures Act, 1977.
  2. S.80 of the Financial and Accounting Procedures Act, 1977.
  3. S.6(1) of the Act.
  4. S.4(1) of the Act.
  5. S.24 and S.78(1) of the Financial and Accounting Procedures Act, 1977.
  6. S.78(2) of the Financial and Accounting Procedures Act, 1977.
  7. S.22(1),(2) of the Act.
  8. S. ~~S. 36(2)(a)(i)~~.

where a licence to do business is refused by the controller<sup>1</sup> and may revoke the licence of an insolvent insurer<sup>2</sup> as we will see in part two. He may prescribe the number of Sudanese insurers who may be licenced to do business<sup>3</sup> and may merge all existing insurers into any number of companies he deems fit.<sup>4</sup> He may extend any period for the performance of an obligation under the Act<sup>5</sup> and generally has power to issue whatever regulations he deems fit for the achievement of the objectives of insurance regulation.<sup>6</sup>

## 2. The I.A.C.

The I.A.C. is a dead body and its examination is only of academic rather than of practical relevance. It consisted of 10 members, 4 of whom represented the industry.<sup>7</sup> The other 6 members were: the Undersecretary of the Ministry of Finance and National Economy (who was the Chairman of the council), two officials of the Ministry of Finance nominated by the chairman, two officials of the Ministry of Industry nominated by the Undersecretary of that Ministry, and one official from the Attorney-General's Chambers nominated

- 
1. S.10(1).
  2. S.26(c).
  3. S.39A(1).
  4. S.39A(2).
  5. S.37.
  6. S.41.
  7. S.6(1),(2).

by the Attorney-General.<sup>1</sup> The function of the I.A.C. was to advise the Minister of Finance on the operation of the Act 'and upon any matter concerning insurance which the Minister may refer'<sup>2</sup> to the I.A.C. At present, the functions of the Council are *exclusively* discharged by the companies which advise the Minister on national insurance matters, although the Chairman of the Board of Directors of N.R.C. is the official advisor to the Minister on Insurance.<sup>3</sup> The effect of the disappearance of the I.A.C. upon recent developments in the Sudanese insurance market will be examined later.

### 3. The Controller of Insurance

The controller of insurance is appointed by the Minister of Finance and National Economy,<sup>4</sup> and may be removed by him as his appointment 'is not irrevocable, nor does it attach to him permanently'.<sup>5</sup> In contrast with the Minister, who is the person entrusted with decision making in major policy matters, the controller is the official charged with the day-to-day functions of insurance supervision. He grants a licence for an intending insurer,<sup>6</sup> or insurance agent,<sup>7</sup> and may refuse to do so,<sup>8</sup> or revoke a licence in certain circumstances<sup>9</sup> as we will see. He obtains for the public sector units the

- 
1. S.6(2).
  2. S.6(1).
  3. Interview with Ahmed Mohamed E. Osman, Chairman of the Board of Directors of N.R.C., Khartoum, 1979.
  4. S.4(1) of the Act.
  5. Letter by Osman El-Tayib (Attorney-General) to Acting controller of insurance dated 15th July, 1962, also S.5 of the Act.
  6. S.9(1).
  7. Insurers (Control) Regulations (1963 L.R.O. No.10), 1963, insurance forms No. 3,4 and 5, see also reg. 13.
  8. S.9(2) of the Act.
  9. S.26(a),(b).



appropriate insurance cover,<sup>1</sup> prescribes the manner in which premiums should be paid to the companies,<sup>2</sup> and obtains on behalf of the government units insured the amount of claim on the maturity of the risk or risks insured against.<sup>3</sup> The controller's dual agency both for the government units and for the companies, as we will see in part two of this chapter, is one of the most serious defects of the Sudanese regulatory model as it leads the controller to refrain from enforcing investment regulations effectively.

(D) The Scope of Insurance Regulation

A large number of classes of business are regulated under the Act. These include: permanent disability, loss of profits, endowment, capital redemption, annuity contracts, personal accident, ordinary life insurance, marine, aviation and transit, employers' liability, fire insurance, motor insurance and any other class not specifically mentioned.<sup>4</sup> Insurance intermediaries are also covered by regulation. And insurance transactions by Sudanese insurers *outside the Sudan* also fall within the scope of the controller's regulatory jurisdiction. This follows from the definition of 'Sudan insurance business' by which is meant 'any insurance business carried on [by a Sudanese insurer] *in any place*.'<sup>5</sup> But before foreign agencies had ceased to exist in the Sudan, long term policies issued by them to non-Sudanese resident in the Sudan were not subject to regulation.<sup>6</sup>

- 
1. SS.79(1),(2) and S.80(1) of the Financial and Accounting Procedures Act, 1977.
  2. S.81, Ibid.
  3. S.82(1), Ibid.
  4. S.8(2) of the Act.
  5. S.2 of the Act.
  6. S.2 of the Act.

A self-imposed limitation on the scope of regulation is provided for by the Act itself. The following activities are exempted from regulation:<sup>1</sup> (a) registered or lawfully registered trade unions which grant insurance to their members only, (b) pension, provident, or other funds created under trusts by employers to provide benefits to their employees at the end of the service. According to (a) above, insurance by the Taxi Drivers Trade Union was said not to fall within the scope of the Act as the basic function of a trade union was not to transact business of insurance.<sup>2</sup> And according to (b), transactions such as the O.A.U. Staff Pension Fund in the Sudan were not 'long term insurance transactions' within the meaning of S.2 of the Act and the controller had no capacity to regulate them.<sup>3</sup>

The Social Insurance Corporation which is controlled by the Ministry of Public Service and Administrative Reform<sup>4</sup> is not subject to regulation by the controller. Insurers in the Southern Region (an independent region within the united Sudan) appear to be subject to the controller's authority; but N.R.C., the reinsurance branch of the Sudanese Insurance and Reinsurance Co. Ltd., and *all* reinsurance and retrocession arrangements between Sudanese insurers or reinsurers and foreign reinsurers are exempt from regulation as we will discuss later. Rates of premiums and policy terms (both examined later) also fall outside the controller's jurisdiction.

- 
1. S.3. of the Act.
  2. Memo. by Isaach El-Rabeed of the Attorney-General to controller of insurance, dated 18.7.1968.
  3. Memo. by the Attorney-General to Acting controller of insurance, dated 10th Jan. 1967.
  4. S.13(1) of the Social Insurance Act, 1974.

The Islamic Company:

The controller's jurisdiction was seriously limited by the establishment of a foreign company in 1978 known as the Islamic Insurance Co. Ltd. The company is an affiliate of Faisal Islamic Bank and is, like the Bank, part of Al-Faisal's<sup>1</sup> financial empire in the Arab world. The Bank was empowered to establish *inter alia*, co-operative insurance companies which were to be exempted from the application of 'the laws regulating insurance.'<sup>2</sup> Thus when the Islamic Co. was formed by the Bank it was free from *all* sorts of government regulations of insurance. The exemption of the company from regulation was justified on the basis that the insurance business which the company intended to transact was qualitatively different from ordinary insurance transactions which are aleatory and usurious while the Bank, founded on Islamic principles, prohibits usury and interest, and its insurance business is of a simple co-operative type.<sup>3</sup> However, legal opinion in the Sudan (given by some officials of the Attorney-General's Chambers) did not favour the arguments of the company concerning its exemption from regulation because its transactions were thought to be similar to ordinary commercial insurance transactions carried out by 'non-Islamic' companies in the market. The following reasons were given:<sup>4</sup>

1) The only form of insurance transactions which is 'unquestionable' under *Sharia* law (the legality of other transactions being questionable) is the type

- 
1. Son of former King Faisal of Saudi Arabia.
  2. S.6(b) of Faisal Islamic Bank Act, 1977.
  3. Explanatory Note to Faisal Islamic Bank Act, 1977, pp.6-7.
  4. Memo. by Osman El-Tuhami (of the Attorney-General's Chambers) on "the exemption of the Islamic Co." dated 8.11.1978, also memo. by William Katan (of the Chambers), dated 8.10.1978.
-

of insurance which is mutual in form and Islamic in substance. To satisfy the first of these conditions, the business of insurance transacted must, essentially, be a community pooling of risks intended to alleviate the loss of any one member of the collectivity (just as in ordinary insurance transactions) by spreading it among a large number of individuals. *But the premiums paid by the members are essentially contributions which must be repaid to each member, proportionate to the value of his initial contribution should the volume of premiums paid exceed the amount of loss incurred by the collectivity at the end of any one year. If the loss exceeds the amount of money collected, each member will be called upon to contribute a proportionate share toward balancing the deficit, or, else, each will have a proportionate set off against subscriptions or contributions that are due when a loss happens to him and indemnity is sought. And although contributions vary in value from one member to another according to the amount of risk which a member anticipates, all members are treated equally in terms of rights and obligations. In other words there are no categories of members within the fund. As to the substance of transactions, the objective underlying the scheme should be the desire to alleviate losses of members and not to make profits.*

2) According to (1) above, the Islamic Company does not conform to the legal i.e. Islamic form of an insurer, and its transactions are not Islamic in substance either. As to form, the Islamic Company is a limited liability company<sup>1</sup> - a legal form which it is not possible to marry with that of a mutual or co-operative insurance association whose members may be required to contribute

---

1. Article 1 of the Company's Articles of Association.

additional funds should the accumulated money fall short of covering sustained losses. The membership of the company also casts doubts on its alleged Islamic character. The reason for this is that there are two distinct classes of members in the company: subscribers, or ordinary shareholders, and ordinary policyholders.<sup>1</sup> The former have various advantages over the latter. They are automatically entitled to attend the general meeting, but an ordinary policyholder could only do so if he is insured with the company for three consecutive years provided that the annual premiums paid in respect of the last year preceding the general meeting amounted to, at least, £51000.<sup>2</sup> Subscribers are entitled to investment returns proportionate to their interest in the share capital, but ordinary *policyholders may or may not receive a return on premiums paid*, especially if the surplus is transferred to the company's reserves.<sup>3</sup> In fact, unlike in a mutual insurance fund of the Islamic type, the accumulated premiums may not be repaid to policyholders irrespective of the value of losses sustained in any one year.<sup>4</sup> The substance of the company's transactions is also divorced from the spirit of *Sharia* regarding the object of the formation of an insurance collectivity. For unlike in Islamic mutual insurance the premiums paid into the company's coffers are essentially *investments* intended to cover the risk of any one policyholder, and at the same time provide a measure for his share in profits at the end of the year;<sup>5</sup> but as mentioned above, these may or may not be returned to a policyholder.

- 
1. Article 2 of the Memorandum of Association.
  2. Article 5(a),(b) of the Memorandum of Association.
  3. Article 47(a),(b) of the Memorandum of Association of the company.
  4. Article 47(b), Ibid.
  5. Article 2(a), Ibid.
-

Thus in legal form and in substance of transactions the Islamic company is not different from any other company in the market.

But despite legal objection<sup>1</sup> the company was formed free of all regulation shackles and is now *completely beyond the reach of government control*.<sup>2</sup> It is submitted that the company does not merit an exemption from regulation for at least two further reasons: firstly, it is by no means certain that ordinary commercial insurance transactions are illegal under *Sharia* law<sup>3</sup> (although this has been the subject of debate for over a century!) so as to justify the exemption, from the regulation of such transactions, of an insurer alleged to be founded on Islamic principles. Secondly, commercial insurance in the Sudan is not regulated because of its illegality or otherwise under *Sharia* law as we have seen above. For apart from the services which insurance provides for policyholders, and hence, the need to ensure adequate protection, the business of insurance has a tremendous effect on the capital market, on investments, and on a country's balance of payments. This will continue to be the case irrespective of what *Sharia* might say about the legality of transactions.

- 
1. Letter by Osman El-Tuhami (of the Attorney-General) to controller of insurance dated 8.11.1978.
  2. Interview with the controller of insurance, Khartoum, May 1979.
  3. See e.g., Burham M. Atta-alla, "Insurance and *Sharia* Law" (in Arabic), Journal of the Administration of Government Legal Actions, (Cairo), 1970, No. 3, pp.78-107.

(E) The Quality of Insurance Regulation in the Sudan

Where an insurance industry in a country is in the hands of the private sector the quality of state regulation upon it tends to depend upon the capacity of the regulation agency to discharge its functions<sup>1</sup> (to an extent this could also be true in the case of a nationalized industry), and upon the power of the industry and its influence upon the agency.<sup>2</sup> In this part of the section an attempt is made to examine the controller's capacity to regulate insurance companies, and the power of the industry and how it affects regulation policy. The object is to set the stage for the second part of the chapter which investigates the possibility of utilizing the insurance industry in order to effect economic change.

1. The Capacity To Regulate

From its inception the insurance regulation institution in the Sudan was designed as no more than a depository of annual documents, a body whose functions centre more around rituals than substance, and whose weakness would provide a lasting assurance against cumbersome regulation of foreign agencies. And to this day the regulation agency has remained what it was initially designed to be. Mr. Glassborrow, the architect of the insurance regulation system in the Sudan, was clear about the kind of regulatory agency that was to be established and the nature of its function. In a memorandum written four years before the Act was passed he argued that:<sup>3</sup>

- 
1. See generally, Spencer L. Kimball and H.S. Denenberg (eds.), Insurance, Government, and Social Policy: Studies in Insurance Regulation (Georgetown, Richard D. Irwin Inc., 1969), see pp.10-13.
  2. Laura Nader and David Serber, "Law and the Distribution of Power". Unfortunately, the book in which this article appeared could not be traced.
  3. From a memo. by Mr. Glassborrow, dated 20.5.1956, controller of insurance records.

For companies formed in the Sudan it is clear that the Sudan Government must exercise full control. Most foreign companies will have already had to conform to conditions, at least as secure as those we propose here. I suggest that we only require them to register and then to make annual returns of their Sudan business in a simple form. In any case it will be very difficult to obtain sufficient qualified staff to deal even with the Sudanese companies.

When it was set up to discharge its functions the insurance section of the Ministry of Finance was very small and was at a great numerical disadvantage *vis-à-vis* a market which, in 1960, was dominated by 65 foreign agencies.<sup>1</sup> Even worse, foreign agencies were under no pressure to provide the controller with any significant information, and he was in no position to know about developments in the market. In the mid 1960s, for example, six Egyptian companies in Khartoum were merged together without the controller's knowledge; a foreign insurer who had terminated his agency in the Sudan in June 1961, only informed the controller in November 1962; and another insurer passed similar information three years after his agency had closed down.<sup>2</sup> The impotence of the regulation machinery was very conspicuous when the enforcement of the Act was in question. S.40(2) of the Act provides that:

If any person commits a breach of any of the .... provisions of this Act or any regulations made thereunder, or any such regulations...., shall be guilty of an offence and shall be liable to a fine not exceeding £50, and in the case of a continuing default, to a penalty not exceeding £5 for every day during which the default continues.

---

1. M. Grossman (ed.) *op. cit.* pp.396-7.

2. Letters by Siddik E. El-Mardi (Acting Controller) to the Attorney-General, dated 23.7.1968, also letter by the Alliance Marine Insurance Co. Ltd., to the commercial registrar, dated 2.10.1962, Ins. 82/2/5/15/Gen.



This was the penal measure which the controller sought to inflict - through courts - upon insurance agencies which failed to submit their revenue accounts, profit and loss accounts, balance sheets,<sup>1</sup> and certificates of solvency<sup>2</sup> as required by the Act.<sup>3</sup> However, the lack of a legal department at the insurance section was a great constraint upon the capacity of the section to have the measures taken against the agencies. The controller had to rely on the Attorney-General's staff for representation in court, but the latter were often too busy with other important issues that the controller, sometimes, had to extend the period of submission beyond the legal limit allowed by the Act.<sup>4</sup> The number of defaulting agencies amounted to more than 30 in 1963; but never went below 16 at any one time, and by November 1968<sup>5</sup> there were 23 cases before the courts for default in submitting returns; some of which related to the financial year 1963/64.<sup>6</sup>

The termination of foreign agencies must have come as a relief for the regulation personnel who had felt the limits of their power in earlier times. After 1970, and with a market dominated by fewer companies the task of regulators was, undoubtedly, made much easier than before. On the other hand, the section was reinforced by a number of university graduates (over 10) and a few clerks and secretaries. Some officers were also trained abroad and others are sent occasionally to attend regional seminars on insurance. But the

---

1. S.16 of the Act.

2. S.18.

3. S.19.

4. Letter by the Attorney-General to Dr. Siddik E. El-Mardi (A/controller), dated 12.8.1969, Ins. 28/2/2/11/9.

5. Letters by A/controller to Attorney-General, dated 19.11.1963, and 23.7.1968, Ins. 82/2/5/15.

6. Ibid.

insurance section is still lacking in qualified personnel. There is no actuary, certified accountant, reinsurance expert (reinsurance is not regulated, anyway) or a lawyer in the service of the section. Undoubtedly, this lack of personnel has the most direct bearing on the quality of regulation. Even under the American system (the most advanced system of regulation) insurance regulation is often devoid of effect in view of the lack of adequate human resources. And as Dr. Denenberg - a once prominent commissioner himself - warns, the lack of qualified officers has a deadly effect upon a regulation agency:<sup>1</sup>

The [controller] is kept busy with brush-fires and day-to-day encounters. He lacks time and resources to take the long look. His staff often lacks the imagination and initiative to come forward with new ideas and new programs. [Consequently h]e is channelled into programs and dialogues the industry is interested in pursuing.

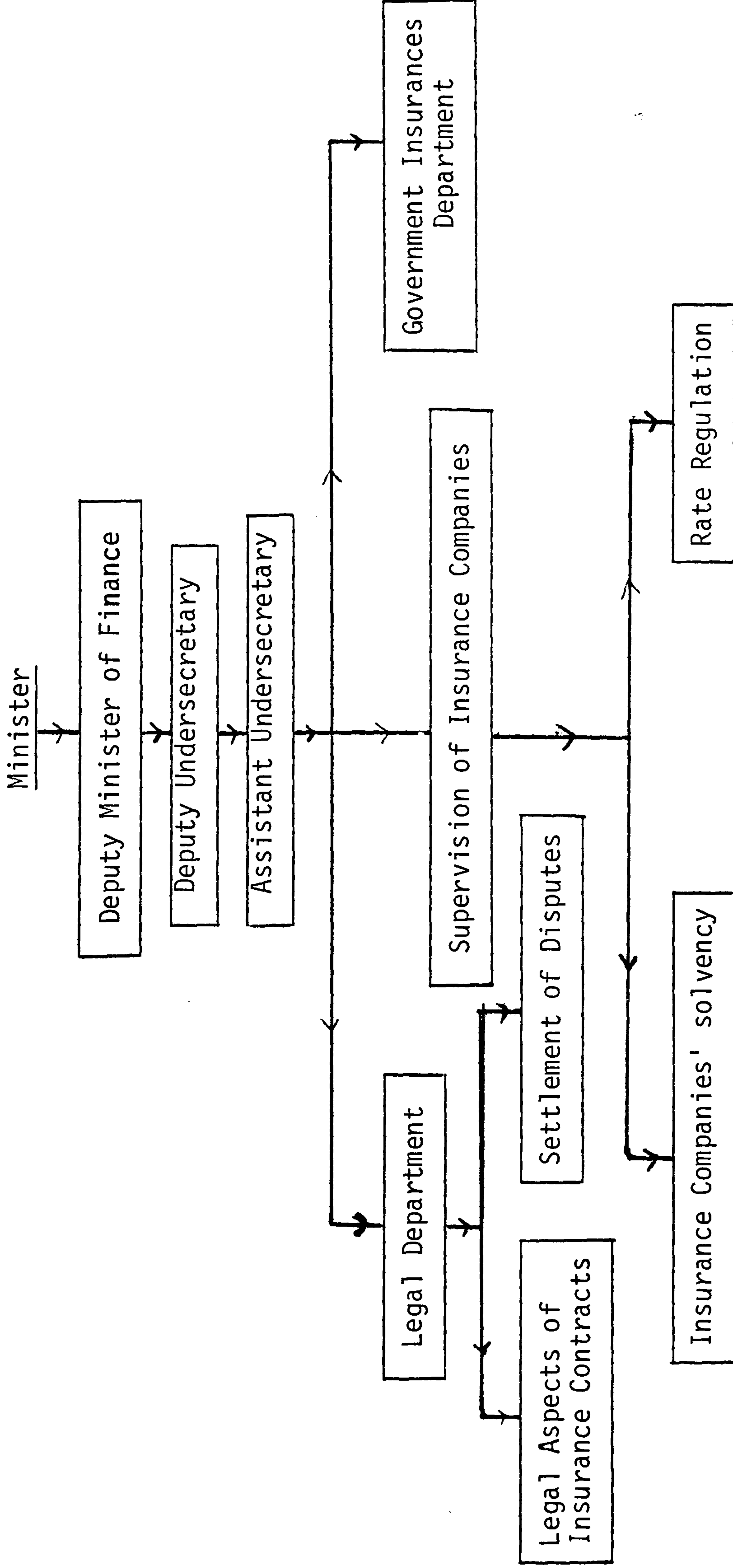
And, most ironically, the training of staff abroad, which is relied upon to improve regulation capacity, has been the factor mainly responsible for the weakness of the Section *vis-à-vis* the market especially in the last few years. The reason for this is that qualified personnel, as we shall see shortly, tend to join the companies the more experienced they become. This in turn worsens the quality of regulation as the regulator becomes the regulated. At present, there is a plan to re-organize the section to include: a legal section, a rate regulation section, and various other sub-sections (see Fig. I below). This re-organization will depend upon the enactment of a new Act (or

---

1. M.S. Deneberg, "The search for Countervailing Power," International Insurance Monitor, Vol. XXIII, No. 7-8, July-August, 1969, p.166.

Fig. 1

New Structure Proposed For The Insurance Section



Source: 'Unclassified' Records of the Insurance Controller

a very far-reaching amendment of the present Act) because most of the sub-units proposed in the section such as rate regulation and standard policies units, for example, will deal with matters which are not covered under the Act now. The possibility of new legislation being passed will, in turn, depend upon the willingness of the industry to be subjected to more stringent regulations - a very remote possibility as we shall discuss soon. Thus any improvement in the controller's capacity to regulate would have to be sanctioned first by the regulated.

## 2. The Power of the Sudanese Insurance Industry

The structure of the Sudanese insurance industry offers a classic example of an unequal distribution of power and political influence within one socio-economic setting. In terms of the wealth it commands the industry is, perhaps, the most single powerful industry in the country. All the shares of the biggest companies i.e. the General, the Sudanese and the Blue Nile, are owned by 88 shareholders only, and the African is owned by 36 shareholders. The foreign shares in the Sudanese and the Blue Nile were bought by, and distributed among, the national shareholders to maintain the interest of miniscule ethnic groups when the threat of public participation in the ownership of insurance companies became imminent. Nor has the recent expansion of industry been anything than a vertical one which is not paralleled by an expansion in the base of shareholding. All the companies own shares in N.R.C. for instance, which, in turn, owns 14 per cent of the Regional, while the General - a large

---

shareholder in N.R.C. - owns 35 per cent of the Regional.

On the political plane, the industry is not lacking in influence or power. The Chairman of the Sudanese Insurance Association (S.I.A.) was, until recently, the Public Relations Officer of the People's Assembly (and a Minister *ex officio*) and was, indeed, a Cabinet Minister in the early 70s. At present he is the Chairman of the Parliamentary Group of Party MPs and has represented the People's Assembly in some international occasions.<sup>1</sup> The Chairman of the Board of Directors of United Insurance is the Minister of Education, and *most* of the chairmen of the boards of directors of other companies are active participants in the national capitalist panel of S.S.U.

The industry's influence is readily reflected on national policies concerning insurance (as company representatives now discharge the functions of the I.A.C.), and upon the quality of regulation. This will appear from the examination below of the economics of insurance in the Sudan, and the role of regulation in economic development. But some examples may be given here. One such example concerns the method by which public sector risks are placed with the companies. In the early 70s the government policy was to invite tenders for the supply of the appropriate covers by the national companies with the result that the premiums charged were generally low and competition was said to have pushed the prices down every year.<sup>2</sup> In 1977, the Financial and Accounting Procedures Act, 1977, codified the supply of tenders practice as a means of insuring public sector risks. S.80(1) of the Act provides that:

---

1. Al-Sahafa (Daily) Newspaper, 15.9.1980.

2. Reply by the African to questionnaire addressed to Sudanese insurance companies, April-May, 1979.

The controller of insurance shall obtain for the public sector units the best insurance cover possible by inviting tenders [for that purpose].

The same Act, however, empowers the controller to adopt other means if he deems fit. S.80(3) of the Act provides that:

Notwithstanding the provisions of sub-section (1) above, the controller may obtain such insurances through limited tenders, direct negotiations, or according to practice.

Apparently, soon after the Act was passed in 1977, the co-insurance system which operates in the Sudan now (and which is discussed below) was devised by the companies and automatically became the chief 'practice', within the meaning of S.80(3) of the above Act, according to which public sector risks are distributed among the companies. The controller and the companies agreed that direct negotiations and limited tenders with certain insurers might entail injustice to the rest of the companies. A fairer solution was, therefore, necessary. This was the co-insurance scheme which has been adhered to for some years now. Under the scheme each company is assured of its share of government risks either on rotational or non-rotational basis, depending upon the nature of the particular risk.<sup>1</sup> The idea was to do away with competition. In fact in 1977, apparently the year when the scheme started, total gross premiums (which largely derive from government units) nearly doubled compared with 1974 as we will see later.<sup>2</sup> Undoubtedly, inflationary conditions might have had a role to play in the sudden rise of

---

1. This question is examined thoroughly in part two.

2. See Table 3 below.

premium income, but the writer was assured during the time of research in Khartoum that 'the co-insurance scheme was the principal factor behind the increase of premium income because *it ended competition and encouraged the companies to push their rates up collectively.*'<sup>1</sup>

Another aspect of the industry's influence upon government policy in insurance finds expression in the organized resistance exerted upon the government to abandon its plans for participation in the ownership of the industry. A state insurance corporation which has been suggested since the mid 1960s<sup>2</sup> will probably never be established as it is seen as a direct threat to private insurance interests. The failure of the nationalized industries in the early 70s<sup>3</sup> is often invoked to inflate the dangers which might befall the proposed corporation. And sometimes it is argued<sup>4</sup> that it is futile for the public sector to insure itself! An example of the industry's influence upon the regulation agency is the disappearance of the I.A.C. despite the fact that it was a statutory body. The I.A.C. was neither outlawed nor was it cancelled, but it simply committed suicide. And although its composition had allowed for an insurance lobby within it,<sup>5</sup> the council could have provided a stimulus for a more active state participation in the regulation of the industry - if only by virtue of the government's over representation in it. The functions of the council are now exclusively discharged by industry men as we have discussed above.

- 
1. Interview with the Deputy General Manager of the African, Khartoum, May, 1979.
  2. Controller of Insurance, "unclassified records".
  3. Interview with Ahmed M.E. Osman, Supra.
  4. E1-Ayiam (Daily) Newspaper, 28.7.1977.
  5. S.6(2).
-

There are yet other methods by which the industry has become an active participant in the regulation process.<sup>1</sup> These are common to markets dominated by private insurers and generally centre around making the regulation bureaucracy feel 'a privileged and personal part of the social milieu of the industry rather than a part of the public, thereby negating the motivation to make the agency function ..... in the interest of the people.'<sup>2</sup> A far-reaching method which makes the regulation bureaucracy more neutral and complaisant is the informal promise of positions in the industry, or what Nader and Serber call 'the delayed bribe.'<sup>3</sup> Several top officials have been recruited into the companies<sup>4</sup> after the insurance section had trained them abroad, at the tax-payers' expense, to discharge regulation functions. Indeed, in the eyes of the bureaucracy the insurance section is no more than a springboard to the industry.

- 
1. In many jurisdictions regulators have been fully co-opted by the industries which they were supposed to regulate. Of 11 regulatory agencies born during the 1930s in the U.S. only 2 were imposed by the public on the industry in question. The other 'were engineered by the industries or other affected interests themselves.' The industries had nothing to lose by setting up regulation bureaucracies upon which they had the advantage of being 'better equipped for battle in the low-visibility areas determine[d] how a regulatory statute [was] to be applied.' See Simon Lazarus, "Halfway Up Liberalism: Regulation and Corporate Power in R. Nader and Mark J. Green (eds.), Corporate Power in America, or "The Nader Report," (New York, Grossman Publishers, 1973), pp. 216-7 and p.229.
  2. Nader & Serber, "Law and the Distribution of Power," Supra. p.283.
  3. Ibid.
  4. The General Manager of the African, the Deputy General Managers of Khartoum and the General, and at least one top official in the Islamic Co. have all been recruited from the insurance section.



But by far the most blatant form of industry involvement in the regulation business is its participation in the drafting of an insurance bill<sup>1</sup> - which practice is becoming a sort of tradition in the Sudan. The bill which proposes an increase of paid up capital, rate regulation, inspection of policy terms, the establishment of security deposits etc., was due for discussion by the people's Assembly in 1972, but was removed from the agenda of the Assembly 'rather mysteriously' (so the write was told) and has been suspended ever since.

---

1. The bill was proposed in 1970 by the controller of the Attorney-General.

PART TWO : INSURANCE BUSINESS, INSURANCE REGULATION AND ECONOMIC  
DEVELOPMENT IN THE SUDAN

The main question examined in this part of the chapter is the manner in which insurance is regulated under the Act in the interest of economic development. It may be recalled from Chapter One that apart from ensuring an adequate protection to policyholders an insurance industry could be regulated to enhance the process of capital formation in a country, to enlarge the scope of investments in socially desirable areas, and to play as positive a role as possible in the country's balance of payments. We will, therefore, examine the extent to which insurance has been regulated to serve these purposes in the Sudan. It was also indicated earlier that in countries like the Sudan where the industry is privately owned the role of the state in its regulation tends to be confined to the enactment of legal measures to that effect and, therefore, the degree to which insurance could aid economic development tends to depend upon the efficiency of legal measurers, the capacity to regulate the industry, and the degree to which the industry conforms to the legal measures. We have examined the quality of regulation in the Sudan in part one of this chapter. We have seen the extent to which the capacity of the controller to regulate the industry could be limited by factors such as the political influence of the industry and the numerical strength of the regulators *vis-à-vis* the regulated. No reference is made to the quality of regulation in this part of the chapter but undoubtedly the success or failure of a country in controlling its industry is ultimately determined by several factors which include the capacity of the state agency to discharge its functions and the quality of its performance. Thus it is in the light of the problems which afflict the regulation machinery, among other things discussed below, that this part of the chapter must be understood.

## I. Insurance and Capital Formation in the Sudan

The structure of ownership of the insurance concerns in the Sudan, as discussed above, leaves no room for doubt that insurance funds in the Sudan are formed in the interest of miniscule ethnic groups and that the institution (like other institutions in the country) reinforces the unequal distribution of wealth within the Sudanese society. What remains to be examined is the volume of capital formed, the sources of insurance capital, and the avenues open for the state to influence this process of capital formation through regulation. These areas are dealt with below.

### (A) The Volume of Insurance Capital Formed : 1970 : 1977

The Sudanization of the industry, resulting as it did in the transfer of the portfolios of foreign agencies to Sudanese insurers, has had a profound effect upon the volume of capital accumulated by the latter. Fire insurance premiums alone increased by 44.5 per cent between 1969 and 1970/71, while marine and miscellaneous (including motor insurance) increased by 36.6 per cent, and 10 per cent respectively.<sup>1</sup> In the seven year period ending in 1977, total gross premiums for non-life business amounted to nearly, £S40 m. (see Table 3 below). NRC which commenced business in 1974, has also been significant as a capital market institution. Its gross reinsurance premiums have increased from nearly £S100.000 in 1974, to nearly £S2.7 m by 1977, recording gross reinsurance premiums, in the four year period<sup>2</sup>, of about £S 8m. It may be recalled that NRC is a joint venture

---

1. Figures collected from the Insurance Section (Khartoum)

2. Annual Reports of NRC, 1974-1977.

TABLE 3

Gross Premium Income in the Sudan (1970-77)

(£S)

	Fire	Marine	Miscellaneous	Life	Total
1969	393,458	929,660	658,707	359,879	2,341,704
1970/71	568,844	1,288,720	726,179	388,161	2,971,904
1972	772,207	1,320,914	1,279,797	392,997	3,765,914
1973	775,397	1,904,963	1,163,598	382,807	4,166,765
1974	921,904	2,857,216	1,393,093	295,683	5,467,896
1975	1,256,580	4,524,182	2,388,113	418,190	8,587,065
1976	1,516,098	3,748,683	2,655,653	421,362	8,341,796
1977	1,475,515	4,275,765	3,753,812	417,103	9,922,195

-136-

Source: Insurance Controllers Office Records

between the public sector and the private sector. The government owns 51 per cent of its share capital, and the amount of insurance capital which benefits the public sector (in Northern Sudan) is confined to this portion of the corporation's income. In the Southern Region the Regional Development Corporation (RDC) owns 51 per cent of the share capital of the Regional Insurance Co., and likewise the share of the Regional government in insurance capital formed in the Region is confined to this portion of the company's income. At the time of research the Regional had not submitted its annual returns and it was difficult to estimate the contribution of the company to capital formation in the Region.

As to life insurance business, the life portfolios seemed to have experienced a low rate of growth. Their increase between 1969-1977 was only 16 per cent compared with the marine branch, for example, the increase of which during the same period was in the vicinity of 360 per cent (see Table 3 above). By June 1973, there were only 4,465 life policies in the country (compared with 27,277 in Tanzania) and the annual number of life policies issued had actually decreased from 957 in 1971, to 919 in 1973, with a parallel increase in the rate of cancellation from 7.5 per cent in 1970 to 10 per cent by<sup>1</sup> 1973. The extended family system<sup>2</sup> in the Sudan and the religious beliefs concerning the legality of life insurance<sup>3</sup>, are, undoubtedly, two important factors which influence life insurance business.

---

1. From a memo. by the controller of insurance to the Minister of Finance (undated), Ins. 9/11/2/82.

2. Siddik E. El-Mardi, "Insurance Industry in the Sudan" op. cit.

3. Burham M. Attalla, "Insurance and Sharia Law" Supra.

Changes in the level of money incomes and the prices for consumer goods also have a tremendous effect upon savings which could be poured into life insurance.

Parallel to the increase of gross premium income, there has also been a rise in the ratio of non-life insurance claims, but the figures are rather unreliable. NRC (which keeps proper accounts) paid a total of £S1.2m. as net claims<sup>1</sup> during the seven year period<sup>2</sup> (1970-1977), but as with non-life insurance it is difficult to estimate net claims, and the fluctuations of gross claims cast many doubts on their accuracy.

The capacity of insurers to accumulate capital has been influenced a great deal by some developments in the first half of the 1970s. Fire and miscellaneous branches, for example, boomed after the Minister of Economics and Trade directed in 1979 that the show-rooms in the capital, industrial enterprises and warehouses in industrial areas all over the country should be insured against fire and allied perils.<sup>3</sup> Warehouses in Port-Sudan, markets and enclosures for collection, sale and storage of crops such as cotton seeds, gum arabic, dura (sorghum) etc are all to be insured, and the Ministry of Local Governments would refuse a licence or a renewal of licence for a trading firm unless the appropriate insurance is

---

1. Annual Reports of NRC, 1975-1977.

2. Controller of Insurance, General Records, Annual Returns of Insurance Companies.

3. Siddik E. El-Mardi, "Insurance Industry in the Sudan" op.cit. p.169.

obtained.<sup>1</sup> In 1973, the Minister of Finance issued an order which specified that all Sudanese importers should obtain a local cover for their imports with the insurance companies i.e. imports shall be purchased C & F rather than on c.i.f. basis.<sup>2</sup> This requirement is relaxed in the case of government units which have 'reasons'<sup>3</sup> to import c.i.f; and where the 'national interest' demands that insurance contracts be effected abroad approval will be given. These regulations had a great impact on the growth of marine insurance as its premiums increased by 31 per cent in 1973, and by 116 per cent in 1974 compared to 1972 (see Table 3 above).

(B) Who is the Principal Policyholder in the Sudan?

Notwithstanding the contribution made by the private sector to the growth of insurance as a result of the above regulations, the public sector is the principal policyholder in the Sudan, and the non-life portfolio of each insurer consists *substantially* of public sector risks covered from one year to the other. Unfortunately, the subject is surrounded by secrecy in the Sudan and information pertaining to government insurance was withheld by the companies in the belief that the present research was a feasibility study for the proposed state Insurance Corporation! However, the information

- 
1. Ibid., also letter by the Minister of Economics & Trade to the Minister of Local Governments, dated 23, May 1972, also letter by controller to Minister of Finance dated 17. 10. 1972.
  2. Circular letter No. MNE/Ins./82/2/15, dated 9th April, 1973.
  3. It is not known what sort of reasons could be invoked by a unit to obtain an approval for importing c.i.f.

available indicates that about 108 government units obtain an insurance cover of some sort, and that in the case of some risks, the scope of coverage is enormous.<sup>1</sup> The property insurance effected by the Gezira scheme, for example, covers:<sup>2</sup>

all cotton grown under the management of the Sudan Gezira Board during the season... of picking, in the field at Gezira, Mangil and Guneid, during transit to the ginning compounds, while awaiting being ginned, during and after ginning, while in transit to Port-Sudan or elsewhere in the Sudan for shipment or storage, while in store in the open or in transit until free on board the ship, or until sold, or until the liability of the Sudan Gezira Board towards it ceases or passes to another party.

Insurance at Gezira also covers cotton seeds for sowing from the time of produce or setting aside, during transit in the Sudan, and until distributed to tenants, and wheat, rice, and groundnuts are also insured against damage in the course of transit and storage, and the cover effected often extends to two consecutive years.<sup>3</sup> The sum insured in respect of these risks amounted to £S114m. since 1976.<sup>4</sup>

- 
1. A list prepared by Dr. Siddik E. El-Mardi of the Economic and Social Research Council (Khartoum, August, 1979). I'm indebted to Dr. Siddik for providing me with valuable information in this area.
  2. Siddik E. El-Mardi, "Insurance of Public Sector Corporations in the Sudan". Economic and Social Research Council, (Khartoum, 1980), p.39.
  3. Ibid., pp. 39-40.
  4. Ibid., p. 40.
-



And all major industrial risks, vessels, aircraft, refineries, and all development schemes are insured, either wholly or in part with the companies. Also government imports are insured and are a source of enormous profits exceeding 50 per cent of the premiums paid, especially during 1972-1974, and this is likely to have increased relatively and absolutely as a result of the increase in imports by the various public enterprises in recent years.<sup>1</sup> Thus the capital formed by insurers in the Sudan is rather significant and increasing, but it appears to be drawn substantially from public sector units.<sup>2</sup> In the following section we shall examine the sort of problems which public sector insurances cause to the sector and to the country as a whole.

C. The Problems of Public Sector Insurances in the Sudan

It was mentioned earlier that when competition between the companies pushed the prices for insurance down to uneconomic levels, a co-insurance scheme was devised by the companies in order to share public sector risks between them. Under the scheme as it operates now some risks are rotational and are managed each year by a different company. Rotational risks are, generally, of the type reinsured on facultative basis. In 1979, these included major risks such as: Sudan Airways (hull and liability), Sudan Shipping Line (hull and liability), the General Corporation for Agricultural Production (cotton), Sudan Gezira Board (cotton), and the Port-Sudan-Khartoum Pipeline. Some risks are non-rotational. Since the scheme operated, each

---

1. Memo. by the controller of insurance to the Minister of Finance, dated 18. 8. 1971.

2. El-Ayam (Daily) Newspaper, 29.7.1977, also 22.9.1977.

company has acquired a certain number of such risks, charged 2.5 per cent as management expenses and distributed the surplus between other companies according to each company's retention capacity. Thus each company in the scheme (there are seven companies altogether) acquires a regular share of all risks insured under this category. Non-rotational risks are of the type reinsured on quota-share and surplus basis. It was also agreed that risks insured for the first time should be made subject to lottery in the first year. The winning company retains management of the risk regularly, charges the agreed management expenses, and distributes the surplus according to each company's retention capacity.<sup>1</sup> This is, of course, if the new risk is of the type reinsured on surplus or quota-share basis. If it is of the facultative type it will rotate between the companies. Perhaps the reason for rotating facultative risks between the companies is that facultative business, as discussed in Chapter One, is less attractive as a source of commissions, and it appears that no Sudanese insurer is willing to be saddled with the management of this brand of business. On the other hand, and as each company retains its share of quota-share and surplus risks, each is assured of regular and handsome commissions which characterize these types of treaties as we have seen earlier.

The object of the co-insurance scheme was to form a cartel or pressure group to dictate terms and prices<sup>2</sup> to the government. And as discussed below, the government could only suffer additional problems in the field of

---

1. Siddik E. El-Mardi, "Insurance of Public Sector Corporations in the Sudan", *Supra.*, pp.46-7, also Yahya Mutwali, "Co-insurance in the Sudan", a paper written for the Insurance Section (Khartoum, Sept. 1979), also "Treaty Limits of Sudanese Companies" prepared by Sudanese Insurance Association in 1978.

2. Siddik E. El-Mardi, "Insurance of Public Sector Corporation..." *op.cit.* p.47.

insurance under the scheme which is designed in the interest of the companies first and foremost. The following problems, in particular, may be considered: firstly, the scheme did not seem to have increased the capacity of the market to retain risks inside the Sudan - as perhaps it was expected - to any remarkable degree, and as will appear later *all the companies, except the General, have failed to increase their capital to the level envisaged by the government.* Thus the distribution of giant risks between insurers with inadequate capacities could only result in increased reinsurance. Of course, it is no doubt surprising that a unit such as Sudan Airways, for example, could seek the economic protection of an insurer (any one) whose assets are only a fraction of the value of one aircraft, or some other major risk. One, however, is reminded in the literature on risk management that the process by which dwarfs could protect giants 'astoundslaymen but not professionals.'<sup>1</sup> No professional knowledge of insurance is claimed here, but, undoubtedly, a weak insurer who accepts a giant disproportionate risk has no option but to seek the economic protection of a professional reinsurer in whose favour the law of average operates on a world scale. Thus the acceptance of big government risks reduces the companies into *de facto* reinsurance brokers who only pass their risks away in return for commissions. For co-insurance is never a substitute for reinsurance<sup>2</sup>, and as the case of the Sudan shows reinsurance was, in fact, made the criterion according to which public sector risks are

---

1. J. Sousselier, "Some Technical Aspects of Reinsurance Balance of Results", The Review, November, 15, 1968, pp. 1337-43.

2. Ibid.

distributed between the companies. It is argued<sup>1</sup>, however, that a co-insurance scheme of this kind could counteract the flow of reinsurance abroad because the increased capacity of the companies (theoretically, of course, capacity should increase due to the distribution of risks between the companies) will result in less facultative reinsurance and more resort to treaty reinsurance which secures maximum commissions to ceding companies, in contrast to the former, and hence reduces reinsurance outflows. It was discussed above that the scheme did not seem to have increased the capacity of the market to any noticeable degree with the result that the outgoing reinsurance business is still quite substantial (this will be discussed later). And as we have seen in the first chapter, treaty reinsurance is unlikely to have any positive effect on the balance of payments of a country (an underdeveloped one), because the greater commissions it secures actually lead insurers to resort to it excessively even at the expense of undermining their own retention capacity. Thus whatever commissions flow into the country, the initial flow in the opposite direction will always be greater. As to the country from which such capital flows it should make no difference whether it is done under this category of reinsurance or the other since such flows are increasing in volume. And at any rate, of course, the commissions, great or small only go into the companies own coffers.

---

1. UNCTAD Secretariat, "Reinsurance Problems in Developing Countries", op. cit. p.30.

Secondly, and as was discussed earlier, there has been an increase in premium rates charged for government risks after the scheme was devised. This rise was due to the absence of competition consequent upon the equal sharing of risks between companies. But this has meant that premium rates charged for public sector risks are becoming much more exaggerated and divorced from the actual need for insurance as indicated by the amount and cost of claims. Total premiums by 15 public corporations in the industrial sector, for example, stood at £S49,120 a year on average, but average claims ratio for the same period (1975/1976 and 1978/1979) was either zero or negligible.<sup>1</sup> In the services sector, total premiums paid by some selected corporations stood at £S106,560 for the period 1975/76 and 1978/79, but the claims incurred were only £S11,970 during the whole period.<sup>2</sup> The highest average claims ratio by public corporations across all sectors has been in respect of motor insurance and not the high technology risks or other industrial hazards maturing in the production process to justify the transfer of risks to insurers in the first place. And even motor insurance claims have not exceeded 12.3 per cent on average at any one year during the period 1975/76 and 1978/79 (see Table 4 below). Thus insurance by the public sector in the Sudan does not seem to derive from any genuine need for protection as the claims experience indicates.

---

1. Siddik E. El-Mardi, "Insurance of Public Sector Corporations..."  
op. cit. p.42.

2. Ibid., Table IX and Table X, pp. 57-8.

TABLE 4

Average Premiums and claims ratio in selected public corporations in Agricultural, Industrial, and Services sectors (1975/76 - 1978/79)

		(£S)						
1975/79 - 1978/79	Fire	%	Marine %	Motor %	Total	%		
Average Premiums	74,586	49.4	41,755	27.7	34,585	22.9	150,926	100
Average Claims	1,090	17.1	1,055	16.5	4,240	66.4	5,385	100
Average Claims ratio	1.5		2.5		12.3		4.2	

-146-

Source: Dr. Siddik Et-Tijani El-Mardi - 'Insurance of Public Sector Corporations in the Sudan' op.cit. Table XIV, p. 60.

Thirdly, before the scheme operated the controller of insurance could use government tenders for the supply of insurance as a means of threat against companies with particularly bad records with respect to public sector claims. He was under no obligation to accept the lowest tender and his options were fairly wide.<sup>1</sup> He could choose an insurer with a good record, reasonable premium rates, sound financial position, proper management etc.. This power to choose among competing insurers<sup>2</sup> must have also reinforced his capacity to bring the unruly among them under his control. Under the scheme as it operates now he no longer enjoys this advantage, and willy-nilly the government has to accept whichever company accepts its risks, for the question of who should be the insurer for a particular public sector unit is decided by the companies, not the unit seeking insurance.

Fourthly, the argument that 'under the scheme the market unites to provide the government with the security of all insurance carriers collectively'<sup>3</sup> is simply erroneous. For in law, the liability of co-insurers is several and not joint, and the policyholder (in our case the government), will alone have to bear the consequences of a company becoming insolvent (and as will appear later some of them might well be insolvent now) as other companies in the scheme will be liable only to the extent of their

- 
1. Interview with the Controller of Insurance, May, 1979 (Khartoum).
  2. It is not suggested here that a competitive market is a solution to the problems of Public Sector risks.
  3. Interview with the controller of insurance, May, 1979, also 'Co-Insurance: Why?', a memo. submitted by the representatives of insurance companies to the controller, undated, p.3, Ins. 82/2/5/15 Gen.
-

respective shares in the risk.<sup>1</sup> And if a dispute arises between the government and the companies with respect to any one risk, the government will have to initiate proceedings against each insurer (and incur extra costs) should it wish to resort to court, unless the leading company in the scheme undertakes to act on behalf of all companies<sup>2</sup> which does not appear to be the practice in the Sudan.

In the remaining part of this section an attempt is made to show the extent to which the state, represented in the controller of insurance, could influence the process of capital accumulation by insurers (having seen how capital is accumulated and in whose interest it is accumulated) with regard to the amount of capital accumulated, and one aspect of disposal of insurance funds: management expenses and commissions (which have a direct bearing on the volume of capital made). Insurance investments will be dealt with separately later.

#### D. Regulations Related to Capital Formation

##### 1. Rate Regulation

Rates of premiums are most closely related to the volume of capital formed, the amount of funds available for investment and to the insurer's ability to honour its obligations to policyholders.<sup>3</sup> Premium rates are not

---

1. "Reinsurance Problems in Developing Countries", op.cit. p.30.

2. Ibid.

3. Spencer L. Kimball, "The Purpose of Insurance Regulation : An Inquiry in the Theory of Insurance Law", 45. Minn. L. Review, (1961), pp.471-525.



regulated in the Sudan. The Interdepartmental Committee which considered the drafting of the bill purposely ignored the question of rate regulation after its Chairman, Mr. Glassborrow, had come to know that the only Indian company in the market, the New India Insurance Co., was campaigning to form a tariff association which was much opposed by the British Companies.<sup>1</sup> Also, the Committee rejected a proposal for a stamp duty on insurance policies for the benefit of the treasury.

In the absence of state intervention the companies have had the utmost freedom in fixing their own rates without the least resistance from the controller. In 1973, for example, when the Bank of Sudan imposed a 15 per cent transfer tax on reinsurance premiums, all insurers increased their rates by more than the tax imposed with the result that the burden of tax was simply transferred to the public. By 1977, a surplus of nearly half a million pounds was made and only then could the controller, with the consent of the companies, adjust the rates proportionately to the surplus made.<sup>2</sup>

## 2. Management Expenses

The expenses incurred by an insurer in managing the insurance fund, and the commissions paid to intermediaries for procuring business, directly erode the accumulated fund and affect the insurer's capacity to honour its commitments. Both have a direct bearing on the capital accumulated by insurers every year.

---

1. Memo. by Mr. Glassborrow dated 28, June, 1958.

2. "Insurance cover for Sudan Shipping Line", Undated memo. by the controller of insurance to the Minister of Finance & National Economy.

In the Sudan insurers are free to evaluate their own costs in managing their own funds. Of the net premium income of £S8.7m. between 1972-1976, the expenses of management by all insurers claimed a sum of £S2.4m.<sup>1</sup> The salaries and wages in the industry are believed to be among the highest in the country, and insurance personnel are entitled to various lavish rewards and fringe benefits.<sup>2</sup> Commissions also eat up a large part of the accumulated funds, but insurers are also free to fix their own commission rates. Commissions for life insurance amount to 50 per cent of the annual premium in the first year, and fire insurance commissions amount to 35 per cent of the premium. For marine cargo, motor and miscellaneous, commission rates range between 20 - 27.5 per cent.<sup>3</sup>

Before we proceed to examine insurance investments in the Sudan a summary of the arguments advanced in this part of the chapter is necessary. What has been said so far suggests that: (a) a large amount of money is formed every year by Sudanese insurance companies, (b) the state contributes substantially to capital accumulation by insurers through its insurances and also through regulations aimed at increasing the national portfolio, (c) insurance by the government does not appear to derive from any genuine need for protection as the claims experience suggests and (d) that the state has no control over the process of capital formation through rate regulation although it is the principal policyholder, and the manner in which part of the fund is disposed of for expenses is also beyond the reach of regulation. In the following section we attempt to examine the role of insurance investment in the development of the Sudan.

---

1. Tables prepared by NRC, 1977.

2. El-Ayam (Daily) Newspaper, 22, September, 197

3. M. Sadiq, "Final Report to the Government of the Democratic Republic of the Sudan", Supra. p.9.

## II. Investment of Insurance Funds

Insurance funds are generally invested in real estate, Post Office Saving Banks (P.O.S.B), government bonds, deposits in banks, shares, loans on policies etc. The volume invested in all these fields during 1970-1977 was in the neighbourhood of £S25.3m. (See Table 5 below). Insurance funds appear to have been substantially deposited in commercial banks until 1976. Savings in the P.O.S.B are included in these deposits, but it is unlikely that the share earmarked for the Post Office (see below) constitutes any significant portion of total deposits. The runaway inflation and the occasional devaluations of the Sudanese pound during 1978-1980 have resulted in low confidence in the currency and a consequential shift away from money as a store value to investment in real estate, and a parallel decrease in the volume of deposits in banks and loans on policies. Most of the old insurance companies own one or two buildings (the building which houses the insurance regulation section is owned by the General) or are planning to do so.<sup>1</sup> Investment in shares is minimal and appears to be losing to other areas of investment. Most insurers, however, own shares in other companies both locally and abroad.<sup>2</sup> The share of funds going into government bonds is appallingly low and is decreasing rapidly. It has not

- 
1. The General owns 3 buildings in Khartoum, the Blue Nile and Khartoum own two buildings each, while the Sudanese has recently bought a piece of land on which a building is planned, see Ahmed Adam Hassan, 'The Role of Insurance in the Development of Sudanese Economy', a dissertation presented in partial fulfilment for the degree of B.Sc. Part II (University of Khartoum, Faculty of Economics and Social Studies, 1979), p.52.
  2. The Sudanese, for example, is a shareholder in the Union Insurance Co. (Gulf) in Dabi, Abu Dhabi and Um alquin, see Sada Libnan (in Arabic), March, 1979, p.10.

TABLE 5

Investment of Insurance Funds in the Sudan (1973-1977)

Year	Real Estates	%	Shares	%	Government bonds	%	P.O.S.B. of cash at hand	%	Loans	%	Total
1973	1,202,090	35.2	130,239	3.8	208,610	6.1	1,234,024	36.1	634,675	18.6	3,409,638
1974	1,352,253	32.3	162,541	3.8	212,610	5	1,688,430	40.4	758,663	18.1	4,174,497
1975	1,621,439	30	141,810	2.6	72,160	1.3	2,619,966	48.6	932,187	17.3	5,387,562
1976	1,775,432	29.7	172,810	2.8	76,160	1.2	3,041,750	<u>51%</u>	896,527	15	5,962,679
1977	2,621,179	41	138,810	2.1	63,000	0.9	2,735,092	42.8	830,443	12.9	6,388,524

Source: Insurance Controllers' Records.

been possible to estimate the annual returns of insurance investment, but these are believed to be the third highest in the country (at least in the early 70s) being exceeded only by publishing and mining interests.<sup>1</sup> The volume of returns is increasing with the increase in premium income, and for N.R.C. alone, during 1975-1977, the annual increase in the volume of investment returns was 67.8 per cent on average.<sup>2</sup>

In the following part we will see how the government in the Sudan could control or regulate insurance investment under the Act.

### Regulation of Investment

When the Insurers (Control) Bill was being drafted, the British Insurance Offices in the Sudan insisted that it 'should embody the principles of our own law which do not call for the setting up of deposits or lodging of technical reserves; but allows insurers to invest their funds in such a manner and such locations as they think appropriate to their... interests.'<sup>3</sup> The bill, however, empowered the Minister of Finance - in a last minute amendment - vaguely, to pass regulations on insurance investment,<sup>4</sup> but he was quickly warned by the foreign agencies to exercise his powers 'wisely and moderately'<sup>5</sup> under the threat of their withdrawal from the market. As the Fire Offices Committee has put it:<sup>6</sup>

- 
1. "Report of the Economic Committee on the Insurance Sector", A Report submitted to the Minister of Finance, 1970, the rates of returns were as follows: 27 per cent for publishing firms, 21 per cent for mining and 19 per cent for insurance.
  2. Annual Reports of NRC, 1975-77.
  3. From a memo. by the Joint Committee of the British Insurance Offices in the Sudan op.cit.
  4. S. 22 of the Act.
  5. Letter by Mr. G.C. Porteous, Chairman of the Foreign Fire Offices to the Minister of Finance, dated 18th June, 1960.
  6. Ibid.

The companies have no doubt that in the immediate application of the law they could rely on the powers vested in the Minister being exercised wisely and moderately. It is ... the business of insurers to take a long view and they regard their operations in any particular territory as activities which they hope will continue indefinitely. It will be readily understood that from this point of view the existence on the statute book of provisions under which they could at any time in the future be required by administrative action to invest in the Sudan ... would be most disturbing to the companies.

Accordingly, no regulations were passed until 1964 when the Act was amended<sup>1</sup> to provide for the establishment of technical reserves and for their investment, for the first time in the Sudan.

#### 1. Establishment of Technical Reserves

The term 'technical reserves' applies to the liabilities incurred by insurers towards their policyholders. From the point of view of the insurance company these liabilities stand as a debit item in the balance sheet in the same way in which bank deposits stand as a liability to a bank and constitute a debit item in its balance sheet.<sup>2</sup> In non-life insurance these reserves comprise: reserves for unexpired premiums and reserves for outstanding claims; and in life insurance they consist of mathematical reserves only.<sup>3</sup>

The establishment of these reserves was not a subject of regulation in the Sudan until 1964 when the Act was amended to provide that:<sup>4</sup>

---

1. Act No. 4 1965.

2. A.L. Mayerson, Introduction to Insurance, (New York, 1962), p.338.

3. See generally, UNCTAD Secretariat, "Investment of Technical Reserves of Insurance Concerns in the Country where the Premium Income Arises". TD/B/C.3/87, (U.N., New York, 1971), pp.3-5.

4. S.15.

- (1) Every insurer carrying on general insurance business shall set up and maintain in the Sudan a fund (.... called 'the General Insurance Fund') in respect of his general insurance business; and all sums received in respect thereof shall be entered in a separate account and credited to that fund.

Long term insurers were to meet similar requirements:<sup>1</sup>

- (2) ... Every insurer carrying on long term insurance business (whether alone or in conjunction with general insurance business) shall set up and maintain in the Sudan a fund (... called 'the Long Term Insurance Fund') in respect of his long term insurance business; and all sums received in respect thereof shall be entrusted in a separate account and credited to that fund.

The general insurance fund and the long term insurance fund are no more than the technical reserves which insurers usually establish. The method of establishing these funds or reserves was a subject of two Ministerial circulars. In 1964, the first of these circulars<sup>2</sup> provided that the general insurance fund shall be formed of 40 per cent of the net premiums for fire and accident insurance, and 85 per cent of 'net premiums' in the case of marine insurance. The general fund was to consist of the reserves for unexpired premiums only, and insurers were left free to fix their own reserves for outstanding claims. Also, mathematical reserves were to be established according to each company's practice. In 1969, however, a second circular<sup>3</sup> amended the former substantially with regard to the general fund, but the long term fund was left intact. The manner of establishing reserves according to the second circular, which is now the practice in the Sudan, may be summarized as follows:

- 
1. S.15(2)(a)
  2. Circular Letter No. MET/82-2-15/C, dated 8th, September, 1964.
  3. Circular Letter No. MT/Ins./82-2-15/C, dated 6th August, 1969.
-

(1) the general insurance fund (which, as we have seen above, consists of reserves for unexpired premiums only) must be formed of 40 per cent of 'gross'<sup>1</sup> rather than net premiums for fire and accident, and 55 per cent of 'gross' premiums in the case of marine insurance.

(2) Mathematical reserves in life insurance and reserves for outstanding claims in non-life insurance are to be fixed according to each company's practice.

## 2. Investment of Technical Reserves

For the wider economy the value of technical reserves lies in their investment rather than their mere establishment. Insurers were, therefore, made subject to investment regulations concerning the established reserves. Section 22 of the Act was amended<sup>2</sup> to provide that:

- (1) Every insurer shall invest and keep invested *in the Sudan* such part of moneys standing to the credit of his General and Long Term Insurance Funds as the Minister may from time to time... require in respect of all insurers. [emphasis in text]
- (2) The Minister may similarly ... direct the manner in which the money referred to in [(1) above] may be invested.

---

1. When the fund is formed of 'net premiums' the share of premiums going into reinsurance is excluded, but when the estimate is made on 'gross' basis reinsurance is not considered.

2. Act, No. 4, 1965.



The first circular mentioned above (passed under S.22(2) which, as above, empowers the Minister to pass investment regulations) required further that: (a) every insurer transacting general insurance business shall deposit in the P.O.S.B. 60 per cent of his general insurance fund, and 30 per cent of the same fund either in that Bank or in government securities, (b) every insurer transacting long term insurance business shall invest 90 per cent of his long term insurance fund either in government securities, P.O.S.B., or both. Insurers were free to invest the balance, i.e. 10 per cent, as they pleased. The second circular did not affect this method of investment, but as we have seen, reserves for outstanding claims were not required to be established and to this effect the regulations have limited the amount of insurance funds which could go into government securities and P.O.S.B.

Thus in a bid to utilize insurance investments, insurance companies and agencies were called upon to set up their reserves and to make a substantial part of such reserves available for government borrowing. The total reserves of all insurers increased from only £S 15,079 in 1964<sup>1</sup> to over £S2.5m. by 1973 (see Table 6 below). But unfortunately no sizeable funds or reserves are available for government borrowing because the investment regulations are rarely observed by the companies. In 1972, for example, the volume of reserves invested in government paper and in the P.O.S.B. recorded a deficit<sup>2</sup> of £S753,868. And when the funds earmarked to cover reserves are invested in real estate the companies are often exempted from complying with the regulations.<sup>3</sup> As a

---

1. Controller of Insurance - Unclassified Records, Ins. 82/2/5 Gen.

2. Memo. by the controller of insurance to the Deputy Minister of Finance, dated 2nd October, 1972, Ins.82/2/5/15 Gen.

3. Ibid.

TABLE 6

Technical Reserves of Insurers in the Sudan

(1971-1973)      £S.000

Type of Reserves	1971	1972	1973
(1) Reserves for out- standing claims	221.3	384.3	491.1
(2) Reserves for un- expired risks	301.1	331.7	460.1
(3) Mathematical reserves	984.1	996.2	1,584.3
	<hr/>	<hr/>	<hr/>
Total	1,506.5	1,712.2	2,535.5

Source: Dr. Siddik Et-Tijani El-Mardi, "Insurance Funds and their Investment in the Sudan" Unpublished Paper, undated, p.6.

matter of fact, it was argued by the controller of insurance himself that investment in commercial banks and policy loans should be preferred to investments prescribed by regulations in view of the facilities which the banks offer, and the high returns on policy loans.<sup>1</sup> On the other hand, the encouragement of investment under the various investment Acts (discussed in the previous chapter) has offered the companies additional avenues for channelling their funds, and has taken them away from the P.O.S.B. and government securities as areas of investment.<sup>2</sup> Consequently, the amount of funds pouring into government coffers as investment in securities declined from 6.1 per cent of total investment in 1973, to only 0.9 per cent by June 1977 (see Table 5 above). And the share invested in the P.O.S.B. is often included in the 'cash at hand' category of investment in the companies' reports, and it is difficult to tell how much of it is invested in the P.O.S.B. Unfortunately, the Post Office records were confidential and information pertaining to the volume of insurance savings could not be obtained. It appears from the records of the controller, however, that the Post Office has not made much use of insurance funds in the past. A company could withdraw all its deposits at once. The Blue Nile did that in 1971 (it withdrew £S150.000 which were all its savings at the P.O.S.B) in order to provide a loan for Shell Co. (Sudan) at a 6 per cent interest rate. The company was permitted to do so 'because the terms of the loan were extra-ordinarily attractive.'<sup>3</sup> The practice of other companies appears to be to part with some of their liquid assets to the P.O.S.B., but only to borrow

---

1. Ibid.

2. Questionnaire to Sudanese Companies, April-May, 1979.

3. Letter by the Blue Nile Insurance Co. to the Controller of Insurance, dated 17, September, 1971 - Ins. 82/2/5/15 Gen.

---

from it a larger sum for investment elsewhere. In May 1975, for example, the Sudanese deposited a sum of £S5,000, but borrowed a larger sum of £S80,000 in July to purchase a piece of land in Khartoum.<sup>1</sup> At that time *the company was indebted for the P.O.S.B. for £S100.000 which was to be repaid in ten years!* Thus far from contributing to the liquidity of the fund the companies actually borrow from it to invest in more lucrative areas.

Nor has the so-called social investment of insurers (a favourite subject for insurance circles in the Sudan) been anything more than an investment for the promotion of the industry's own interests. The Sudanese Insurance Association (S.I.A.) has contributed a sum of £S12,000 for the Fire Fighting Services of the Industrial Area of Khartoum North - the biggest industrial town in the Sudan in which substantial interests are insured against fire and allied perils.<sup>2</sup> And at any rate the £S12,000 was part of the surplus made due to excessive rates after a transfer tax was imposed upon insurers by the Central Bank in 1973 as we have seen above. In other words the surplus was directly levied from the public. S.I.A. has also contributed toward the improvement of clearing facilities at Port-Sudan because owing to the congestion at the Port and the poor storage facilities, the marine departments had suffered great losses.

- 
1. Letter by the Sudanese Insurance to the Controller, May, 1975, also letter by the controller to the Minister dated 2.7.1975, and letter by the Minister to the controller dated 17.8.1975, Ins. B2/2/5/15 Gen.
  2. Letter by the controller to the Fire Brigade, dated 18.8.1973.
-

Ironically, the functions of the controller in law and practice, and his dual agency both for the government and for the companies require him to relax the investment regulations a great deal. It was mentioned earlier that the controller is required by law to place public sector risks with the companies.<sup>1</sup> He secures the payment of premiums for the companies by regulating the manner in which the units should pay them,<sup>2</sup> and he mediates to obtain compensation for a particular unit when its risk matures.<sup>3</sup> It was also mentioned that a very large number of public risks are insured by all the companies. In practice, the demands by the companies to have their premiums paid by the units, and the demands by the units to have their claims paid by the companies, take most of the working hours of the insurance section's personnel. And the section has recently been the subject of criticism by other government departments which have failed to obtain their claims from the companies.<sup>4</sup> But as we have seen earlier, the co-insurance scheme has removed from the controller all his powers to use government insurances as means of pressure upon companies reputed to have bad records regarding government claims. Any insurer in the scheme (and all

- 
1. Letter by the controller to the Fire Brigade, dated 18.8.1973.
  2. S.80(1),(2) of the Financial and Accounting Procedures Act, 1977.
  3. S.81 of the Financial and Accounting Procedures Act, 1977.
  4. S.82(1),(2) of the Financial and Accounting Procedures Act, 1977.
  5. Interview with Yahia Mutwali of the Insurance Section, May, 1979.

insurers are) could now obtain a share of public risks irrespective of its record. In such circumstances the pressures upon the controller to assist the various government units could not but increase. Although the controller is aware of the profits which government insurances yield to the companies and could exercise some pressures upon a company on the basis of the benefits it has drawn from the government, no such pressure is exercised. In practice the controller simply refrains from 'pushing' the companies to invest in areas which do not secure adequate returns and liquidity (and the P.OSB. and government securities are alleged to be such ones) as he is under a legal duty to secure the payment of the sums insured to the units when claims are made. This is adhered to as a method of persuading companies to pay the claims which are due, and this is particularly true at times when sizeable claims are under consideration by the companies. And when the units delay the payment of premiums which are due (and this often happens), the controller refrains from demanding compliance with the investment regulations altogether.<sup>1</sup> *The government in the Sudan appeared to have made its chances for utilizing insurance investments even slimmer by deciding to insure its own property.*

In the following section we examine the final area in which insurance regulation affects the economy of the country: the balance of payments.

---

1. Interview with Ahmed M.E. Osman, former controller of insurance, now the Chairman of the Board of Directors and General Manager of NRC, Khartoum, September, 1979.

### III. Insurance in the Balance of Payments of the Sudan

The Act has not illegalized the placing of insurance with an insurer not licenced in the Sudan.<sup>1</sup> And immediately after it was passed the Exchange Control Authority made it clear that when an application to transfer insurance premiums abroad is made such transfer would be allowed if the premiums charged abroad are less than the local rates, because the bulk of premiums earned in the Sudan would be transferred abroad anyway. Thus insurance abroad was seen as a transaction which was likely to save foreign currency<sup>2</sup> sometimes! Fortunately, the Minister of Finance soon instructed the Exchange Control Authorities not to allow the transfer abroad of premiums for a risk situated in the Sudan.<sup>3</sup> But as will be seen later, multinational companies operating in the Sudan now are exempted from this rule in certain cases. On the other hand, the various contracts for construction works and supply of capital goods under the Ten Year Plan (1961-1971) were awarded to foreign firms which placed their insurances abroad, and the volume of these transactions in 1961 alone<sup>4</sup> was estimated at nearly £S400.000. And generally all capital and consumer goods were

- 
1. Letter by Mr. J.S.R. Cole of the Ministry of Justice to the controller of insurance, dated 6th June, 1962.
  2. Letter by Mamoun Behari, Governor of the Bank of Sudan to the controller of insurance, dated 22. Dec. 1961.
  3. Letter by the Minister of Finance to the Governor of the Bank of Sudan, dated 17, Jan. 1962.
  4. UNCTAD Proceedings, E/CONE, 46/5, Appendix IV, 'Sudan', Supra., p.9.

imported on c.i.f. basis until 1973, and the insurance cost of these transactions has been lost to the Sudan for ever. Even worse, Sudanese companies resorted to excessive reinsurance abroad in the 60s and the amount ceded often exceeded 90 per cent of their gross premiums.<sup>1</sup> This was due to their relative lack of experience, meagre reserves, and shaky financial positions - most of which factors still persist as will be seen later. Foreign agencies had also transferred all their incomes abroad, and the net physical flows of insurance in the early 60s was estimated at £\$1m. a year.<sup>2</sup>

At present the Islamic Company, which is exempted from government regulation, exchange control regulations, business profit, and *all* other forms of taxes,<sup>3</sup> is acting, *inter alia*, as an agent for a Gulf-based insurer. Under its agency, the Islamic Co. has recently invited the public to purchase bonds of a type known as 'the Islamic Alternative to Life Assurance' of \$20,000 value payable in 20 years i.e. \$1000 a year, and readily transferable to the Gulf.<sup>4</sup> The scheme is spiritually appealing to many Sudanese previously inhibited from buying life insurance by the doubtful position of life insurance under *Sharia* law. The conformity of the company's transactions to *Sharia* law was dealt with earlier, suffice it to say here that the legality of these transactions (if it exists) under *Sharia*

---

1. Mohmed Sadiq, "Final Report etc.", op.cit., p.17.

2. UNCTAD Proceedings, E/CONF, 46/5, Appendix IV, 'Sudan', op.cit. p.21.

3. Faisal Islamic Bank Act, 1977, ss.6(b), 7(1),(2), and s.8. The Bank (which owns the company) is exempted from *all* laws governing employment, from the Auditor General's Act, 1970, ss.42, 44 and 45 of the Bank of Sudan Act, 1959, and from nationalization and confiscation.

4. Al-Sahafa (Daily) Newspaper, 3.9.1979.



is no comfort as far as the balance of payments is concerned. On the other hand, multinational companies operating in the Sudan now could also place their insurances outside the Sudan if a policy had been issued before the commencement of business in the Sudan.<sup>1</sup>

The scope of currency transfers by the Islamic Co. and other multinationals in the Sudan is difficult to estimate with any accuracy. As to transfers of reinsurance premiums by Sudanese companies it is evident that any increase in premiums earned in the Sudan is readily reflected in massive transfers abroad. A study which has estimated the gross premium income for non-life business between 1971-1976 at £S 31.3m. (but see Table 3 above which gives an estimate of £S28.3m.), indicated that £S 23.m. of that i.e. 73.4 per cent, was ceded to reinsurers.<sup>2</sup> For all branches of business the ratio of reinsurance to gross premiums amounted to 70.3 per cent on average between 1971-1976, although average reinsurance inflows i.e. losses plus commissions, during the same period did not exceed 53.7 per cent (see Table 7 below). And although some risks are now ceded to N.R.C. a large portion of these is retroceded by the latter to western reinsurers. Between 1975-1977, for example, a total of £S3.29m. was retroceded by the corporation and that stood at 46.6 per cent of its premium income.<sup>3</sup> N.R.C. has also failed, so far, to attract retrocessions or reinsurances from abroad. Nor has the Sudanese Insurance and Reinsurance Co.

- 
1. Letter by the Sudanese-Kuwaiti Road Transport Co. Ltd. to the controller of insurance (for permission to transfer premiums abroad for three years in respect of a policy which had taken out in Kuwait) dated 23 Nov. 1974.
  2. "Reinsurance Statistics", prepared by N.R.C.
  3. Annual Reports of N.R.C., 1975-1977.
-

TABLE 7

Reinsurance Ceded abroad by Sudanese Insurers(1971-76).

Year	% of reinsurance premiums to gross premiums	% of incoming reinsurance to outgoing reinsurances
1971	76.83	18.33
1972	66.05	47.72
1973	76.28	50.15
1974	76.09	47.09
1975	76.50	51.10
1976	<u>57.27</u>	<u>82.17</u>
Average	70.30	53.77

Source: Table prepared by N.R.C. in 1977

been of much value to the country in this respect, and in fact, its agreements with professional reinsurers sometimes reduce its role to that of a satellite reinsurer in return for training services and other facilities.<sup>1</sup>

The asymmetry of reinsurance and retrocession outward flows and the flow back of claims and commissions is indicative of the cost of insurance transactions in the balance of payments of the Sudan. This cost has been a persistent phenomenon ever since the country was incorporated into the world system, and is likely to increase with the country's increasing dependency on world-imperialist institutions. But there are specific factors which ultimately determine the cost of annual reinsurance bills which a country like the Sudan is bound to meet. The degree to which the regulatory agency can investigate the country's reinsurance treaties or pass regulations fixing minimum retentions in the country is directly related to the volume of reinsurance leaving the country. The share capital of a concern and the amount of reserves established ultimately affect the country's retention capacity and, hence, its need for reinsurance. The number of companies in a particular market and the existence of local reinsurers also have a direct relevance in so far as the national portfolio is either centralized or fragmented, and in so far as reinsurance is either available at home or sought after from abroad. These are matters of structure and regulations in each market and (at the cost of some inevitable repetition of earlier points) are examined below with reference to the Sudan.

---

1. One such agreement was concluded with A.I.U. (American International Underwriters), see, Journal of Insurance, 31, Jan. 1979.

Regulations Affecting the Volume of Reinsurance Ceded Abroad:

A. Reinsurance Arrangements:

A memorandum submitted by Lloyd's to the Chairman of the Inter-departmental Committee in 1955 argued that reinsurance should be excluded from any form of control because of its international character.<sup>1</sup> Accordingly, the Act was silent as to reinsurance. At present, N.R.C., the reinsurance branch of the Sudanese Insurance and Reinsurance Co. and the reinsurance arrangements between Sudanese companies and world reinsurers are *not* subject to any form of regulation by the controller of insurance. Not only that, but the companies are under no legal duty whatsoever to cede any part of their business to N.R.C. The General Manager of N.R.C., however, secures an annual share from the market not exceeding 20 per cent, only on the basis of personal relations with the industry.<sup>2</sup> And when he proposed that the companies be compelled to cede a compulsory share to the corporation his proposal was vehemently opposed by *the controller* who gave no reasons for his opposition.<sup>3</sup> Although nearly all companies own share in the corporation, the fear that 'the corporation might incur heavy losses in its early

---

1. Memo. by Lloyds to Mr. Glassborrow, dated 3rd Nov. 1955.

2. Interview with the General Manager of N.R.C. Supra.

3. Memo. by the controller of insurance to the Minister of Finance, (undated) - General Records - File No.2.

years',<sup>1</sup> did not encourage them to cede substantial shares to the corporation for sheer prudence. It was also argued<sup>2</sup> that international reinsurers offer far better facilities than the corporation, especially in the field of training and risk appraisal.

When the corporation was being established it was envisaged that it would serve the following purposes: (a) making available the reinsurance cover required by domestic companies with the promptness and urgency appropriate to the needs of these companies, (b) making quick settlement of claims which would assist ceding companies to honour their commitments, (c) assisting the direct insurers by exploring new fields of activities after the appropriate reinsurance cover is made.<sup>3</sup> A corporation of this kind could also increase the national retention capacity, secure a wider distribution of risks among national companies, and enhance a country's bargaining power *vis-à-vis* international reinsurers.<sup>4</sup> It is submitted that none of these objectives could possibly

- 
1. Answer by Khartoum Insurance Co. to questionnaire addressed in April/May, 1979.
  2. Interview with the Deputy General Manager of United Insurance Co., April, 1979.
  3. Memo. by Ahmed Suliman (Minister of Finance) to the Council of Minister dated 4.4.1970, op.cit.
  4. UNCTAD, "Insurance Legislation and Supervision in Developing Countries", Supra., p.16.

be achieved in the Sudan unless N.R.C. is strengthened through compulsory cessions from the companies as is the practice in some countries in Africa where local reinsurers exist.<sup>1</sup> It is scarcely necessary to mention that the controller has no power to ensure that a regional reinsurance institution is reinforced through Sudanese cessions, nor has the insurance section the competence to judge the adequacy or otherwise of reinsurance treaties between Sudanese companies and the outside world (through a reinsurance expert for example) even if it had powers to do so. But the exemption of reinsurance from regulation altogether, is certainly the most unfortunate part of the insurance regulation syndrome in the Sudan.

- 
1. S.18(1) of The State Reinsurance Corporation of Kenya Act, 1970 (Act No. 20 of 1970 Cap. 485) reads:

Every insurer shall reinsure with the [Kenya Reinsurance] Corporation such proportion as the Minister may, by notice in the Gazette, prescribe of each policy .... issued or renewed in Kenya by the insurer.

## B. Capital Requirements

The paid up capital of an insurance company and the amount of free reserves, or capital reserves, are directly related to its capacity to retain risks.<sup>1</sup> Where the paid up capital and the capital reserves are low, reliance on reinsurance to augment underwriting capacity becomes imperative.

Before the Act was amended in 1970, an insurer, whether foreign or national, wishing to transact business in the Sudan was required to have a paid up capital of £50,000.<sup>2</sup> As mentioned earlier, the 'equal' treatment of insurers had actually entailed more discrimination against national companies. In 1970, the Minister was empowered to merge all insurers into fewer companies which were to have an enormous share capital. Section 39A(2) provided that:

[T]he Minister .... may merge all existing Sudanese insurance companies into two or more companies ..... provided that the new companies so formed shall be public companies whose shares shall always be owned by Sudanese nationals and whose authorized capital and paid up capital shall not be less than three hundred and fifty thousand Sudanese pounds and two hundred thousand Sudanese pounds respectively.

The Minister was also empowered to fix a time limit not exceeding two years within which the companies so merged shall comply with the above requirements.<sup>3</sup> But as we will see later, no mergers took place, and as

- 
1. UNCTAD. "Insurance Legislation and Supervision in Developing Countries." Op. cit. pp. 45-8.
  2. S.7(1),(a),(b) of the Act.
  3. S.39A(3).

a result the provision relating to increased capital never came into effect, though one company did in fact increase its capital. This was the General, the biggest indigenous insurer, whose capital was increased from £S110,000 to £S250,000.<sup>1</sup> The capital of other companies remained as low as it was before and it is as follows: the Blue Nile, £S74,000; the Regional £S100,000; the African £S50,000; the Sudanese £S51,755; United Insurance, £S60,000; and Khartoum Insurance Co., £S109,000.<sup>2</sup> It is unlikely that any of these companies would increase its capital as it is often argued<sup>3</sup> that the increased share capital was only intended to apply to amalgamated companies to be created by mergers, and that this has ceased to be an objective of regulation. It is also interesting to note that the foreign share capital in the Blue Nile and the Sudanese was simply bought by other shareholders in the two companies (as mentioned earlier), although the former was already heavily dominated by one family, and the latter by an influential ethnic group.

The Act is silent about the establishment of reserves i.e. free reserves, which are extremely necessary both as a means of protection for the public, and as a means of increasing the capacity of an insurer to retain risks.<sup>4</sup> Only one company<sup>5</sup> - most likely the General - was said to have built up free reserves of £S12,000 in 1972, and these are likely to have increased in recent years.

- 
1. "Performance of Insurance Companies", the Annual Report of the Controller, 1977, p.1.
  2. Ibid.
  3. Questionnaire addressed to Sudanese companies, April-May, 1979 (this particular argument was made by the Deputy General Manager of United Insurance).
  4. UNCTAD. "Insurance Legislation and Supervision etc." Op. cit. p.11.
  5. Memo. by the controller to the Minister of Finance concerning "Investment of Insurance Companies" dated 17.10.1972.



As long as the share capital of the Sudanese companies remains low, and as long as the establishment of free reserves is not mandatory, and the savings earmarked for technical reserves are readily withdrawn from the P.O.S.B., the need for reinsurance will persist, its costs to the Sudan will increase annually, and the companies will remain, effectively, reinsurance agencies ceding away their premiums in return for commissions.

### C. Concentration of the Market

The retention capacity of an insurer increases as the number of insured risks i.e. the size of the portfolio, increases, because the larger the number of risks, the more regular the results will be, the less reinsurance will be needed and, hence, the greater the retention capacity will become.<sup>1</sup> It follows that the larger the number of companies in a particular market, the more divided the national portfolio will be and the more reinsurance will be needed by each company (if the capacity is low) and the greater the cost of reinsurance will be for the particular country.

In order to reduce the flow of insurance funds abroad, to tighten the market for more effective regulation, and to undermine the ethnic composition of the industry the government decided in 1970, to concentrate the market into fewer companies. Concentration was justified in these words:<sup>2</sup>

In view of the inadequacy and smallness of the capital in most of the domestic companies and the scarcity of technical know-how and experience,

- 
1. UNCTAD. Reinsurance Problems in Developing Countries, op. cit. p.26.
  2. Memo. by Ahmed Suliman (Minister of Finance) to the Council of Ministers, op. cit.
-

it becomes necessary to pool the available resources in a limited number of sound bigger establishments which are optimum to satisfy the needs of the market. This will increase their potential to absorb more of the risks written, retain more of the business, increase their scope of operations, improve the standard of services and ability, and finally, encourage specialization. It is equally important to transform the insurance institutions formed into public companies to offset monopoly and to attract a higher margin of solvency which is compatible with the declared economic policy.

Accordingly, the Act was amended to empower the Minister of Finance to enforce these measures i.e. merging companies into fewer public companies. It was then decided that there should be three companies only in the Sudan one of which was to transact life insurance and the other two were to transact general or non-life business.<sup>1</sup> It was hoped that the merger would fill the gaps created by the liquidation of foreign shareholding in the Blue Nile and the Sudanese, would increase public participation in the two companies (especially in the case of the former which is a family company), and would increase the capital of the companies to the amount required by the Act.<sup>2</sup> Mergers were to be decided upon by the Minister 'alone'. Section 39A(2) provided that:

No person connected with the management of any existing Sudanese insurers which is being merged and no shareholder or creditor of such insurer shall object to the merger as ordered by the Minister.

- 
1. Taha and Saeed. *op. cit.* p.16. The Blue Nile was to transact life insurance after the life portfolios of other companies were transferred to it. The General was to carry out non-life insurance on its own, and the Sudanese, Khartoum Insurance, United Insurance and the African were all to merge into one general insurance Co.
  2. Memo by the Insurance Companies to the Minister of Finance, dated 23 September, 1971

Also, mergers were to be completed within two years. S.39A(3) of the Act provided that:

The Minister may prescribe a period not exceeding two years from the date of formation of a new company under the preceding sub-section, within which the new companies shall comply with the requirements of this section.

However, a cabinet reshuffle in the aftermath of the abortive Communist *coup d'état* and the relinquishment of former socialist policies changed the course of events a great deal. The new Minister of Finance refrained from invoking his powers under the Act to complete the task of market reformation and delegated the matter of concentration to the companies to decide upon by themselves. With their destiny in their own hands the companies demanded a period of grace of three months to submit their proposals. This was extended to a year<sup>1</sup> during which one merger only took place between the African Insurance (already insolvent) and the Sudanese. Other companies decided not to merge, or rather, refused to merge or to transfer their portfolios to other insurers. Accordingly, it was decided in 1973 that there should be five companies instead of three.<sup>2</sup> Later, despite the Act and the Ministerial Order issued under it in 1973, the African Insurance Company was relicenced to do business on its own, and three other insurers emerged to transact various forms of insurance business. The threat of

---

1. Memo. by the Insurance Companies to the Minister of Finance, dated 23 September, 1971 - General Records.

2. Ministerial Circular by S. Hassan Balil, State Minister of Commerce, dated 26.9.1973.

concentration was no longer in the air. The ethnic composition of the companies,<sup>1</sup> anyway, was far too strong for reforms to undermine or to penetrate. Any merger would, in essence, be a merger of tribal centres of power and influence - something only a change in the social structures (but not the letter of the law) could hope to achieve. It was hardly surprising, for example, that the merger of the *Shygiyya* dominated African Insurance with the Sudanese Insurance Co., a *Danaqula*<sup>2</sup> stronghold, was not successful and the former, despite its insolvency, was later relicenced separately.

As no company merged with another, no company went public as the reforms had sought to achieve. The shareholders in no company, except Khartoum Insurance, exceed 37. The share capital of Khartoum Insurance was subscribed by 800 shareholders, but this was due to an accident of history rather than a desire to implement the reforms. The company was originally the Kordofan Lorry Owners' Association (mentioned in the first part of this chapter) which was required to confine its business to its members only should it wish to transact business and compete with the British Agencies. Hence the enlarged participation in the company's sharecapital.

Of all the 1970 measures, the only one that has been complied with is the one which required the shares of companies to be owned by Sudanese. But as the foreign shares were acquired by Sudanese shareholders in the same companies, the Act has actually reinforced rather than undermined the ethnic composition of the

---

1. This is a predominant feature of the seven insurance companies referred to in this chapter. The management of each company and the majority of shareholders tend to belong to one ethnic group.

2. Shygiyya and Danaqula are powerful tribes in northern Sudan.

companies. And as this ethnic structure is a hard nut to crack new companies will have to appear to compete in the market because their prospective promoters may not be accommodated within the existing companies. Indeed, three new companies<sup>1</sup> are planned for 1981. It will, of course, take years before the new companies could establish worthwhile reserves (if they wish to do so as they are not required by law to establish them) during which time they will merely increase the flow of reinsurance premiums abroad. Thus the opportunity for the concentration of the market which the early 70s brought appears to have been lost, perhaps, for a number of years to come. And when the new companies emerge the chances for concentration will become even slimmer.

What has been said so far suggests that the Sudan has failed to utilize its insurance industry to promote its economic development in any meaningful sense. Insurance capital is accumulated at the expense of the public sector to a large extent. Insurance premiums paid by government units represent a reduction in the amount of capital available for these units for investment, and hence, to economic development, but all premiums pour into the coffers of the companies and reinforce the unequal distribution of wealth (given the structure for ownership of the companies) which plagues the neo-colonial society of the Sudan. It may be argued that these premiums are the price of protection offered the various units which could now venture into hitherto unexplored fields of activity with the security of insurance to fall back on.

---

1. The new companies are proposed by three very influential families in the Sudan: Robi and Bros., Malik and Bros., and Mustafa Al-Amin & Sons.

It was shown that these premiums are highly exaggerated in relation to the amount and cost of claims, and that, as a whole, insurance by the public sector in the Sudan does not seem to derive from any genuine need for protection judging by the claims experience. On the other hand, and for all units across the economy, the highest claims ratio is in respect of motor insurance and not the high technology risks, fires or explosions which might have justified the taking out of insurance in the first place. But has the government in the Sudan made use of insurance investments? Does the controller of insurance enjoy adequate powers to influence the level of insurance investments in the Sudan or the areas in which funds should be invested? For all practical purposes the answer to both questions appears to be in the negative. Whereas before 1970 i.e. before the market was liberated from foreign hegemony, all insurers foreign and national were regulated, now a foreign insurer and the biggest in the market (£51m. in share capital) is exempted from regulation. And the government's failure to utilize insurance investments is, ironically, due, in part, to its practice of insuring its own property with the companies. Nor have the powers of the Minister to reform the market been used for the purpose. It is not in the interest of the companies to merge, increase their capital, or even cede a larger portion of their portfolios to NRC. If the reforms had been imposed the flow of reinsurance abroad would have been reduced. Things as they are now the extraction of insurance surplus from the Sudan by the centre still continues even though it has assumed different forms. And at a more fundamental

---

level the indulgent stance of the government *vis-à-vis* the private sector seems to have lent itself to a desire to contribute to the growth of the insurance sector irrespective of the costs involved. The regulation policy seems to be geared towards this end. This is the hey-day of private entrepreneurs foreign and national. Indeed, operational controls upon the entire private sector appear to be of the positive type<sup>1</sup> only. Negative controls<sup>2</sup> which, like the former, are essential to the direction of development toward plan fulfilment, appear to be unknown to the insurance sector. Positive controls which have benefited the private sector include the various pieces of legislation and regulations passed to increase the volume of business underwritten in the country, the enactment of generous investment laws, and the relaxation, and final abolition of exchange control regulations which, among other things, encourage massive transfers of reinsurance funds abroad. These were not paralleled by an attempt to incorporate the sector into the economic plans of the country.

In the section following we will examine the measures available for the protection of policyholders under the Act to end our analysis of the contribution of insurance to economic and social transformation in the Sudan.

- 
1. Positive controls 'are aimed at stimulating, encouraging, facilitating, and inducing production or consumption, generally or in a special sector'. See Gunmar Myrdal, Asian Drama: An Inquiry in to the Poverty of Nations, (New York: Pantheon, 1968), p.903.
  2. Negative controls are measures taken to prevent or limit production through 'administrative restrictions on capital issues, investment, and production, the denial of foreign exchange.....the imposition of excise duties, or raising various costs by other means.' Ibid.

#### IV. Protection of Policyholders Under the Act

##### A. The standard of solvency

One of the objectives of insurance regulation in the Sudan was to 'protect the insured public against weak companies which are unlikely to be able to meet their liabilities towards their policyholders.'<sup>1</sup> In the Sudan and elsewhere, insurers administer funds which they do not in principle own. In order to protect the rights owed to the public insurance regulation seeks to impose certain standards of financial strength on the part of the companies. In the British administrative practice (copied by the Act), this financial strength is called 'solvency' and the extent to which it is required under insurance laws is known as 'the margin of solvency.'<sup>2</sup>

When the insurance bill was being drafted the British agencies in Khartoum insisted that the type of legislation to be introduced should be 'based on a test of solvency in relation to the world-wide operations of a company.'<sup>3</sup> Thus, foreign insurers were not required to be specifically solvent with regard to their operations in the Sudan, and the solvency on global results sufficed for the purposes of regulation. Under the Act, the degree of solvency required varied according to the nature of insurance business in question. In the case of an insurer carrying on general insurance business such an insurer is solvent if:<sup>4</sup>

- 
1. Report of the Interdepartmental Committee. July, 1957, Supra
  2. Murray Pickering, "The Control of Insurance Business in Great Britain," Supra., also S.39 the Assurance Companies Act (G.B.) 1948; S.13 and S.14 of the Insurance Companies Act (G.B.) 1958; and the Insurance Companies Act (G.B.), 1974, S.4.
  3. Memo. by the Joint Committee of British Insurance Offices to Mr. Glassborrow, op. cit.
  4. S.18(3)(b)(i).



[T]he value of its assets exceeds the amount of its liabilities by £50,000 ..... or by one tenth of the premium income in the last financial year (other than premium income received in respect of long term insurance business) whichever is the greater.....

In the case of an insurer carrying on long term insurance all that is required to establish its solvency is that:<sup>1</sup>

[T]he liabilities in respect of the long term insurance business do not exceed the amount of the Long Term Insurance Fund .... and all other liabilities in respect of long term insurance as shown in [its] ..... last balance sheet.

The margin of solvency in the Sudan, low as it is, does not appear to be adequate as a safety cushion (and as will appear later it has not been met, anyway). A company which is actually a financial wreck might possess assets well above a low margin of solvency and remain beyond suspicion. At any rate, a test based on a mere excess of assets over liabilities has in many jurisdictions failed to prevent company failures.<sup>2</sup> Other tests which are of significance include a company's investment policy, its proper

---

1. S.18(3)(b)(ii).

2. The story of nine American companies which collapsed in the 1960s substantiates this point clearly, see A.L. Mayerson, 'Insuring the Solvency of Property and Liability Insurance Companies', in S.L. Kimball and H.S. Denenberg (eds.), Insurance Government and Social Policy, Supra., pp.152-4.

management, reinsurance planning etc., - all of which combine to provide 'a more stringent test of solvency lasting long enough into the future for any dangerous development to be detected and the surplus drain resulting from it stopped.'<sup>1</sup>

B. The Valuation of Assets and Liabilities

Unfortunately, the Act is silent as to the manner in which assets and liabilities should be valued. All is required is that:<sup>2</sup>

In assessing the amount of liabilities of an insurer all contingent and prospective liabilities should be taken into account, but not liabilities in respect of the share capital; and the premium income shall be taken to be the net amount received after deduction of any premiums paid by the insurer for reinsurance.

The excess of assets so defined includes the amount of share capital plus the amount of technical reserves. These reserves will depend upon the volume of business written from one year to the other. As we have seen earlier, technical reserves apply to the liabilities incurred by an insurer to his policyholders, and the amount of reserves established is, therefore, a guide to the volume of liabilities. But it was also mentioned that the method of establishing reserves for outstanding claims in non-life insurance and mathematical reserves in life insurance was left to the companies to

---

1. Kimball and Denenberg (eds.), op. cit. p.64.

2. S.18(3)c of the Act.

decide upon according to their practices. It follows from this that the adequacy of technical reserves in relation to the amount of liabilities is a matter to be decided upon by each insurer and does not follow any uniform rules. On the other hand, as the amount of reserves adds to the share-capital to form the assets of an insurer the manner in which assets are established also depends upon the practice of each insurer and follows no rules. The abuse of this freedom to value assets and liabilities by Sudanese insurers was not discovered until 1971. In the bid to create fewer and sounder insurance companies in 1970 the Act was amended to empower the Minister to form committees 'to evaluate the assets and liabilities of .... insurers who are merged into new companies.'<sup>1</sup> The records of a committee formed by the Minister reveal that two companies were investigated. The investigation revealed that in the absence of uniform regulations on the valuation of assets the companies seemed to have enjoyed a great deal of freedom in the matter and, more often than not 'assets were grossly overvalued to conceal underwriting losses.'<sup>2</sup> A building owned by a company, for example, which the committee estimated to be worth £S264,000, was valued at £S482,000 in the company's book value. But as will follow later the result of the investigation indicated that the Committee's task was to find ways and means of rescuing the companies rather than to lay down a set of coherent rules to be followed by insurers in the future.

---

1. S.39A(2).

2. "Report of the Ministerial Committee for the Evaluation of the Assets of Sudanese Insurers", June/July, 1973 - Ins. 82/2/5/15 Gen.

Not only are insurers free to value their assets and liabilities, but the controller has no means of detecting the solvency of insurers other than on the basis of information furnished by insurers themselves as discussed in the following section.

C. Detecting Insurers' Solvency

1. Information pertaining to the solvency of insurers

It may be recalled that the regulations concerning the deposit of reserves in the PQSB are seldom observed by the companies. And as these reserves represent a guide to an insurer's liabilities and add up to its assets, the controller in the Sudan is not always in a position to know about the solvency of insurers. He is not informed as to which insurer incurred what liabilities or where the reserves, or other assets which cover such liabilities, are kept so that they could be drawn on at times of difficulty. His only source of information is the insurance company itself which is required to submit to him, once a year, 'a certificate of solvency in the appropriate form.'<sup>1</sup> The certificate must stipulate that the value of the assets of the insurer exceeds the amount of liabilities in accordance with the requirements of the Act.<sup>2</sup> A certificate is produced by the insurer and must be signed by two officers of such insurer.<sup>3</sup> It is, of course, doubtful if an insurer could, willingly, sign a certificate testifying to its own insolvency; but as will follow later, the controller is unlikely to invoke

---

1. S.18(1).

2. See forms of certificate of solvency in the Schedule to the Act.

3. S.18(2) and S.16(2).

legal sanctions against an insurer even when the insolvency of such insurer becomes known to him. Occasionally, the intervention of an actuary is sought as a means of providing information as to solvency. Indeed, an insurer transacting long term insurance must cause an investigation to be made by an actuary into its financial conditions, at least once every five years. S.20(1) reads:

Every insurer who carries on long term insurance business shall, at least once in every five years, cause an investigation to be made by an actuary into the financial conditions of the insurers' long term insurance fund, including a valuation of its assets and liabilities.

However, the provisions of the Act apart, in practice actuarial examinations are *not conducted* and, to the knowledge of the writer, there is no certified 'actuary' in the Sudan within the meaning of the Act.<sup>1</sup> The only investigation of insurers' conditions, in memory, was the one conducted in 1971, as mentioned earlier. Thus just as in the case of non-life insurers the controller's means of detecting the solvency of a life insurer are confined to the insurer's own certificate of solvency with which the controller is furnished annually.

## 2. Other Information

Adequate information about the activities of insurance companies is indispensable for proper regulation of insurance business. When information is required to be conveyed by the companies themselves to the agency, it involves

---

1. S.2 of the Act defines an actuary as a person 'who is a Fellow of the Institute of Actuaries of England, a Fellow of the Faculty of Actuaries of Scotland, a Fellow of the Society of Actuaries of America, or such other person having adequate knowledge of actuarial science as the Minister

the least cost from the point of view of the latter, and may supplement its lack of expertise and saves a great deal of time. Needless to say, through adequate information the controller can easily detect a dangerous development and provide the necessary advice. But in the Sudan insurers do not appear to be under pressure to provide the controller with detailed information, but undoubtedly he is much more informed about the market now than he was before 1970. At present insurers need only inform him of the following matters:<sup>1</sup> (a) any change in the amount of paid-up capital, (b) any change in the classes of business transacted, and (c) any change in the principal officers of the company.

### 3. Business Returns

In addition to the certificates of solvency, at the end of every financial year insurers are required to submit the following documents:

(a) a revenue account for the year in the form or forms from time to time prescribed by the Minister and applicable to the class or classes of business carried on by the insurer,<sup>2</sup> (b) a profit and loss account in the form or forms from time prescribed by the Minister,<sup>3</sup> and (c) a balance sheet in the form or forms prescribed by the Minister.<sup>4</sup> Every revenue account, balance sheet, and profit and loss account required to be submitted as above 'shall be signed and

---

1. S.8(3) and S.13.

2. S.16(1)(a).

3. S.16(1)(b).

4. S.16(1)(c).

certified as correct by two principal officers of the insurer,<sup>1</sup> and shall be audited - by an approved auditor who is not an employee, manager or director of the insurer.<sup>2</sup> The auditor shall then 'sign a certificate stating whether the accounts have been properly prepared in accordance with the books and records of the business and whether the information contained in such books and records and supplied to him by the insurer are in his opinion adequate for the purposes of his audit.'<sup>3</sup>

The insurance section encounters two kinds of problems with regard to these returns: firstly, there is no certified accountant in the section who can verify, judge or analyse an insurer's financial conditions merely by examining its returns, *and sometimes the returns are submitted without having been examined by an approved auditor as required by law.* The accounts themselves are not complete (for certain companies) and the returns of Sudanese branches in Saudi Arabia and the Gulf *have never been submitted for investigation.*<sup>4</sup> Secondly, the returns could be deposited at any time within 6 months after the close of each financial year, and this may be extended further. S.19 of the Act provides that:

A certified copy of every account, balance sheet and certificate referred to in sections 16, 17 and 18, together with four extra copies of each document, shall be deposited by the insurer with the controller within six months after the close of the period which such account, balance sheet or certificate relates:

- 
1. S.16(2).
  2. S.17(1).
  3. S.17(2).
  4. Miss S.M. El-Amin "Insurance Regulation in the Sudan: An Inside view", a paper written during the time of research in Khartoum, May, 1979.
-

Provided that, if in any case it is made to appear to the controller that a longer period than six months should be allowed, the controller may extend that period by [a] period not exceeding three months .....

Thus the returns could be submitted 9 months after the close of the financial year. And if this period was not enough to enable an insurer to submit his returns, it appears that he could write to the Minister who may extend the period even further. S.37 of the Act reads:

Where any time is specified in this Act, the Minister or, the controller with the consent of the Minister may extend the period of time either in relation to a particular insurer or any class of insurers.

Where the time is extended twice (and this has happened) the returns, when finally submitted, may not be representative of an insurer's financial position at the time. At any rate as a study by an officer of the section concluded 'it is extremely difficult to protect the public .... through a requirement which, in essence, makes the section a mere depository of complicated documents.'<sup>1</sup>

#### D. Consequences of Insurers' Insolvency

If the examination of the annual certificates of solvency and the returns of an insurer reveal a state of insolvency the controller of insurance shall report the matter to the Minister who shall, in turn, notify the insurer of the alleged insolvency and of his [the Minister's] intention to revoke

---

1. Ibid.



the licence at the end of 45 days from the date of such notification unless the insurer within these 45 days satisfies the Minister as to its solvency.<sup>1</sup> If the insurer fails to satisfy the Minister the latter may revoke its licence.<sup>2</sup> If the insurer carries on more than one class of business and the solvency concerns only one class the revocation of licence shall not affect other classes.<sup>3</sup> If a licence to carry on general insurance business is revoked the insurer shall pay out of the General Insurance Fund to the policyholders 'the whole or such proportion of their premiums as the Minister may direct.'<sup>4</sup> And if a licence to carry on long insurance business is revoked the Long Term Insurance Fund 'shall be transferred to some other insurer approved by the Minister, who is able and willing to assume, in whole or in part, the obligations and liabilities of the insolvent insurer; and in default of such transfer, shall be as soon as practicable distributed by such last mentioned insurer to the long term insurance business policyholders in accordance with a scheme to be drawn up by an Actuary and approved by the Province Court.'<sup>5</sup>

These measures do not confer adequate protection on the policyholders of an insolvent insurer. In the first place it is not known how an insolvent insurer could make-up for its solvency within 45 days after the investigation of its financial conditions proves its insolvency (assuming that the controller is able to reveal such insolvency). The provision, no doubt, encourages

---

1. S.26(c).

2. Ibid.

3. Ibid.

4. S.36(3)(a)(i).

5. S.36(3)(b)(i).

insurers to inject capital funds into their coffers every time their financial situation becomes shaky instead of containing underwriting within the safe bounds of the financial resources available. This could have grave consequences on the solvency of an insurer as the case of the Vehicle and General in Britain has shown.<sup>1</sup> Secondly, how could an insolvent insurer pay to the policyholders the whole of their premiums? If it could do so it wouldn't be insolvent, and at any rate, as we have seen, the reserves from which such premiums could be paid out are not always kept where the state could exercise some control upon them. The transfer of a life portfolio to another insurer appears to be fairly adequate as a measure of protection and has been successfully applied in the past as we will see shortly. But where no other insurer is willing to accept the liabilities of an insolvent insurer (a possibility which the Act itself anticipates) and the fund is distributed, the policyholders might have to accept whatever little comes because the method of fixing or establishing mathematical reserves (or the long term fund) depends upon the practice of each insurer and is not governed by regulation as we have seen. Where the amount earmarked for such reserves is low the share of policyholders is bound to be low.

The question examined in this part of the chapter is no exception to the fact that the law is not invoked by the authorities when the opportunity arises. The committee established in 1971 to investigate the conditions of insurers was mentioned in more than one place above. This investigation proved that one foreign company (which was in the process of compulsory liquidation) and two

---

1. See, Ronald Beale, After the V. & G. Crash, Supra, passim.

national companies were insolvent. The life portfolio of the foreign company (the Arab Insurance Co.) was transferred to the General Insurance Co. The African Insurance Co. (one of the two insolvent Sudanese companies) was merged with the Sudanese Insurance and the law was not applied to it. Nor was the Blue Nile (the second insolvent Sudanese company) affected or ordered to transfer its life portfolio as it ought to have been ordered to do. Instead it was decided that the company (the Blue Nile) was to remain insolvent until 1980 when, it was hoped, the company would regain solvency! No action was taken against the company on the assumption that 'the interest of the Sudanese insurance market require d that such insolvency should not be revealed, and the measures laid down by the Act not to be invoked.'<sup>1</sup> Thus it does not appear to be a serious matter for a Sudanese insurer to become insolvent. Indeed the committee took pains to keep the company on the market at all costs as the records indicate. The insolvency of the company related both to its life and non-life portfolio. The factor which had concealed the company's insolvency was the over-valuation of its assets. It was mentioned before that a building owned by the company was estimated by the committee to be worth £S264,000, but the value of the same was £S482,000 in the company's books. There was, therefore, an over-valuation of assets by £S218,000. The share of the life portfolio's deficit in this sum was £S64,211 as life assets stood at £S582,504 and liabilities were £S646,715. The company, however, suggested that its insolvency be met within 5 years and, therefore, the valuation of assets should be based on the value of the building at the end of the five year period, and not on the value of the same at the time

---

1. "Valuation of Insurance Companies' Real Estate Assets", memo. by the controller to the Minister of Finance, dated 15.8.1973, Ins. 82/2/5/15 Gen.

of investigation. This was accepted and the company's valuation of the building stood at £398,000, this time, and the committee's estimation of the same came down to £225,000. The deficit in the company's assets, thus, fell from £218,000 i.e. £482,000-£264,000, to £173,000 only i.e. £398,000-£225,000. The change in the method of valuation was made so that the company could 'benefit by a high depreciation rate ....' <sup>1</sup> It was thought that a sum of £68,000 to be deposited in the company's reserves would be enough to meet the deficit in the life fund. The deficit of the general insurance fund, thus, stood at £105,000 i.e. £173,000 (total deficit) minus £68,000 (life deficit). The deficit of £105,000 was to be met within the five years agreed i.e. £21,000 a year; but the period was later extended to seven years and the annual deficit to be met was fixed at £17,000 instead of £21,000. The extension was justified on the basis of 'the adverse effects, of the commitment to meet the deficit within a short period, upon the policyholders of the company and its relations with the reinsurers.'<sup>2</sup>

The procedures followed lend themselves to two obvious criticisms: firstly, and as mentioned earlier, the injection of liquid assets to meet solvency, is a reversal of the normal procedure of containing underwriting within the bounds of the company's resources rather than seeking fresh doses from outside to offset the deficit. Secondly, it is not known why the deficit in the company's assets was based on the value of real estate in the distant

---

1. Ibid.

2. Ibid.

future and not the time of valuation. For a state of insolvency necessarily implies that at a certain point in time, the assets of an insurer do not exceed its liabilities. The test of solvency should then be the value of assets at that particular time and should not be replaced by a test which makes decisive the idiosyncrasy of individual insurers.

The arguments advanced in this section may be summarized in the following points: (a) that the margin of solvency required by the Act does not appear to be adequate as a safety cushion, nor does it provide sufficient protection in isolation from other factors, (b) that the valuation of assets and liabilities follows no rules and appears to be left to each company to decide upon according to its practice, (c) that the controller has no means of obtaining information about the solvency of insurers other than from insurers themselves, (d) that the controller is not able to detect solvency merely by examining annual returns, and (e) that the law is unlikely to be invoked against actually, or potentially insolvent companies.

In the following section we will examine the degree to which marketing practices are regulated in the interest of insurance consumers.

#### E. Regulation of Insurance Marketing

##### 1. Regulation of Intermediaries:

Before 1970 the following categories of insurance intermediaries were recognized: principal representatives of foreign insurers,<sup>1</sup> insurance agents,<sup>2</sup> sub-agents,<sup>3</sup> and canvassers.<sup>4</sup> Principal representatives were

---

1. S.8(3)(e)(i).

2. S.28.

3. See Insurance Form No.3, Insurers (Control) Regulations, 1962.

4. See Insurance Form No.4, Insurers (Control) Regulations, 1962.

in fact brokers, not agents, since they represented more than one metropolitan-based insurer.<sup>1</sup> At present, and although strictly speaking all categories of intermediaries are recognized except for principal representatives, only agents exist. 'Agents' in the Sudan includes both ordinary agents and brokers, but for the purpose of regulation only an agent's licence could be obtained from the controller of insurance. The licence must be renewed annually.<sup>2</sup> But neither agents nor brokers are required to possess any qualifications for soliciting business, and any Sudanese over 21 years of age who has not been convicted for fraud qualifies for an agent's licence.<sup>3</sup> And despite the legal requirement to renew a licence every year in practice some of the most unscrupulous agents could do business without such renewal for as long as five years before action is taken against them.<sup>4</sup> Understandably, the controller neither has the time nor the capacity to

- 
1. Brokers 'are persons who, acting with complete freedom as to their choice of undertaking, bring together, with a view to the insurance or reinsurance of risks, persons seeking insurance and reinsurance and insurance and reinsurance undertakings, carry out work preparatory to the conclusion of the contracts of insurance and reinsurance, and where appropriate, assist in the administration and performance of such contracts, in particular in the event of claim.' "Insurance Intermediaries", a paper presented to the House of Commons by the Secretary of State for Trade, January 1977, (HMSO, London, 1977), p.8.
  2. S.30.
  3. Ibid.
  4. Letters by the controller of insurance to the Commissioner of the Police, dated 11.3.1975 - Ins. 28/2/2/11/9.

supervise the country's sales force effectively so as to ensure adequate protection for insurance consumers. Even less has protection been forthcoming from the courts. Following English common law,<sup>1</sup> and for the purpose of the formation of insurance contracts, insurance intermediaries were regarded by Sudanese courts as agents of the public and not of the companies which employ them even if they had erred or been negligent in filling proposal forms.<sup>2</sup>

## 2. Performance of Insurers and Policyholders Complaints

Unfortunately, the most important aspects of insurance marketing are not regulated. The controller has no power to investigate policy terms, policyholders' complaints, or any power to intervene to settle a claim against an insurer before legal action is resorted to. If he mediates it is to the extent desired by the parties and his decisions have no legal effect.<sup>3</sup> But as will be seen later, not all companies have been a source of dissatisfaction. Most complaints against the companies during the time of research related to marine insurance and compulsory Third Party insurance, but with regard to both categories the controller was unable to act as would have been the case in other branches. Although the C & F regulations have resulted in enormous profits to the companies, some companies (well known to the controller) *often* terminate their marine covers on the arrival of imported goods at Port-Sudan on the Red Sea even when the goods are insured on 'warehouse to warehouse'

---

1. See e.g. Newsholme Bros. V. Road Transport and General Insurance Co. [1920 2 ]K.B. 356.

2. Hassan Musa V. Phoenix Assurance [1964]. S.L.S.R. p.54.

3. Siddik E. El-Mardi "Insurance Industry in the Sudan", op. cit. p.178.

basis<sup>1</sup> and are covered to the terminal at Khartoum. Another company refuses to pay *any claim whatsoever* with respect to third party insurance although very few claims are made upon the company due to the fact that Sudanese shy away from claiming compensation for an injured or dead fellow. The few claims made upon the company are not settled promptly (or at all, as it appears) as the policy of the company is to resort to legal settlement through courts in order 'to discourage the public and prosper in the process.'<sup>2</sup> When the company applied for an authorization to do business in 1954 (it was then the Lorry Owners' Association) and was warned against heavy claims which might endanger its solvency, and of the need to establish safety deposits, the company bluntly replied to the authorities that it did not expect to pay for beneficiaries of compulsory motor insurance. A statement to this effect deserves repeating at length:<sup>3</sup>

[I]n the Sudan the situation is very different [from other countries] as many accidents occur here, but the relatives of a deceased or injured person do not bother to claim compensation. Indeed, it is considered ..... a grave social stigma to do so. But there is no reason why we should not

- 
1. Letter by the Financial Officer of the Sudanese Tractors Corporation to the controller dated 12.5.1975 - Ins. 28/2/211/9.
  2. "Re-organization of the Sudanese Insurance Market". A memo. by the controller of insurance to the Minister, dated 27.11.1971. Legal action against an insurer in the Sudan could take as long as seven years before a claim is finally settled. In Robert Kelgelaris V. Sudanese Motor Insurance Co. [1960] S.L.J.R. p.88, a case against the same company; the case was decided seven years after the accident which had given rise to the claim.
  3. From a letter by the National Trading Company (later the Sudanese Motor Insurance Co., and now Khartoum Insurance Co.) to the Minister of Finance and Commerce, dated 25 May, 1954 - Council of Ministers' Records.



benefit by this state of affairs ... 'nature has decreed that when some suffer; others prosper' ... And, at any rate, most accidental deaths and injuries occur to pedestrians in that class of society for whose members compensation would be minimal. We can also assure you that we have discussed the matter with one of the biggest insurance agencies. This agency confirmed to us the popular conviction that, so far, it has hardly paid a sizeable claim in respect compulsory motor insurance. Therefore, we beg that the matter [of our authorization] be kindly considered, and formalities [i.e. security deposits] be disregarded in the supreme interests of our nation' [sic]

The company still operates under the management of the old Lorry Owners' Association (incidentally, the controller has no powers under the Act to ensure the proper management of insurance funds under proper and qualified management. Nor could he ensure the integrity of funds through sound insurance practices). After it had been in the market for 17 years, the controller could still complain that the company 'exploits the public, is blatantly unscrupulous ..... and its shareholders might receive little or no dividends at all if the company decided to honour its commitments to the public.'<sup>1</sup> Fortunately there are other companies in the market (not more than two) which have fairly good claims records. One company in particular - the General - has not been the source of dissatisfaction from the public and to the knowledge of the writer very few complaints have been lodged against it. Its management is efficient and responsible and its financial strength almost beyond doubt. It has increased its share capital to above the minimum which was prescribed in 1970 for companies which were to be merged i.e. £5 2000,000, and has also established free reserves without being required to do so. Both measures were taken in

---

1. "Re-Organization of the Sudanese Insurance Market", a memo. by "the controller to the Minister of Finance", Supra.

the early 70s., perhaps to guard against any possibility of merger. On the other hand the increase in the share capital was not paralleled by an increase in the membership of the company. It was a purely vertical increase. But the fact remains that the company is fairly solvent and financially strong. However, this is only one company out of seven.

Perhaps the non-existence of measures for the protection of the public was thought to have been compensated for by the fact that the Sudanese regulation system is, in the British Tradition of insurance regulation, one of 'freedom with publicity'<sup>1</sup> under which the public could investigate any document deposited by insurers at the insurance section. S.39 of the Act provides that:

Any person, may on payment of the relevant fee prescribed from time to time by the Minister:  
(a) inspect at the office of the [c]ontroller any document which is required by this Act to be deposited with him, and  
(b) obtain a certified copy or extract from any such document.

We have seen above that the documents (when deposited) are hardly intelligible to the personnel of the section who are absolutely unable to interpret them into useful facts. For ordinary policyholders it should not be expected that a document could be of any value as a guide to the financial position of an insurer with which they are insured. And it is doubtful if more than very few Sudanese know about the existence of this provision in the regulation code

---

1. See e.g. M. Pickering. "The Control of Insurance Business in Great Britain," op. cit., also UNCTAD Secretariat, "Insurance Legislation and Supervision in Developing Countries", op. cit., p.31. This system of regulation which merely requires insurers to register, and which substitutes publicity for strict control 'is incompatible with the requirements of a harmonious growth of insurance', Ibid., p.76.

as no member of the public has consulted a document at the insurance section since the section was established some 20 years ago.<sup>1</sup>

V. The Goals of Insurance Regulation: What Has Been Achieved?

As the foregoing suggests the Sudan has not had a happy experience of insurance regulation and has nothing to offer to other underdeveloped countries by way of example. It may be recalled that in 1955 the intervention of the State in the business of insurance was justified on the basis of certain objectives which the State envisaged to achieve. These were: (a) the Sudanization of the industry, (b) the protection of the public, (c) the promotion of sound insurance principles and (d) the utilization of insurance funds for economic development. The second move by the state in the field of insurance in 1970 had a set of more radical objectives to achieve. These included the liberation of insurance from foreign hegemony and the minimization of the flight of insurance capital abroad through the implementation of reforms such as mergers, increase of underwriting and retention capacities, enhancement of services etc... . These reforms were carried out, albeit partly, at a time when the entire process of development along capitalist lines was challenged. It is within the context of these objectives that insurance regulation in the Sudan should be viewed. Its success or failure should, then, be judged by the extent to which the objectives have been achieved.

It need not be repeated that the liberation of the market from foreign dominance had no effect on the dependency of indigenous insurers upon metropolitan reinsurers. This was due to the fact that the reforms were

---

1. Interview with A.M.E. Osman, Khartoum, September 1979.

not completely carried out. It is difficult to tell exactly how different the conditions of the market could have been had these measures been implemented. Undoubtedly, however, the concentration of the market would have resulted in fewer companies much sounder in financial terms, and a lot easier to regulate. But when the bubble of reform died away, the flow of money abroad was intensified even more through massive government insurance. This flow is aggravated by the fragmented national portfolio. Although the existence of the giant NRC (£S500,000 in share capital) is the last reminder of the opening years of the 70s, the corporation's potential has not been fully utilized as no insurer is bound to cede any part of its portfolio to it.

As to the 1955 objectives (which are still a broad framework of reference for official goals of regulation) it is, indeed, really surprising that some of those objectives were sought to be achieved under the Act before its amendment in 1970. The Sudanization of the industry (which was the primary objective), for example, was rendered a utopian goal by the Act itself which imposed more restrictions (in relative terms) upon indigenous companies while foreign companies were let loose. The fact that the industry was Sudanized in 1970 was not 'a virtue explicit or implicit of the Act',<sup>1</sup> but was rather the result of the political upheaval of 1969.

Few funds were left behind for investment in the country before 1970, and now the companies enjoy ample freedom with respect to their investments. There is no disagreement about the fact that insurance funds are invested, but these are invested in areas which hold more benefits for the companies than for the

---

1. Siddik E. El-Mardi, "Insurance Industry in the Sudan" op. cit. p.179.

country. The portion which goes into the banking system is no doubt available for government borrowing, but when it is repaid it is claimed by its owners (a substantial difference between a market dominated by private companies and state owned companies as we will see later). And, anyhow, the funds deposited in banks are decreasing in volume owing to the occasional devaluations and the drop in the value of money as a store value. And although inflation and the drop in value of money are due to the government's failure to control the money supply, the companies are also partly to blame for deserting government bills and deposits in the P.O.S.B. as avenues for investment. The companies, as we have seen above, could withdraw their funds from the Post Office any time they wish and they are in fact subsidized by the P.O.S.B, sometimes, rather than the reverse. And the large portion going away for reinsurers directly erodes the amount of funds left behind for investment.

Nor could the Act stimulate sound insurance practices through the regulation machinery because the controller had no adequate powers to achieve that purpose. Not all technical reserves need be set up, no powers exist to supervise the integrity of the funds or their proper management, nor is it possible for the controller to investigate reinsurance arrangements, investment plans, or underwriting practices. Fortunately the training of personnel is gathering momentum now,<sup>1</sup> but, of course, the Act has in no way contributed to

---

1. Sudanese companies are beginning to train their own personnel (on their own initiative, of course), see the Sudanese Insurance and Reinsurance Co.. 10th Year Book, (Khartoum, Khartoum University Press, 1977), p. 15, also Siddik E. El-Mardi, "Insurance Industry in the Sudan". *Op. cit.*, also memo. by the controller to the Minister, dated 7.10.1973 - General Records, 'Unclassified'.

this. Also no adequate protection for policyholders is possible, given the controller's lack of power to regulate intermediaries effectively, to obtain adequate information about the market, to investigate policy terms, or his reluctance to deal with insolvent insurers according to his powers under the Act.

The Act is certainly not an adequate instrument to use if the Sudan seriously considers the utilization of its insurance institution to contribute to its socio-economic transformation. The objectives of regulation set in 1955 could not, and would not, be achieved under the Act because their rhetoric was very much divorced from the provisions of the Act. The reforms which were to be implemented in 1970 and after will probably remain in the statute book, but no Minister of Finance is likely to enforce them. Recent developments in the market, such as the licencing of new companies for 1981/82, indicate that implementing reforms is now a more difficult task than it ever was. Thus if by the accident of history the objectives of regulation, old or new, were to be fully achieved one day, then neither the Act, nor the regulations passed under it, could justifiably claim credit for that.

## CHAPTER FOUR : ON THE POLITICAL ECONOMY OF TANZANIA

'Ten years after the Arusha Declaration Tanzania is certainly neither socialist, nor self-reliant'

Julius K. Nyerere, "the Arusha Declaration Ten Years After", in Andrew Coulson (ed), African Socialism in Practice (Nottingham, Spokesman, 1979), p.43.

### Introduction

Chapters Four and Five examine the experience of Tanzania with respect to its attempt at economic and social transformation and with respect to the role of the insurance industry in this process of transformation. This chapter generally examines underdevelopment in Tanzania in its historical origin and analysis the steps taken to propel the country's economic development. This task was made relatively easier by previous chapters. It is no longer necessary, for example, to justify the need to outline the economic and political characteristics of a country before a particular institution in that country is studied. Nor is it necessary to reproduce the hypotheses which, as we have seen in Chapter Two, are now accepted as common to the experiences of most underdeveloped countries. As a matter of fact, the hypotheses may not apply 'perfectly' in the Tanzanian context. In many ways Tanzania is different from most of independent black Africa. It proclaims itself to be socialist. Its socialism was not the result of any social upheaval, and despite the worker-peasant rhetoric of the Tanzanian 'ideology' neither workers nor peasants had anything to do with the promulgation of the socialist policies. But the state in Tanzania now plays a dominant role in the economy and consequently, although it is possible to speak of certain 'interest groups' within Tanzania it is doubtful

---

if well-defined classes exist. It was possible to speak of a 'bourgeoisie' in the Sudan; the same may not be true in the case of Tanzania. Thus the case of Tanzania could be studied as an 'experience' in its own right without seeking to apply common hypotheses to it, although, undoubtedly, some of these hypotheses also apply to it in certain respects.

In this chapter we will examine the causes for the socialist policies in Tanzania and the factors which permit or prevent the socialist transformation. The chapter is divided into four main parts. The first part examines the pre-colonial and colonial economy and society, the second part analyses the neo-colonial state and the economic and social conditions which led to the formulation of the socialist goals. It examines the Arusha Declaration, Tanzania's first socialist manifesto, and two other major developments: rural strategy formulated before and after the Declaration; and workers participation in the management of the economy. The third part deals with the Tanzanian bureaucracy which spearheads the socialist transformation. We will examine some aspects of the management of the economy by the bureaucracy, the bureaucratic implementation of rural development policy and workers participation. This part is most relevant to the following chapter which deals with the manner in which Tanzania's insurance industry is managed by the bureaucracy and the degree to which the institution serves Tanzania's goals of socialism and self-reliance. In part four we will attempt a brief assessment of the socialist experience of the country.



## I. The Pre-colonial and Colonial Economy and Society

Like most pre-colonial African societies Tanganyikan<sup>1</sup> society was characterized by the existence of independent producers involved in a pre-capitalist mode of production. The techniques of production were highly land-intensive, there was no wage labour, and the purpose of work was not the accumulation of wealth; but rather the maintenance of the producer's family.<sup>2</sup> This mode of production had not developed the mechanisms of the alienation of producers from the means of production.<sup>3</sup> There was a continual process of intermingling, association and creation of new groups with rather different modes of economies from the dominant mode. Change was taking place progressively, the population was increasing slowly and the occasional movement of groups diffused simple techniques and new ideas and customs from one place to another.<sup>4</sup> In that society with its plentiful supply of land there was little pressure for social differentiation.<sup>5</sup>

- 
1. Tanganyika no longer exists as a political entity. The name is used to describe the mainland of modern Tanzania during the colonial period and after, until the emergence of the United Republic of Tanzania in 1964.
  2. See e.g., Julius K. Nyerere, Uhuru na Umoja or Freedom and Unity, (Oxford: Oxford University Press, 1966 [reprinted 1969]), pp.164-5.
  3. See generally, K. Marx, Pre-capitalist Economic Formations, Supra., pp. 67-8.
  4. Andrew D. Roberts, "The Pre-colonial History of Tanzania", in Knud E. Svendsen and Merete Teisen (eds.), Self-Reliant Tanzania, (Dar es Salaam, Tanzania Publishing House, 1969), pp.32-4.
  5. Justinian Rweyemamu, Underdevelopment and Industrialization in Tanzania, (Nairobi; Oxford University Press, 1973), pp.1-9.

The productivity of that economy had, however, been seriously undermined by the slave trade which had drained the human resources in addition to causing the established traditions of patriarchal democracy to disintegrate as the numerous communities were slowly developing into warrior monarchies to face increasing hostilities encouraged by slave mongers.<sup>1</sup> Slaves from Tanganyika were herded for sale to European traders and for domestic use in Zanzibar which began to develop as a colony of Arab planters around 1840.<sup>2</sup> With the introduction of clove farming in Zanzibar slave hunting in the interior was intensified because of the high labour requirement of the crop although slave labour was also required for the transport of ivory to the Island. Thus the small communities of Tanganyika were incredibly ravaged by hunters of men and elephants.

Amid this social disruption the European scramble for Africa began - the lack of united native resistance because of the limited nature of political organization, making the colonial conquest an easy task. The Germans were the first Europeans to intervene in Tanganyika through the activities of German businessmen and missionaries in the nineteenth century.<sup>3</sup> On the eve of the conquest the German East African Company was formed to dispatch expeditions inland in order to make treaties with local chiefs. Other sub-companies like the East African Plantation Company and the German Planters

---

1. Ibid., p.9.

2. Allan G.B. Fisher of J.H. Fisher, Slavery and Muslim Society in Africa (New York: Doubleday & Co., 1971), p.25 and p.46.

3. John Iliffe, Tanganyika Under German Rule, (London: Cambridge University Press, 1969), also G.C.K. Gwassa, "The German Intervention and African Resistance in Tanzania" in Kimambo and A.J. Temu (eds.) A History of Tanzania, (Nairobi: East African Publishing House, 1969), pp.65-122, at pp. 89-90.

Company were established in coastal areas, and by 1888, thirty small companies were exporting tobacco and other products to Germany.<sup>1</sup> In 1891, Germany took over the administration of Tanganyika.<sup>2</sup>

In a bid to exploit the wealth of the colony the German administration embarked on vast plantation schemes and encouraged European settlers to farm in the high lands. Africans were forced to grow cash crops dictated by the needs of the German market rather than by the objective resource conditions of the colony. Coffee was introduced in Usambara, Kilimanjaro and in other places sisal was preferred. Rubber was most lucrative between 1908-1912 and cotton was introduced in Usukuma, Morogoro and around Dar es Salaam.<sup>3</sup> European settlements were established in Usambara, Meru and Kilimanjaro and by 1913 there were over five thousand Europeans in German East Africa.<sup>4</sup>

At the end of the First World War in which Germany was defeated and its colonies taken over by other powers, Tanganyika was mandated to Britain by the League of Nations. In 1919 a British administrator was appointed to the colony.<sup>5</sup> However, the conditions of the colony were appalling. Its

---

1. Ibid., p.101.

2. Ibid., pp. 102-3.

3. Lionel Cliffe and John Saul (eds), Socialism in Tanzania, Vol. I., (Nairobi: East Africa Publishing House, 1972), pp. 8-17.

4. Ibid.

5. W.E. Ward and L.W. White, East Africa : A Century of Change : 1870-1970, (London: Allen and Unwin, 1971), pp.160-1.

infrastructure was ravaged by war and the population had been reduced by war and famine. But to those Tanganyikans who survived the holocaust the change of colonial masters must have passed almost unnoticed. The attempt by the British to create a viable white community was not successful. Tanganyika unlike neighbouring Kenya and Uganda, had been a battlefield and had suffered massive destruction of physical assets the reconstruction of which has influenced the speed of settlement. Also, sisal - Tanganyika's most important cash crop - was grown in dry areas which were not suitable for small-scale pattern of settlements prevailing in Kenya for example. Finally, in contrast to Kenya and Uganda, the British had a weaker title to Tanganyika (being a mandated territory) and had always feared a German recapture - a fact which inhibited the growth of British settlements and justified the minimal investments in the colony which was the least 'developed' in East Africa.<sup>1</sup> In fact, there was a conscious process of colonial 'undevelopment' in Tanganyika. The combined railway and general accounts for the colony recorded a deficit throughout the depression period - the total revenue being £14m. while the deficit stood at £1.4m.<sup>2</sup> The colonial bureaucracy was reduced to the most senior jobs, schools were closed, road maintenance suspended, and the meagre investments in irrigation and survey came to a halt.<sup>3</sup> But the economic exploitation

---

1. E.A. Brett, Colonialism and Underdevelopment in East Africa, Supra., 221-3, also Lionel Cliffe, "Underdevelopment or Socialism?: A comparative analysis of Kenya and Tanzania" in Richard Harris (ed.). The Political Economy of Africa (Massachusetts: Schenkman Publishing Co. Inc., 1975), p.166.

2. Brett, op.cit. p.144

3. Ibid., p. 136 & p. 145.

of the colony continued nevertheless, and the pattern of economic specialization created by the Germans was reinforced. The Chagga on Kilimanjaro were encouraged to grow coffee in areas where no European settlements existed. The railway line was extended from Tabora to Mwanza on Lake Victoria to stimulate cotton production.<sup>1</sup> Sisal production increased from 17 tons between 1923-1925, to 91 tons between 1936-38; cotton bales produced during the same period increased from only 17 to 58, while coffee production increased by two and a half times.<sup>2</sup> Co-operatives were encouraged as a useful instrument to incorporate subsistence farmers into the money economy and to promote 'a healthy, prosperous yeoman farmers class, firmly established in the land...'<sup>3</sup>. In 1932, the Co-operative Societies Ordinance was passed to stimulate the growth of a co-operative sector although some co-operatives such as the Kilimanjaro Native Co-operative Union (KNCU) had existed since 1925.<sup>4</sup> In the post-World War II period the number of registered societies rose from only 62 in 1948 to 579 in 1960 with a corresponding increase of membership, and cotton co-operatives were encouraged in Sukumaland where 300 cotton growers associations were established by 1959.<sup>5</sup>

---

1. Ibid., pp.224-230.

2. Ibid., p. 288

3. Issa G. Shivji, Class Struggles in Tanzania, Supra., pp. 50-1.

4. Ole Molgaard Arderson, "The Co-operative Movement and its Growing Pains" in Svendsen and Teisen, Self-Reliant Tanzania, Supra., pp. 286-9.

5. Ibid., p. 288.

It was, of course, undesirable to promote industrial development in the colony which could prejudice British exports or labour employment in Britain, and until 1946 there were only a few industries, mostly in urban areas, half of which were geared towards exports.<sup>1</sup> The colonial policy was to ignore industrialization, but in some cases positive action was taken to discourage industrial developments.<sup>2</sup> One of the few industrial projects set up was a meat processing plant established to provide a market for the surplus stock which was considered a danger to soil fertility and, therefore, bore no relation to any desire to encourage industrialization, and was finally closed, anyway.<sup>3</sup> The shortages of materials in the sterling area after World War II gave a stimulus to some industries such as chemicals, vegetable canning, dairy processing, milling etc...<sup>4</sup>. The enterprises which had carried on the few processing activities in Tanganyika, together with servicing and exchange, operated on a regional scale in the whole of East Africa through regional headquarters in Nairobi (currency was unified for the region and administered by the East African Currency Board from London). Railway links, inter-regional trade and customs (a customs union was established in 1927) all operated in the interest of the settler-dominated, temperate-climate and properly British Kenya colony (in terms of title ) at the expense of Uganda and Tanganyika.<sup>5</sup> The adoption of a common external tariff

---

1. J. Rweyemamu, Underdevelopment and Industrialization in Tanzania, Supra., p. 120-1.

2. For instance when a Japanese company attempted to establish a factory for the manufacture of matches, the government insisted that an excise duty (which would be sufficient to discourage the company) be imposed with the result that the project was abandoned (Brett op. cit. pp.268-70). Similarly, when the Tanganyika Cordage company set up factories to manufacture binder twine for export it was threatened by a prohibitive duty on exports on the basis that its price competitiveness in the British market had jeopardized British interests (Brett op. cit. pp. 270-2).

3. Brett, op. cit., p. 268

4. J. Rweyemamu, op.cit., pp. 120-1.

5. Brett, op.cit. p.127.

by Tanganyika was primarily a device to protect Kenya's industries, and the elimination of trade barriers served the same purpose, but deprived Tanganyika of sizeable revenues and forestalled her industrialization.<sup>1</sup> Therefore, the assumption that 'the satellites experience their greatest economic development and especially their most classically industrial development if and when their ties to their metropolis are weakest' needs to be qualified in the case of Tanganyika whose neighbour Kenya had acted as a periphery-centre.<sup>2</sup>

Also the colonial monetary system was designed for the syphoning off from the colony of as much as was possible. There was no exchange control of any kind (thanks to being in the sterling area), presumably to facilitate a two-way flow of currency, and to enable the colony to borrow cheaply in London.<sup>3</sup> But, of course, a lot more was loaned abroad and repatriated than the colony could have hoped to receive, and, in addition, the rate at which the colony loaned was remarkably less than the rate at which it was charged by foreign creditors.<sup>4</sup> The Currency Board, the Post Office Saving Bank, pension and trust funds, were all required by law to hold sterling assets equivalent to their local holdings. Other financial institutions such as insurance companies, opted to invest in more familiar markets abroad.<sup>5</sup>

---

1. J. Rweyemamu, op.cit. p.116.

2. This assumption was one of Frank's hypotheses concerning underdeveloped countries, see A.G. Frank, Latin America: Underdevelopment or Revolution, Supra., pp.9-10, also J. Rweyemamu, op.cit. pp.116-7.

3. John Loxley, "Financial Planning and Control in Tanzania", in J.E. Rweyemamu et al, (eds.), Towards Socialist Planning, (Dar es Salaam, Tanzania Publishing House, 1972), pp. 50-71.

4. Ibid., pp.51-2.

5. Ibid., p.52, for the insurance industry in Tanzania see Chapter Five.

The socio-political characteristics of Tanganyika also reflected the dominance of a colonial system *par excellence*. Tanganyikan society was compartmentalized into three racial groups: the Europeans, who occupied the most senior jobs in the bureaucracy and dominated the economic scene; the Asians, who formed a large 'middle class', engaged in small trade and retail business and occupied middle positions in the civil service and finally, the Africans who were largely involved in subsistence farming or small-scale farming, and only tenuously in the modern sector. This racial stratification was reinforced by political and economic policies: the institution of separate electoral communal representation, and the operation of a purely racial salary structure.<sup>1</sup> The racial salary policy was recommended by the Holmes Commission (1947-8) which inquired into the civil service structure in East Africa. The report of the Commission stipulated that:<sup>2</sup>

The European surpasses the Asian in such matters as sense of public service, judgement and readiness to take responsibility, and subject to individual exception, the African is at the present time markedly inferior to the Asian of the same educational qualifications, in such matters as sense of responsibility, judgement, application to duty and output of work.

While white supremacy was to be accepted as an article of faith, the colonial authority encouraged racial hatred and competition between Asians

- 
1. Dharam Ghai and Yash Ghai, "Asians in Tanzania: Problems and Prospects" in Svendsen and Teisen (eds.) op.cit., pp.91-110, at p.91.
  2. Quoted by J. Rweyemamu, op.cit., p.31.



and Africans. In fact the pre-independence years in Tanganyika were clouded by suspicion and enmity between Africans and Asians, often expressed in racial terms, especially from the African side. On the one hand, the Asian community was alarmed by the rapid growth of African-dominated co-operatives which had achieved some sort of economic independence and had threatened Asian interests, especially after the enactment of the Co-operative Societies Ordinance 1932. In 1936, the Chamber of Commerce section of the Indian Association requested the Government 'to stop the advancement of the co-operative system [until]... the trading population which might be displaced by the co-operative institutions might be suitably absorbed in other spheres of economic fabric of the territory.'<sup>1</sup> On the other hand, the independence battle which was gathering momentum was adopting overtly racialist, anti-Asian slogans. The movement had actually originated in the various local political and business associations,<sup>2</sup> all of which had viewed independence as, *inter alia*, a vehicle for removing the 'Asian class'. The Tanganyika African National Union (TANU)<sup>3</sup> which had led the colony to independence emphasised the need 'to further trading spirit among Africans with a view to ousting Indian traders'; and one of the aims of the party was to 'help establish an increasing share in the running and owning of business...'<sup>4</sup>

---

1. Quoted by Shivji op.cit., p.67.

2. For instance the Buhaya Union, the Kilimanjaro Native Co-operative Union, and the Pare Union, see M.H.Y. Kaniki, "Tanu, the Party of Independence and National Consolidation", in Gabriel Ruhumbika (ed.) Towards Ujama, Twenty Years of Tanu Leadership, (Dar es Salaam: East African Literature Bureau, 1974), pp.1-29, also A.J. Temu, "The Rise and Triumph of Nationalism" in IN Kimambo and A.J. Temu (eds.), A History of Tanzania, Supra, pp.189-213, also Shivji, op.cit.

3. Tanu ceased to exist after the 5th of February 1977, when it merged with the Afro-Shirazi of Zanzibar to form the new single party Chama Cha Mapindusi (C.C.M.) or 'The Party of the Revolution'.

4. Quoted by Shivji, op.cit., p.59.

It was against this background that the battle for uhuru (freedom) was waged and won when Tanganyika obtained flag independence in December 1961. In common with the experience of many African countries the transfer of power was a peaceful one, external rather than internal pressures playing a more active role. The pressure from the U.S., for example, upon Britain to open up her colonies for all imperialist powers on the one hand, and the Mau Mau rebellion in Kenya, on the other hand, and the likelihood of its repetition in Tanganyika ultimately speeded up uhuru.<sup>1</sup> But what distinguished Tanganyika from many other African countries was the lack of sectional or sectarian loyalties which had plagued the transfer of power in many parts of Africa. The success of national unity in Tanganyika owed something to geopolitical factors reflected in the population density in a fraction of the country, the extremely diverse ethnic groups with no single dominant ethnic formation, and the intermediary of Swahili which acted as a *lingua franca* for the various ethnic factions.<sup>2</sup>

As the above indicates the development of the colonial economy and society in Tanganyika was a development of underdevelopment i.e. the creation of economic conditions which could continue to function 'properly' by continuing to accept dependency on dominant external powers. The pattern of distribution and utilization of the economic surplus, priorities in production, and the nature of the relations with the outside world are now

---

1. J. Rweyemamu op.cit., pp.31-2.

2. W.H. Whiely, "Swahili: the National Language of Tanzania" in Svendsen and Teisen op.cit. pp.130-42.

to be dictated by the needs of foreign powers. This 'development of underdevelopment' had also generated the usual patterns of regional inequality: there were the periphery centres which suffered most from the economic exploitation i.e. the towns and estates; and these were surrounded by peripheries which supplied them with food and services; and these in turn, were surrounded by sub-peripheries which supplied the centre with labour or simply stagnated. More importantly, as we will see shortly, colonialism had bequeathed to Tanganyika a tremendous legacy of ideological and cultural mystifications which make the burden of the socialist transformation a particularly difficult one. In the following section we will see how underdevelopment persisted in the neo-colonial period and how the change of strategies came about to challenge this persistence of underdevelopment. We will examine the Arusha Declaration which put Tanzania on the socialist path of development and two other policy papers which supplied the peasant-worker rhetoric of Tanzanian socialism.

## II Uhuru and After

After independence, the inherited political and economic structures still retained a strong colonial flavour, and the social stratification stimulated by the colonial system remained intact. The independence constitution was drawn up by the colonial office, the country gained statehood as a monarchy headed by the Queen as head of the Commonwealth; the government was to function on a 'Westminster' model, and in the British

tradition was to be subdivided into various ministries - the treasury being the most important.<sup>1</sup> The civil service which had inherited the norms and ethics of the colonial bureaucracy was to spearhead development planning and the management of the economy as a whole.<sup>2</sup> The colonial economic structures continued to exist. The dominant activity remained agriculture, which continued to account for the major share of total production; and other sectors such as commerce and transport depended on agriculture while exports consisted of unprocessed agricultural products. One year before independence, about half of the agricultural exports came from one per cent of the total land alienated for estates and owned by foreigners. And about three-quarters of the African-produced cash crops came from five cotton districts around Lake Victoria and a few other coffee-producing districts.<sup>3</sup> The agricultural credit policy remained the same. The Agricultural Credit Agency, which was formed by the World Bank in 1962, took over the assets of the former Land Bank, and under the same bureaucracy and the same work principles, continued to advance loans to a handful of farmer-traders in the export sector. Its replacement by the National Development Credit Agency (N.D.C.A) in 1964, again sponsored by the World Bank,

- 
1. William Tordoff, Government and Politics in Tanzania, (Nairobi: East Africa Publishing House, 1967), pp.55-94, also Lionel Cliffe, "From Independence to Self-Reliance" in Kimanbo and Temu op.cit., p.241.
  2. Ibid., p.241, also Bismark U. Mwansasu and Cranford Pratt (eds.), Towards Socialism in Tanzania, (Dar es Salaam: Tanzania Publishing House, 1979), p.6.
  3. Lionel Cliffe, "From Independence to Self-Reliance" op.cit., pp.241-2.

was in essence a change of name rather than of substance.<sup>1</sup> And while the dependency relations on foreign markets were retained through the export enclave, the domestic scene continued to reflect the country's satellite position *vis-à-vis* international capitalism. The early post-independence industrial projects were both financed and established by foreign firms; and mineral production (diamonds) remained a monopoly of the South African firm Williamson Diamonds Ltd., through its subsidiaries Alamasi Mine Ltd., and Kahana Mines Ltd.<sup>2</sup> The World Bank and the Arthur D. Little report advised the government to create an environment attractive to foreign private investment. Accordingly, the major part of government investment in the three year plan 1961-64, was to be externally financed.<sup>3</sup> A wave of capitalist industrialization followed especially in textiles which witnessed a sudden cluster of investments. The same was also true of export-propelled industries such as pyrethrum extract, wattle extract, cashew nut processing, tea, coffee and diamonds.<sup>4</sup> But most of these industries were set up to suit the interests of foreign markets rather than to stimulate domestic demand. Some were established to maintain a place in a falling market, to prevent other competitors from making a profit, and in some cases the *raison d'être* was simply the desire to dispose of old machinery or to replace labour intensive techniques which rendered exports uncompetitive even if this would result in massive unemployment.<sup>5</sup>

---

1. L.A. Msambichaka of R.B. Mabele, "Agricultural Credit and the Development of Vjamaa Villages in Tanzania" in K.S. Kim, Mabele and Schulthesis (eds.), Papers on The Political Economy of Tanzania, (London: Heinemann Books, 1979), pp.207-8.

2. Samuel A. Ochola, Minerals in African Underdevelopment, (London: Bogle-L'overture, 1975), pp.62-3.

3. J. Rweyemamu, op.cit., p.39.

4. Ibid., pp. 122-30

However, the monetary system was reformed through some radical measures. In 1965, Exchange Control Regulations were introduced to prevent capital outflows and the East African Currency Board was replaced by a Central Bank in 1966. The National Provident Fund was established in 1964 to provide a steady flow of capital but also as a measure of social security. The National Co-operative Bank was established in 1962, and the National Development Corporation (NDC) took over large roles in crop financing. The National Bank of Commerce was set up to compete with foreign banks, and the National Insurance Corporation was formed as a joint venture to compete in the insurance market.<sup>1</sup>

But social gaps in the country were widening rapidly. The newly established institutions employed bureaucrats who received enormous benefits, and the Africanization of the civil service had necessitated the promotion of many officials to senior civil service positions with responsibilities and corresponding rewards designed for European personnel before independence. There was also a rush into the central government service. This was due to the fact that the primary objective of the employment policy at the time was the creation of a miniscule, relatively well-rewarded bureaucracy instead of a large sector of low-paid employees. It was expected that the surplus population made redundant by this policy would be absorbed in the settlement schemes which had been recommended by the World Bank in 1960.<sup>2</sup> Many people lost their jobs and a number of labour riots broke out due to worsening labour conditions and the disenchantment

---

1. John Loxley, "Structural Change in the Monetary System of Tanzania" in Lionel Cliffe and J. Sand (eds.) Socialism in Tanzania, Vol. 2, (Nairobi: East African Publishing House, 1973), pp.102-110, also Mwansasu and Pratt (eds.), Towards Socialism in Tanzania, *Supra.*, pp.72-91.

2. J. Rweyemamu, op.cit., pp.53-4.

of the workers with the slow process of Africanization in labour intensive fields such as the railways, harbours and sisal estates in contrast with civil service posts.<sup>1</sup> In a bid to curb union activities the government adopted a number of measures aimed at the containment of labour movements. These included: the passing of the Trade Disputes Act, 1962, which made strikes virtually illegal, the Security of Employment Act 1964, to regulate disputes, the banning of the Tanganyika Federation of Labour (TFL) in 1964, and the establishment of the National Union of Tanganyika Workers (NUTA) which came under the control of the government and was affiliated to Tanu. The final development was the setting up of a labour tribunal under the Permanent Labour Tribunal Act 1967 which also made strikes illegal.<sup>2</sup>

The year 1964 was a notable one in the history of Tanganyika, and its eventful course altered many things in subsequent years: the United Republic of Tanzania came into existence in April 1964 as a merger between Tanganyika and Zanzibar; and the liberation movements of South Africa, Zimbabwe and Mozambique were pledged unlimited support by the United Republic. Two battalions of the Tanzanian army mutinied, and the U.S. was publically denounced for attempting to overthrow the lawful government of Tanzania.<sup>3</sup> Relations with the West were worsening. Western capital was leaving the country because the political climate was becoming inhospitable. In 1964 alone, there was a capital flight of shs. 290m., or half of the potential capital formation compared with 1963; also actual and potential aid was lost

- 
1. William Torodoff, Government and Politics in Tanzania, Supra., p.142.
  2. Shivji, op.cit., p.68 and pp.128-9, also Cranford Pratt, The Critical Phase in Tanzania : 145-1968, (London: Cambridge University Press, 1976), pp. 184-194.
  3. Ibid., pp.134-56.
-

to the country by rejecting West German Assistance and breaking diplomatic relations with Britain over Rhodesia.<sup>1</sup> The targets set by the First Five Year Plan (1964-1969) became difficult to achieve as 78 per cent of the capital requirements were to be financed from abroad.<sup>2</sup> But the total external loans and grants fell from the 1961 figure of shs. 127.3m. to shs. 51-4 m. by 1964.<sup>3</sup> Even worse, there was a remarkable fall in the prices of sisal in 1965, and the export prices of cotton and coffee fell below the 1961 prices - a trend which continued until 1967.<sup>4</sup>

Against this background the slogans of 'socialism and self-reliance' which characterize Tanzanian politics until the present day emerged. The government was adopting an increasingly socialist rhetoric towards economic development, and Tanzania's relations with China, U.S.S.R. and the East European countries were taking on new dimensions. The move was towards a more egalitarian, just and socialist society.<sup>5</sup> These policies culminated in the Arusha Declaration of 1967 and the other policy papers<sup>6</sup> which marked a new chapter in Tanzanian history. Some of these policies are examined below.

---

1. Ibid., also Rweyemamu, op.cit., pp.43-4.

2. Rweyemamu op.cit., p.50

3. Shivji, op.cit. 161, Rweyemamu p.41 and p.44, also G Arri ghi and John Saul, Essays on the Political Economy of Africa, (New York & London: Monthly Review Press, 1973), p.260.

4. C. Pratt, The Critical Phase in Tanzania, Supra ,p.175 and p.215 and Rweyemamu, op.cit. p.44.

5. This is a persistent rhetoric which underlies Nyerere's writings, see for example, Freedom and Unity, Supra , also Freedom and Socialism, (Oxford: Oxford University Press, 1968).

6. These were "Education for Self-Reliance, 1967", and "Socialism and Rural Development 1967", both of which were issued in the aftermath of the Arusha Declaration.



A: The Arusha Declaration

In 1967 Tanu adopted a policy paper known as the Arusha Declaration which committed Tanzania to the achievement of socialism and self-reliance. The Declaration stipulated that:<sup>1</sup>

To build and maintain socialism it is essential that all the major means of production and exchange in the nation are controlled and owned by the peasants through the machinery of their government and their co-operatives.

Accordingly, in February 1967, and in a dramatic move to control the 'commanding heights' of the economy, the government nationalized all commercial banks, the National Insurance Corporation, and eight export-import firms. Also eight milling firms with associated food manufacturing were nationalized and the government declared its intention of acquiring up to 60 per cent of the shares of major industrial firms such as Kilimanjaro Breweries, Bata Shoe Co. and 60 per cent of the sisal industry.<sup>2</sup> But following the resentment of private business in the aftermath of the Declaration, Nyerere assured private interests that no more firms were to be taken over.<sup>3</sup> And it was not until 1970 that another Presidential Directive ordered that all import and wholesale trade and all residential and commercial buildings (valued at shs. 100.000) be controlled by the state.<sup>4</sup>

---

1. The Arusha Declaration, Part II

2. Sunday News (Tanzania), February 1964, also Andrew Coulson, "Agricultural Policies in Mainland Tanzania", Review of African Political Economy, No. 10, 1977, pp.74-96, at p.89, also Mwansasu and Pratt, op.cit. p.12

3. The Nationalist (the Party Newspaper, Tanzania), 14. February, 1967.

4. Mwansasu and Pratt, op.cit., p.12.

As the conditions leading to its adoption indicate *the Arusha Declaration was in no way a logical outcome of a revolutionary social change within Tanzania.* The general ease of the independence struggle did not aid in the development of a party which had the potential to build a socialist economy. And despite the worker-peasant rhetoric of the Declaration, neither workers nor peasants had played any immediate role in its formulation. On the morrow of uhuru migrant labourers faded back into their homesteads (away from national politics) and due to the historical absence of advanced feudalism in Tanzania no class of landless peasantry had existed (as in Latin America) to bring the revolutionary potential of the peasantry to the political arena. On the other hand most wage-earning workers were, in 1967, first generation urban dwellers whose organization into a solid and enduring movement would have required a prolonged period of political maturity.<sup>1</sup> Nevertheless, no particular ethnic formation has provided a stimulus to any condition or social force behind the move; and Tanzania was said to have lacked the racial conflicts which blur the consciousness of social classes, at least in contrast to Kenya.<sup>2</sup> But there can be no doubt that the Declaration was neither an attempt to extricate Tanzania from the international division of labour nor a step towards 'a new mode of production and fundamentally restructured social relations.'<sup>3</sup> It came as a surprise to Western observers, but hardly caused any organized imperialist reaction.<sup>4</sup> For all the nationalization laws

---

1. Ibid., p.7

2. Lionel Cliffe, "Underdevelopment or Socialism?", Supra., p.170.

3. John Loxley, "Monetary Institutions and Class Struggles in Tanzania", in Mwansasu and Pratt, op.cit., p.79.

4. Lionel Cliffe, "Underdevelopment or Socialism", op.cit., p.185. The Times of 13, February, 1967 quoted a Tobacco industrialist, Sir Ernest Vasely, a former Minister of Finance in Tanganyika and the director of Rothmans of ~~Pall Mall (Kenya) as saying~~ he was 'undeterred by Tanzania's newly announced programme of socialist development'.

provided for the payment of compensation (in order, perhaps, to maintain the economy's link with Western capitalist firms), and in the case of the industrial firms taken over for N.D.C, the previous owners agreed to lend the firms the amount of compensation due and this was to be repaid at 7.5 per cent interest rate. Compensation for Smith Mackenzie, Daligety, Barclays Bank and Standard Bank was agreed at 98 per cent of the value of assets in 1967, and the total agreed compensation was in the vicinity of shs. 200m.<sup>1</sup> On the other hand (thanks to the Declaration) the nationalizations have brought the government in immediate partnership with the most famous firms of Western imperialism. In the capital goods sector, for example, N.D.C's partners included: Ralli Bros., a London firm with 36 subsidiaries in different parts of the world, Motor Mart and Exchange Group, Portland Cement and the Metal Box Co.<sup>2</sup> In the consumer goods sector N.D.C. owned interests in partnerships with Nestlé, British American Tobacco, East African Breweries; and other firms which entered into management agreements with the corporation included: L-Rose & Co., Overseas Construction Co., and Trans World Atlantic.<sup>3</sup> The same managements in the same firms were to be involved in the running of the economy of Socialist Tanzania! But at any rate Tanzania has not had any socialist business tradition, and the economy had always been controlled by private enterprise - a fact which made the numerous management agreements, technical assistance agreements etc a natural option. To be sure the spirit of private enterprise was also codified in the principal pieces of legislation which were to govern the newly established

---

1. J. Rweyemamu op.cit., p.60

2. I.G. Shivji, The Silent Class Struggle, Tanzania Studies No. 2 (Dar es Salaam: Tanzania Publishing House, 1973), Appendix at pp. 51-58.

3. Ibid.

corporations. Emphasis was laid on the best endeavours to secure the profitability of business (for example in the case of N.D.C.), and the National Bank of Commerce and the National Insurance Corporation were to provide banking and insurance facilities in the 'normal and proper' banking and insurance business. The State Trading Corporation was also to conduct its business according to proper mercantile traditions.<sup>1</sup> This private enterprise bias was also reinforced by Tanzania's membership in the East African Community (under which a common market between Kenya, Uganda and Tanzania was established) signed in 1967, emphasizing the need for the community's economy to be essentially a private enterprise economy based on competition, free trade and non-fixed or monetary discrimination by a member against the products of other members.<sup>2</sup>

Before the practical economic and social implications of the Arusha Declaration are discussed the other twin objective of 'self-reliance' may be examined. It was mentioned earlier that the aims of the Arusha Declaration were the achievement of socialism and self-reliance. Indeed, the Declaration has associated the objective of self-reliance with real independence although external aid was not rejected altogether and was regarded as an extra bonus rather than the main determinant of economic development. The Declaration stipulated that:<sup>3</sup>

- 
1. Yash P. Ghai (ed.), Law in the Political Economy of Public Enterprise, (Uppsala: S.I.A.S. and New York: International Legal Centre, 1977), p.227.
  2. Ibid., p.226
  3. The Arusha Declaration Part II, (Dar es Salaam, Government Printer, 1967).

Independence means self-reliance. Independence cannot be real if a nation depends upon gifts and loans from another for its development. Even if there was a nation, or nations, prepared to give us all the money we need for our development, it would be improper for us to accept assistance without asking ourselves how this would affect our independence and our very survival as a nation.

Also, by re-examining the pre-Arusha economic problems, notably the scarcity of capital, the Declaration pointed out the inadequacies of relying on money as a major instrument for development:<sup>1</sup>

It is stupid to rely on money as the major instrument of development when we know only too well that our country is poor. It is equally stupid, indeed it is even more stupid, for us to imagine that we shall rid ourselves of our poverty through foreign financial assistance rather than our own financial resources.

However, immediately after the Declaration was issued, loan agreements were entered into between Tanzania and other capitalist countries - agreements which reinforced and buttressed the country's dependency on the capitalist centre. External loans and grants to Tanzania rose from shs. 84 m. in 1967/68 to shs. 746.6 m. in 1972/73.<sup>2</sup> In 1971 alone, the World Bank financed loans of shs. 65 m. for tobacco and shs. 73.5 m. for tea plantations, US aid loans of shs. 6.5 m. financed farms and heavy duty tractors and improved seeds while a Canadian loan of shs. 7 m. (initially) was to finance an automatic bakery in Dar es Salaam.<sup>3</sup> Sweden has financed rural water supplies and

---

1. Ibid.

2. Shivji, Class Struggles in Tanzania, op.cit., p.161

3. Arrighi and Saul, op.cit., p.278

crop storage, West Germany is involved with developments in Tanga; and Tanzania is a major aid receiver from Denmark.<sup>1</sup> By the mid-1970s, Tanzania was becoming one of the largest recipients of foreign aid in Africa - receiving 55 per cent of its development budget from the World Bank.<sup>2</sup> By June 1980 Tanzania became - in absolute dollar terms - one of the largest receivers of foreign aid in independent Africa.<sup>3</sup>

The worker-peasant rhetoric of Tanzanian socialism has provided a stimulus for two major development strategies concerned with the peasantry, and the workers. The one is Tanzania's rural development strategy, the other is the policy of workers participation in the management of the economy. To these we now turn.

B: Rural Development Strategy:

In September 1967 a major policy paper was issued in Tanzania. This was 'Socialism and Rural Development'<sup>4</sup> which is, perhaps, the most widely known rural development policy in free Africa. Although strongly emphasized after the Arusha Declaration, some fundamental aspects of the strategy had their origin in the recommendation of the World Bank mission in 1960 which

- 
1. Andrew Coulson, "Agricultural Policies in Mainland Tanzania; Supra., pp.95-6.
  2. Andrew Coulson (ed.), African Socialism in Practice, Supra., p.14, also Kim et al. (eds.) op.cit., p.180.
  3. The Financial Times, 2. 7. 1980.
  4. J.K. Nyerere, Freedom and Socialism, Supra., pp.337-66.
-

drew attention to the need to create improvements by modernizing Tanzania's agricultural system. This was to be achieved either through an improvement approach which, while leaving traditional agricultural methods intact, would introduce community development methods and agricultural extension services; or a transformation approach which, in heavily populated areas, would transform agricultural practices and socio-economic institutions.<sup>1</sup>

This was followed by Nyerere's paper '*Ujamaa - The Basis of African Socialism*'<sup>2</sup> in 1962. And on the basis of 'Socialism and Rural Development', The President, the Party (Tanu) and the government launched *ujamaa vijijini* (socialism in villages) in which people were to live together, and work together for the benefit of the community of producers. While some aspects of the traditional family would be preserved, modern knowledge and techniques would be introduced and services such as health, education, clean water etc would be supplied. The paper addressed itself to the problem of class formation stressing that the basic characteristic of Tanzanian society was not only differentiation but the emergence of antagonistic classes. By way of reform an alternative *ujamaa* mode of production could be a vehicle for social development of the community while avoiding the natural process of class formation. In view of this strategic importance *ujamaa* villages were to be promoted through discretionary extension assistance to peasants who were willing to live together and own land communally. The policy was further stressed by the Five Year Plan 1969-74, and in a special Presidential Circular which stipulated that:<sup>3</sup>

- 
1. Adolphe Mascarenhos, "After Villagization - what?" in Mwansasu and Pratt, op. cit., p.148.
  2. J.K. Nyerere, Freedom and Unity, op.cit., pp.162-71.
  3. Presidential Circular No. 1, 1969.
-

**BEST COPY**

**AVAILABLE**

TEXT IN ORIGINAL IS  
CLOSE TO THE EDGE OF  
THE PAGE



It is to the building of *ujamaa* villages that government must turn its attention. We have to organize our party and government machinery to assist their establishment... No department of Tanu and no Ministry of government is exempt from the requirement to participate and to contribute to the success of this policy.

By a Presidential Order now the Tanzanian bureaucracy was to implement the policy and ensure its success.

C. Workers Participation in the Management of the Economy

As a follow up to the Arusha Declaration and rural development policy, the third major socialist development in Tanzania was the provision for workers' participation in the management of the means of production and exchange. In 1970, a Presidential Circular required the establishment of workers' councils in Tanzania to 'further industrial democracy in relation to the economic functions of the enterprise, and give workers a greater and more direct responsibility in production'.<sup>1</sup> The function of the councils was to contribute to the general welfare of the country 'by helping the efficiency and effectiveness of [the] public enterprises.'<sup>2</sup> Specifically, workers councils were under a duty to achieve the following functions: (a) to advise on the requirements of wages and incomes policy as announced by the government from time to time, (b) to advise on the marketing of production, (c) to advise on matters of planning, (d) to advise on matters relating to the quality and quantity of production, (e) to advise on other aspects of productivity such as work and enterprise organization, technical knowledge etc and (f), to receive and discuss the balance sheet.<sup>3</sup> All enterprises were required to form workers' councils before the end of 1970.

In the following pages an attempt is made to discuss the impact of the Arusha Declaration and the subsequent policy papers on the wider economic and social relations in Tanzania with reference to the positions of the different actors in the Tanzanian drama: the bureaucracy, the workers and the peasantry.<sup>4</sup> We will see how the bureaucracy (which appears to be the only beneficiary of the Declaration - but see below) controls the economy, and how it has implemented the socialist strategies of rural development and workers participation in the management of the economy.

1. Presidential Circular No. 1, 1970. "The Establishment of Workers' Councils, Executive Committees and Boards of Directors", para. 5.

2. Ibid.

3. Ibid., para. 12

4. It is not assumed here that these 'categories' are firmly established social class or that the intra-conflicts between them qualify as class conflicts.

### III. The Bureaucracy, the Peasantry and the Workers

#### A. The Bureaucracy and the Transition to Socialism

The public corporations sector grew enormously after the Arusha Declaration although its structure was not 'the result of any well-thought-out comprehensive plan.'<sup>1</sup> New corporations were set up to deal with the various interests taken. Some of the major corporations included: the National Bank of Commerce, (N.B.C.), the State Trading Corporation (S.T.C.), the National Milling Corporation (N.M.C.), the Tanganyika Sisal Corporation (T.S.C.), the National Insurance Corporation (N.I.C.) and the National Development Corporation (N.D.C.) to which most of the industrial firms taken over were assigned. By the end of 1973, there were 112 public corporations in Tanzania operating across most sectors of the economy.<sup>2</sup> The sector had absorbed (and continues to absorb) a great number of Tanzanians and foreign experts who are relatively well paid in comparison with the central government bureaucracy, and with much opportunity for promotion, more effective management of the economy and closer contacts with foreign interests. In fact, to some writers on Tanzania, the Arusha Declaration was no more than a practical necessity to advance a class of 'bureaucratic bourgeoisie'. This class elevated itself to the position of the commercial bourgeoisie after the latter had lost control of its economic interests. This

---

1. Presidential Circular No. 2, 1969, Para. 3.

2. Yash P. Ghai (ed.), Law in the Political Economy of the Public Enterprise, Supra, p.212.

'bureaucratic bourgeoisie' now exercises political and physical control over property.<sup>1</sup> It is doubtful if the Declaration was specifically designed for that purpose.<sup>2</sup> But undoubtedly, the emergent sector with its large bureaucracy (the number of employees in high-level manpower positions in Tanzania rose from 500 in 1961 to 5000 by 1971) remained fairly autonomous and with minimal accountability to central authority.<sup>3</sup> This relative freedom of the bureaucracy owes its origin to Tanzania's colonial past. The British colonial bureaucracy - the immediate predecessor of the Tanzanian bureaucracy - had governed without benefit of theory and had shown a tendency for pragmatism and empiricism in the absence of defined ultimate goals. This led to a preference for decision-taking by those in the field 'who have first-hand acquaintance with the facts.'<sup>4</sup> Thus the

- 
1. Michaela Von Freyhold, "The Post-Colonial State and its Tanzanian Version". Radical Science Journal, No.8, Jan./Feb. 1977, pp.75-89, also I.G. Shivji, Class Struggle in Tanzania, op. cit.
  2. Shivji's classification of the bureaucrats who man the public corporations as a class of its own i.e. a bureaucratic bourgeoisie, attracted the criticism that 'the important point about the higher echelons of the state apparatus is less their class origins or ambitions than their specific function in relation to the ruling alliance of classes and class strata. Concentrating on the tendency of state officials to try to acquire property is apt to divert attention from this more important point.' See R.H. Green, "Law, Laws and Public Enterprise Planning in Africa" in Yash Ghai (ed.), Law in the Political Economy etc. - op. cit. As Yash Ghai argues, the bureaucracy 'can either promote capitalism, in which case it will become part of the bourgeoisie rather than an independent class, while if it fights against capitalistic relations of production, as well as against socialistic development, the outcome is complicated, but unlikely to be that of a self-perpetuating bureaucratic or managerial elite,' see Yash Ghai (ed.) Law in the Political Economy, op. cit. p.24.
  3. For example NDC, see Ian Parker, "Contradictions in the Transition to Socialism: the case of NDC" in Mwansasu & Pratt. op. cit., pp.46-70.
  4. Brett, op. cit., p.37.

colonial state became an administrative state *par excellence*, and the colonial bureaucracy was empowered with laws, regulations and vast administrative powers (all of which were inherited by the neo-colonial state) which had granted wide discretion, often with no parallel criteria for their use or implementation.<sup>1</sup> The colonial legal system (which still operates in Tanzania) also helps to provide a framework of legality for the autonomy of the public sector. The legal rules in the British tradition are biased in favour of the free enterprise system, they recognize the priority of profitability, and entrust the management with ample freedom in discharging business duties. It is against this background that the vast public sector in Tanzania, and its bureaucracy, operate to put Tanzania's socialism into practice.

Unfortunately, the bureaucracy is unlikely to achieve a transition to socialism. It is resentful of checks and controls from the centre. Its emphasis on rules, formal qualifications and hierarchial relations impede any radical change in the established order. Its intellectual baggage of the past i.e. conventional economic wisdom and business orthodoxy, only prevent the release of strategies which could bring about the socialist transformation, but do not assist social change. Little wonder, then, that immediately after the nationalizations of 1967 many corporations went into unwise investments, constructed fabulous headquarters, but showed a poor record in co-ordination of the various enterprises under their control.<sup>2</sup>

- 
1. Yash P. Ghai, "Notes Towards A Theory of Law and Ideology: Tanzanian Perspectives," African Law Studies, No.13/1976, (U.C.L.A.: African Studies Centre, 1976).
  2. Yash Ghai (ed.) op. cit. p.215.
-

On the other hand, the Declaration's broad formulation of national goals did lend itself to some vagueness and provided the unruly bureaucracy with many crevices into which less progressive and unrevolutionary readings of the goals could be inserted. Sometimes the Party and, at times, the President had to veto investment decisions that were incompatible with Tanzania's aspirations. The Karadha's decision (this was a hire-purchase corporation owned by the National Bank of Commerce) to provide credit facilities for the purchase of motorcars was vetoed by the Party, and a decision by the Tanzania Tourist Corporation to invest shs. 300m. in the Tourist sector was rejected by the President as being inconsistent with Tanzania's goals.<sup>1</sup>

Thus the Arusha Declaration has created, among other things, an empire of public corporations whose functioning is somewhat beyond the reach of the centre and whose bureaucracy has the chance of imposing its soft options to neutralize Tanzanian socialism. In the following two sections we will see how the bureaucracy has turned out to be a Trojan horse in the transition to socialism with respect to the rural development strategy, and the participation of workers in the management of the economy.

#### B. The Bureaucracy and the Peasantry

With the advent of the Arusha Declaration and the rural development strategy which followed, the bureaucracy and the peasantry came closer together to implement the policy and to achieve its goals. At this stage it

---

1. J. Rweyemamu et al. (eds.), Towards Socialist Planning, Supra, p. 57 and 79.

could be argued that '*Ujamaa*' was (from the start) flawed with theoretical and practical problems which made the achievement of those goals extremely unlikely. Firstly, the emphasis on the characteristics of traditional African societies viz: equality, classlessness communalism etc., were necessary conditions of a specific mode of production, as discussed earlier, which (the mode) had subsequently been incorporated into the world capitalist system for nearly a century. This makes a return to those conditions historically impossible. At any rate, it is difficult to understand why the goals of contemporary society should be based on the frail foundations of traditional *Ujamaa* rather than on the objective conditions of the modern world.<sup>1</sup> Secondly, the involvement of the bureaucracy was unlikely to allow for any democratic process of consultation of the peasantry on its own destiny, since such consultation is unknown to the bureaucracy.

All too often *Ujamaa* carried much of the characteristics of the former settlement policies long suggested by the World Bank - being the only rural policy known to the bureaucracy - with over-emphasis on services, supervision and control of the peasants. There was no attempt to transform peasant economy or change peasants' relations to the wider society nor could the bureaucracy achieve unquantifiable socialist goals.<sup>2</sup> Unable to distinguish between *Ujamaa* and the former settlement scheme, especially at the initial

---

1. J. Rweyemamu, op. cit. pp. 70-1.

2. Jannik Boesen, B. Storgard & Tony Moody, Ujamaa - Socialism from above, (Uppsala :S.I.A.S., 1977), pp.166-8.

stages, the mass of the peasants moved away from their homes to districts where the policy had not been introduced. Shinyanga district, for example, received many peasant 'refugees' from Geita and Kwimba districts where the policy had been introduced.<sup>1</sup> In Nyara district and parts of Bugufi, most new settlers maintained their ties with the old homesteads and often paid more attention to cultivating their own lands in the old village sites than in the new settlements.<sup>2</sup> In the west Lake Region, throughout the working seasons less than half the working force was engaged in communal production, and even then, for less than half the working days.<sup>3</sup> Attendance in the villages fluctuated with the kind of communal production at hand but was nearly always subjected to the interests in private farms.<sup>4</sup>

The period 1969-1973, was one of complete failure of *Ujamaa* as a policy for rural socialism. Food production in the villages either stagnated or decreased and cash crop production also decreased, sometimes to appalling levels.<sup>5</sup> The number of residents in the villages increased and villages swelled up when there was food scarcity in the area and famine relief was forthcoming, but people fled away after the relief mission had gone.<sup>6</sup> And most benefits were claimed in villages where relatively well-off farmers had promoted their own *Ujamaa* enterprises in order to gain access to land,

---

1. Andrew Coulson (ed.) op. cit. pp.117-8.

2. J. Boesen, et. al., Supra. pp.64-5.

3. J. Boesen "Tanzania: From Ujamaa to Villagization" in Mwansasu & Pratt. op. cit. p.131.

4. Kim, et. al. op. cit. p.204.

5. The Economic Survey (Dares Salaam: Government Printer), 1973/74 and 1974/75.

6. Kim, et. al. op. cit. p.204.

official aid and other benefits.<sup>1</sup> The credit system in agriculture also secured to these villages enormous cash loans which were not available for ordinary poor-peasant dominated villages. The National Development Credit Agency had advanced only one loan to an *Ujamaa* village until its abolition, and the Tanzania Rural Development Bank (TRDB) which succeeded the Agency also followed its policies, albeit with minor amendments.<sup>2</sup> The T.R.D.B.'s facilities have largely been available to those *Ujamaa* villages which are registered as multi-purpose co-operative societies and which are in essence controlled by individualistic and capitalist-oriented farmers who are able to obtain loans because of their credit-worthiness.<sup>3</sup>

Meanwhile, the human dislocation produced by rural development policies was extending its impact to the whole economy. Although between 1964-1967 national income had arisen by an average of 6.4 per cent a year, between 1967-1975 the same only rose by 4.2 per cent. The post-Arusha period had generally witnessed a negligible improvement in the standard of living.<sup>4</sup> But the burden of this recession fell upon the peasantry more than any other social group in the country. Between 1961 and June 1974, urban minimum wages were raised by about 250 per cent in monetary terms and by 100 per cent in real purchasing power. However, average peasant incomes either declined

- 
1. J. Boesen, "Development and Class Structure in Smallholder Society and the Potential for *Ujamaa*" (1972), mimeo - Dar es Salaam University, also, J. Sender, "Some Preliminary Notes on the Political Economy of Rural Tanzania Based on a Case Study in Western Usambaras", (mimeo)-Dar es Salaam University, 1974, also P. Raikes, "*Ujamaa Vijijini and Rural Socialist Development*", a paper presented at the Annual Conference of East African Universities, 1973, p.19, Dar es Salaam University (mimeo.), and I. Oxaal, T. Barnett & David Booth (eds.) Beyond the Sociology of Development (London: Routledge & K. Paul, 1975), pp.154-80.
  2. Kim et al op. cit. pp. 207-8 and p. 210.
  3. Ibid., pp.215-9. The creditworthiness criterion requires the exchange of a mortgage for a loan.
  4. J.R. Nyerere, "the Arusha Declaration The Years After" in Andrew Coulson (ed.) op. cit.



or remained static, and during this time only 30 per cent of all peasants had consuming power equal to the minimum wage.<sup>1</sup>

However, the low production of *Ujamaa* villages, the oil price increases of 1973, the unfavourable weather conditions, and the increasing balance of payment crisis led the bureaucracy to sacrifice the *Ujamaa* policy altogether to the most pragmatic 'villagization programme' in 1974. Under this programme the objective was simply to move peasants into villages, at any cost, and by former colonial methods of carrot and stick the peasants were to be 'encouraged' to increase agricultural output. Homes in the old villages were burnt, resistant people were detained, and at times, persuaded by official rumours about modern services and famine relief supplies which could only be claimed by those who chose to settle. Movement from new settlements was restricted and the provision of food, credit, and other services became conditional on reaching a production target.<sup>2</sup>

Despite official claims to the contrary, the villagization programme was primarily a strategic step to increase production to meet, *inter alia*, the increasing cost of maintaining the bureaucracy, but not to provide services for the peasants. In the parastatal sector alone, the number of persons employed rose from 18,601 in 1966 to 72,094 by 1973, while their wages and salaries rose from shs.88,843,000 to shs.581,345,000 during the same period.<sup>3</sup>

- 
1. R.H. Green, "Tanzanian Political Economy Goods, Strategies and Results" in Mwansasu & Pratt. op. cit. pp.23-4.
  2. Robert Martin, "Human Rights in Tanzania", a lecture given at the Law School, Warwick University, 1980, see also D. McHenry, "A Report: Communal Agricultural Production in Ujamaa villages" 1976, Dar es Salaam University (mimeo.), p.13.
  3. Yash Ghai (ed.) Law in the Political Economy, op. cit. p.213.

On the other hand, the provision of services was inefficient even before the villagization policy, and there was no reason for the government to increase its burden of providing services which, it must have known, could not be supplied.<sup>1</sup> The few services supplied were certainly the result, and not the reason for, villagization. But, undoubtedly, the official change of heart came both as a relief and success for the regional bureaucracy: no more 'embarrassing' communal production results to worry about and no unquantifiable successes to be sought. All is needed now is the enforced - if need be - movement of the peasants into homes in straight lines and with fields divided into individual plots in which the peasants could be told what to grow and at what time in the year.<sup>2</sup>

Thus as with *Ujamaa* also in 'villagization' the freedom of the bureaucracy in the implementation of rural development has led to the reinterpretation of the policy into specific objectives that are within the administrative reach of the bureaucracy. It was not so much that the policies were defective, but the bureaucracy could read into them its own objectives and not those of society. But that is not the end of it. More significantly, the bureaucratic structure of rural development has permeated down to the level of the village with the result that the rhetoric of 'participation'<sup>3</sup> has been reduced from a strategic goal to a high sounding

- 
1. Andrew Coulson, "Agricultural Policies in Mainland Tanzania" op. cit. p.94.
  2. James R. Finucane, Rural Development and Bureaucracy in Tanzania: the Case Study of Mwanza Region, (Uppsala S.I.A.S., 1974), also J. Boesen, et al (eds.) op. cit. pp.136-7.
  3. In 1968, President Nyerere argued that participation is inevitable for good leadership and encouraged leaders to discuss policy matters with people at all levels (see the Nationalist, 18 October, 1968).

nothing. Village leaders now attend district and regional meetings which brief them with directives to be passed to all village residents. Participation, then, has become a pre-emptive move to have a decision from the centre ratified at all levels and the Village Development Communities and Ward Communities have become extortion points and possible vehicles for the implementation of central directives rather than generators of policy from below.<sup>1</sup>

That was how the bureaucracy handled the management of the economy - in an attempt to achieve socialism - and interpreted, and put to practice, Tanzania's rural development strategy. In the following part of this section we will examine the relations between the bureaucracy and the workers within the context of workers participation in the management of the economy.

### C. The Bureaucracy and the Workers

The Presidential Circular of 1970 - mentioned earlier - which provided for the establishment of workers' councils, based the concept of workers participation on three fundamental principles: (a) given a proper work environment the majority of workers can become more creative and more productive, (b) workers should no longer be seen as 'factors of production'; but must be treated as the very purpose of production, and (c) that industrial discipline can only be meaningful when all the workers become aware of what they are doing and what their objective is.<sup>2</sup>

There was, however, no attempt to relate workers participation to the more general forms of control in the social and political life of the country,

---

1. J.R. Finucane, Rural Development and Bureaucracy in Tanzania, Supra , p.172.

2. Para 2, 3 and 4.

nor was participation conceived of as a system of new social relations.<sup>1</sup> On the other hand, the arrangement whereby 'advisory' roles are assigned to workers and taking cognizance of workers attitudes - the two significant provisions of the circular - do not seem to be adequate alternatives for a more far-reaching and more meaningful participation by workers in the management of the means of production. There was no emphasis on discussion between workers and management on the modes of production, methods of work or any attempt at integrating the process of production with the 'ideology',<sup>2</sup> or any safeguards against bureaucratic containment of workers' councils. Quite the contrary, the bureaucratic dominance of the councils seems to be the objective of the circular! The Councils are composed of (a) a Tanu Chairman of the branch established at the place of business, (b) the Manager or the General Manager of the firm, (c) all heads of departments or sections, (d) all members of the workers' committee, (e) workers' representatives elected in proportion to the number of workers in the different departments or sections, provided that the number of members of the workers' committee does not exceed three-quarters of the total membership of the permanent members, (f) co-opted member/s from outside the business as and when required.<sup>3</sup> The Executive Committee of the Council (which is what really matters) consists of (a) the Manager/General Manager - as Chairman, (b) Heads of Departments, or sections, and (c) workers' representatives elected

- 
1. H. Mapolu, "The Organization and Participation of Workers in Tanzania" in Kim, et al. (eds) op. cit. p.276.
  2. J. Rweyemamu, et al. (eds.) op. cit. p.83.
  3. Para. 7.

by the Council, provided their number is not more than one-third of the total membership of the Executive Committee.<sup>1</sup> In effect, then the Executive Committee is no more than a 'meeting of the General Manager with his departmental heads.'<sup>2</sup>

Given this state of affairs, it was not surprising that workers participation was interpreted by some managements as a concerted effort to educate the Tanzanian workers to exercise participation 'with discretion'.<sup>3</sup> Some public enterprises were extremely slow and reluctant to apply the circular, claiming that their workers were not 'educated and competent enough to assume the managerial role';<sup>4</sup> and in joint venture and foreign enterprise no worker participation of any kind has been possible.<sup>5</sup> The Western management systems in Tanzania - specially the ones set up by McKinsey (the management consultancy) are not in the least designed to tolerate the participation of the work force or to break down its alienation in order to allow for a role for workers in the management of the economy. And even if councils are set up in such firms, it is doubtful if they could be effective as a mechanism of power equalization or power shifting to the workers in view of the tradition of 'authoritarian work habits, hierarchial structure of authority, the conduct of business in a foreign language [and] the ambivalence of both the political and bureaucratic leaders to the notion of workers participation'.<sup>6</sup> There is, certainly, a lot of truth in the

---

1. Para 15.

2. Shivji, Class Struggles in Tanzania, op. cit. p.132.

3. John Loxley and John Saul, "the Political Economy of the Parastatals," E.A.L.R., vol. 5, No. 1 & 2, 1972, p.32.

4. I.J. Maseko, "Workers Participation in Management in Tanzania", (mimeo), Dar es Salaam University, 1972.

5. John Loxley and John Saul, "the Political Economy of the Parastatals", E.A.L.R., above, pp.32-3.

6. Yash Ghai (ed.) Law in the Political Economy, op. cit. p.234.

argument that workers' councils are major incentives and better techniques of controlling workers, but not of securing their participation in management.<sup>1</sup>

#### C. IV Towards A Socialist Tanzania

Although it is well over a decade now since Tanzania declared her intention of building a socialist society, present Tanzania is neither socialist nor self-reliant. On all traditional criteria the economy still exhibits the usual characteristics of underdevelopment: an export-oriented sector, a narrow industrial sector, and a large services sector.<sup>2</sup> The country's relations with international capitalism are well maintained through trade and foreign aid received from time to time.<sup>3</sup> And in the Tanzanian literature there is often a tone of scepticism and of uncertainty about Tanzania's success in achieving her goals in the future. Bismark Mwansasu and Pratt, for example, two of Tanzania's sympathisers, have recently argued that:<sup>4</sup>

It can hardly be denied that Tanzania is an unlikely country in which a transition to socialism could take place. It is poor, its per capita annual income does not exceed 1200/= Tanzanian shillings (\$150)..... The transition to socialism will be difficult for a further reason. Tanzania cannot expect the transition to be facilitated by rapid economic developments, there are few known natural endowments and there doesn't appear to be much likelihood that any major new resource will be discovered to transform the economy ....

- 
1. H. Mapolu, "The Organization and Participation of Workers in Tanzania" op. cit. p.277.
  2. See the Economic Survey, (Dar es Salaam, Government Printer), 1974, 75, 76, 77, 78 and 1979, see also I.G. Shivji, Class Struggles in Tanzania, op. cit. pp.149-157. However, Tanzania was a more diversified export base than many African countries. Exports include: tea, coffee, cotton, sisal cashewnuts etc., see D.P. Ghai, "The Growth of Money Incomes in East Africa, 1946-1960" quoted in Kim, et al. (eds.) op. cit. p.171.
  3. Shivji, Class Struggles in Tanzania, op. cit. pp.158-78.
  4. Mwansasu & Pratt. op. cit. pp.7-8.

At a more fundamental level, and to many critics, the Tanzanian state has reflected many of the flagrantly anti-socialist features of the neo-colonial state in Africa - especially in terms of applying its organized coercion to suppress domestic opposition. In many occasions, critics say, striking workers were dealt with by mass expulsion and detention.<sup>1</sup> The students' opposition to MP's salary increases in 1978 was met with 'ruthless and concentrated police brutality' although the Field Force Unit (a para-military trouble-shooting wing of the police) was not called in<sup>2</sup> as in 1972.

And on the ideological plane Tanzania's socialism was not an outcome of a dialectical class analysis or understanding of society. Nor is its objective always in sight. And its approach to social transformation is one that awaits responses rather than initiates policies which could bring about such transformation. As Nyerere himself has put it:

Our socialist practice has been the result  
much more of responding to a felt need than  
to an understanding and application of a socialist  
theory.

What went wrong? How could remedial action be taken? Where is Tanzania heading now? Undoubtedly, the slow rate of socialization of the economy and society is a logical outcome of the operation of a progressive ideology in a society that had been incorporated into the world system for over a century. For colonialism had planted the seeds of underdevelopment and had bequeathed the spirit of capitalist initiative techniques which

---

1. Shivji, op. cit. p.139.

2. Leaflet issued by Dar es Salaam University Union, 5 March 1978, see Review of African Political Economy, No.10, 1975, for a brief account of the 1972 student movement, see Arrighi & Saul, op. cit. footnote 138, n. 330-1

remained to plague the transition to socialism. It has bequeathed a legacy of ideological and cultural mystifications against which Tanzania's *Ujamaa* (or socialism) is left to fight for survival. It has bequeathed a bureaucracy which is resistant to change and which, as we have seen, is aborting the socialist experiment of the country. Indeed, the problem in Tanzania is not so much that the 'ideology' is not clear as that many bureaucrats are hostile to it and many of those who profess to follow it are not committed to it.<sup>1</sup> As Nyerere himself has bitterly complained:<sup>2</sup>

[W]e have no large and disciplined army of socialist leaders who understand the objectives in all their complexity, and who have clear ideas about how to promote the movement towards them. It is what the late President Nkrumah called the problem of trying to build socialism without socialists.

But in the African context Tanzania appears to have the most advanced and progressive rhetoric for the control of bureaucracy - which rhetoric could be invoked, at least in some situations, to arrest flagrantly anti-socialist behaviour.<sup>3</sup> And when positive action has not been entrusted to the bureaucracy, the outcome has been very much consistent with Nyerere's progressive ideas and a clear evidence of Tanzania's seriousness of intentions. Tanzania's role in African and world politics substantiates this proposition.<sup>4</sup> And

- 
1. Yash P. Ghai, "Notes Towards a Theory of Law and Ideology", op. cit. p.47. and p.82.
  2. Daily News (Tanzania), 10 April, 1974.
  3. See e.g., The Arusha Declaration (Part V) which provided for a code of conduct to be followed by Tanzanian leaders.
  4. Witness, for example, Tanzania's assistance to the freedom movements in South Africa (the Guardian 11.4.1981), Tanzania's role within the O.A.U., in the ~~Group of 77~~ and Nyerere's role in the North and South debate.



there can be no mistaking the seriousness with which Tanzania is attempting to assault the *status quo* instead of squaring its goal to it as many African countries have opted to do. So far Tanzania's record is remarkable in contrast with many countries whose 'professed political principles and whose prospects for development with a minimum of social justice have long been sacrificed in return for short term and 'micro' level benefits, serving primarily the personal and 'unstated' interests of their [new masters]'.<sup>1</sup> Unlike many countries in Africa, Tanzania is genuinely attempting to follow an independent trajectory for her development in the alternative system of poorer but non-capitalist countries, a role which promises less at the present but may achieve her goals in future.

---

1. J. Rweyemamu et al. (eds.) op. cit. p.167.

CHAPTER FIVE : INSURANCE AND DEVELOPMENT IN MAINLAND TANZANIA

'[W]e have no large and disciplined army of socialist leaders who understand the objectives in all their complexity, and who have clear ideas about how to promote the movement towards them. It is what the Late President Nkrumah called the problem of trying to build socialism without socialists.'

J.K. Nyerere, The Daily News (Tanzania),  
10 April, 1974.

Introduction

If tentative conclusions are to be drawn from the discussion so far the following points will suggest themselves: (a) that the Sudan and Tanzania are underdeveloped countries which owe their underdevelopment to colonialism, (b) that the insurance institutions of the metropolises did have a role to play in the underdevelopment of the two countries (the case of Tanzania has not been examined yet, but generalization is possible from the survey made in chapter One), (c) that in a neo-colonial situation underdevelopment is either reinforced or resisted, as the case may be, depending upon the political and economic structures of a country, and consequently the development strategy which is followed, (d) judging by the case of Sudan, this resistance or reinforcement of underdevelopment is likely to be reflected in the insurance industry; and the manner in which the industry is used for economic development generally follows the socio-economic policies of the particular country.

And what was said in Chapter Four suggested that Tanzania has embarked on a rather independent trajectory for development, and that along that path several breakthroughs - unknown to the rest of black Africa - were made. But there has been a slow rate of progress in Tanzania. As we have seen above,

this was due to (a) the roots of the capitalist past which remained to plague the transition to socialism, (b) the implementation of socialist ideas by the bureaucracy, which is hostile to socialism, has prevented (and continues to prevent) the socialist transformation from taking place. In this chapter we will examine these propositions in the case of Tanzania's insurance industry. The chapter is divided into seven parts. Part one examines the history of insurance in Tanzania and the changes which have occurred after Arusha. Part two deals with the *raison d'être* of insurance regulation or control. Part three briefly examines the concentration of the bureaucracy at the National Insurance Corporation's head office; and part four discusses the control of the corporation by the state. In part five we will investigate the effects of the nationalization of insurance in the economy of Tanzania, and in part six the degree to which the objectives of nationalization have been achieved. Finally we attempt an assessment of the nationalization of insurance in Tanzania as a socialist exercise.

### I. Background

Before the East African countries (Tanganyika, Uganda and Kenya) became independent in the early 1960's their insurance industries (like other industries) were almost exclusively the monopoly of foreign companies which transacted business there through agents and small branch offices. Similar conditions prevailed in the whole of Africa.<sup>1</sup> In 1958, and out of 143

---

1. For the history of insurance in Africa see, generally, M. Grossman, op. cit.

insurance companies operating in East Africa only 6 were registered in Kenya;<sup>1</sup> and at the time of independence in Tanganyika there were 90 insurers transacting business and virtually all of them were foreign.<sup>2</sup> Almost all foreign companies had their regional head offices in Nairobi and business in Tanganyika was carried out as part and parcel of usual trade transactions such as transport, shipping and warehousing, and most business houses had covered their own risks. Tanganyikan branch offices were thus responsible merely for securing the business and, therefore, only few insurers had full-fledged branches with authority to issue policies and settle claims.<sup>3</sup> The personnel who ran the branches were all foreign and only a few indigenous agents and brokers took part in the trade by soliciting business in urban areas. The clientele of insurance was almost entirely European or Asian and Africans were by law prevented from taking out life insurance.<sup>4</sup> This was alleged to be a measure of protection for Africans; but in fact it was part of a policy aimed at restricting access to credit to non-Africans.<sup>5</sup> Expatriate banks featured prominently in the denial of credit policy. The effect of this, however,

- 
1. Issa G. Shivji, "Insurance and Development", E.A.L.R. Vol. 3, (1970), pp. 143-173, at p. 161.
  2. J.O. Irukwu, Insurance Management in Africa, Supra, p.249.
  3. John Loxley, "Structured Change in the Monetary System of Tanzania", Supra, 102-110.
  4. Ibid., The Life Assurance (Control) Ordinance, 1945 (amended 1946) effectively prevented Africans from taking out life insurance, see M. Grossan op.cit. p.399. Similarly, in Uganda, the Control of the Business of Life Assurance Ordinance 1945, prevented Ugandans from taking life policies, see John Loxley, "East African Stock Exchange", in Phil Thomas (ed.), Private Enterprise and the East African Company, (Dar es Salaam: Tanzania Publishing House, 1969), footnote 1, at p.132.
  5. In Tanganyika the Credit to Natives Ordinance 1931, required Africans to obtain written permission from local administrators before entering into debt obligations with non-Africans. Kenya Colony implemented a similar piece of legislation in 1948, see ibid.

was only to make a *de facto* situation *de jure*, for not many Africans had possessed assets which could have been acceptable as suitable collaterals for loans.<sup>1</sup>

The insurance companies of East Africa were the most important non-bank financial intermediaries. John Loxley<sup>2</sup> has estimated their investments in local assets at £3.5 m. in 1964, alone which was largely held in bonds, mortgages, equities and real estate. Although only 55 per cent of East Africa's net premiums were generated in Kenya, 75 per cent of investments were held there. There was, therefore, a flow of insurance capital from Uganda and Tanganyika to Kenya.<sup>3</sup> But capital made in East Africa (including the returns of investments) was ultimately remitted abroad, and between 1959-1962, this was to the tune of £4.5 m. (see Table 8 below). Between 1960-1966, almost shs. 350 m. of insurance and shs. 140m. of reinsurance premiums were obtained and transferred from Kenya while Tanganyika recorded shs. 44 m. and shs. 15 m. respectively, between 1964-1966, all of which was remitted abroad.<sup>4</sup> And until 1967 the business of insurance in Tanganyika was not subject to any form of regulation whatsoever by the government. We have seen in Chapter Four that insurance companies did not invest their assets in the country and often opted for more familiar markets abroad.

- 
1. John Loxley, "Financial Planning and Control] in Tanzania", Supra p.52.
  2. John Loxley, "Financial Intermediaries and their Role in East Africa", a paper presented to the University of East Africa Social Science Conference (Nairobi, 1966).
  3. Ibid.
  4. John Loxley, "The Monetary System of Tanzania since 1967: Progress, Problems and Prospects" in Kinu et al. (eds.) op.cit. pp.128-29, also I.G. Shivji, "Insurance and Development", Supra , pp.161-3.

TABLE NO. 8

Aggregate Business of East African Insurance Companies (1959-64)

(£ )

Year	Gross Premium Income	Gross Claims	Management Expenses	Net Reinsurance transfers	Income from assets	Income in local assets	Surplus
1959	10,903,182	4,024,136	2,591,135	691,463	963,863	N.A.	4,562,941
1960	11,814,120	4,964,608	2,913,168	930,559	1,244,594	5,147,538	4,250,469
1961	11,772,550	5,901,689	3,152,899	700,619	1,426,852	1,407,176	3,443,995
1962	13,111,880	5,965,285	3,553,576	1,282,014	1,516,984	711,896	3,827,389
1963	12,451,114	5,775,179	3,424,329	843,523	1,644,032	725,537	4,061,815
1964	13,195,417	6,794,465	3,725,422	759,109	1,899,047	332,473	3,812,198
							1111

Source: John Loxley, 'Financial Intermediaries and their role in East Africa', op.cit. p.21.

In addition to the extraction of insurance surplus from Tanganyika the existence of foreign insurers' head offices abroad had also hindered the development of an indigenous insurance industry. It was said earlier that insurance personnel who manned the branches were all foreign. Undoubtedly, they were most unwilling to train Tanganyikan nationals to handle the business. On the other hand, the payment of claims upon the maturity of policies, as one might think, must have been unnecessarily delayed pending the approval of Nairobi regional head offices. Thus as part of the colonial monetary system the colonial insurance industry in Tanganyika also had its role in the underdevelopment of the country. This has found expression in the subordination of the economy to the needs of the metropolises through the extraction of insurance surplus, and in the exclusion of indigenous Africans from the field of insurance altogether.

As we have seen in the last chapter after independence virtually all colonial economic structures remained intact and that the monetary system was no exception to this. But at a time of massive capital flight from the country<sup>1</sup> the Tanganyikan government moved into the insurance field to minimize the flow of capital abroad and to liberate the trade from foreign control through state participation in the running of business. In October 1963, through a joint venture, the Shirika La Bima La Taifa Tanganyika or the National Insurance Corporation<sup>2</sup> of Tanganyika,<sup>3</sup> was registered as a

---

1. See e.g., Gilbert L. Rutman, The Economy of Tanganyika (New York: Frederick A. Praeger, 1968), p. 152.

2. Hereinafter referred to as 'the corporation' or 'N.I.C.'

3. On the 24th of February 1965 the word 'Tanzania' in the corporation's title was substituted for Tanganyika (after the emergence of the United Republic) but the corporation's business is solely confined to mainland Tanzania. In Zanzibar another National Insurance Corporation operates but no reference to it is made in this chapter.

limited liability company under the Companies Ordinance,<sup>1</sup> 1931. The paid up capital of the corporation was only shs. 2m. The government subscribed 51 per cent of the share capital and this was vested in the Treasury Registrar, a corporation sole with perpetual succession and powers of ownership of the stock, established under the Treasury Registrar Ordinance,<sup>2</sup> 1959. The remaining part of the corporation's share capital (49 per cent) was subscribed by Indian, Swiss, German and British insurance and reinsurance companies.<sup>3</sup> The first half of the 60s was a time of greater state intervention in the economy as discussed earlier. By 1964, total assets of government-owned enterprises stood at shs. 610 m.<sup>4</sup> This trend culminated in the Arusha Declaration which emphasized the need for the government to control the means of production and exchange including insurance.<sup>5</sup> In February, 1967, the Insurance (Vesting of Interest and Regulation) Act,<sup>6</sup> 1967 was passed and under it N.I.C. was brought wholly under state ownership. S.3 of the Act provided that:

---

1. Cap. 212.

2. Cap. 418

3. Journal of World Trade Law, 1967, p. 236, also, see the Insurance Industry in Tanzania: 10th Year Independence Anniversary (Published by N.I.C. in 1971), p. 15.

4. W. Edmund Clark, Socialist Development and Public Investment in Tanzania, 1964-73, (Toronto: University of Toronto Press, 1978), pp. 100-1.

5. The Arusha Declaration, Part III.

6. Act No. 4 of 1967, referred to after as the 'Insurance Act'.



All the shares in the corporation, other than those already vested in the Treasury Registrar, shall, by virtue of this section and without further assurance, vest, free of any trust, mortgage, lien, interest or other incumbrance whatsoever, in the Treasury Registrar .....

The corporation was also charged with an exclusive franchise to transact life insurance in Tanzania. S.8(1) of the Insurance Act provided that:

No person, other than the corporation, shall, on or after the effective date [12th of February, 1967] carry on life business in Tanganyika.

Unlike in the Sudan, however, life insurers were not required to transfer their portfolios to the corporation. That was, undoubtedly, one of the serious defects of the nationalization measures in Tanzania. As a result a number of policies are still held by Tanzanian nationals and the agents who had solicited business for the agencies still collect the premiums for the Nairobi head offices.<sup>1</sup> Non-life insurers on the other hand, were permitted to carry on business until the first of January 1968.<sup>2</sup> Although the Insurance Act provided for the payment of 'full and fair compensation' by Tanganyika,<sup>3</sup> it was unlikely that any insurer, apart from the foreign shareholders in N.I.C, could have qualified for compensation because, in insurance, the creation of a state monopoly, without more, is not a ground for

- 
1. The effect of these transactions on Tanzania's balance of payment is discussed later.
  2. S. 13(1) of the Insurance Act provided that '[n]o person other than the corporation shall, on or after the first of January, 1968 carry on insurance business in Tanganyika'.
  3. S.6 of the Insurance Act.
-

compensation.<sup>1</sup> Foreign agencies, anyway, showed no interest in pursuing compensation claims and most of them closed down their offices immediately after the Act was passed despite the offer made them to transact non-life business throughout 1967. Some agencies chose to do selective business, and others cancelled their policies but refused to allow a proportionate refund for policyholders.<sup>2</sup>

Thus the political developments of 1967 have had the most profound effect upon Tanzania's insurance industry which, for the first time, was brought under state control and was set to operate under conditions of state monopoly. Indeed, it was only in insurance that there was an outright nationalization of foreign interests coupled with the creation of state monopoly.<sup>3</sup> But was that, by itself, enough to ensure the success of the insurance industry in the post-Arusha period? In other words was the state take-over all that the insurance industry needed to contribute to the achievement of socialism and self-reliance? This is what we hope to answer in the rest of this chapter.

## II Raison d'être of Insurance Regulation.

As the foregoing suggests the insurance industry in Tanzania was the subject of far-reaching reforms in 1967. The insurance market was completely liberated from foreign (direct) insurers and the state assumed full control and ownership of the only insurer which remained to transact business i.e. N.I.C.

- 
1. A.W. Bradley, 'Legal Aspects of Nationalization in Tanzania', E.A.L.R., 1967, Vol. 3, pp. 149-176, also D.D. Nsereko, 'The Tanzanian Nationalization Laws', E.A.L.R. Vols. 3 & 4, 1970-71, pp.1-23.
  2. The Insurance Industry in Tanzania: 10th Year Independence Anniversary, Supra, p.20.
  3. A.W. Bradley, 'The Nationalization of Companies in Tanzania' in Phil Thomas (ed.), Private Enterprise and the East African Company, Supra, pp. 207-28, at p.212.
-

The success or failure of the post-Arusha insurance industry must, however, be seen in the light of the Arusha Declaration itself, - which was a turning point in Tanzania's political history - in the circumstances leading to it, and in the nature of the political and social forces upon which the implementation of the social goals is dependent. The opinion ventured in the last chapter was that the politico-economic developments which followed the Declaration seem to suggest that the Declaration itself was no more than a manifestation of a desire by the government to function more efficiently, within Tanzania's inherited economic and social structures, by allowing itself access to new sources of finance. The strong socialist rhetoric of the Declaration did not find its way into the legal instruments which created various institutions to carry out the task of economic development. The Insurance Act, for example, required the corporation to do no more than (a) provide, in accordance with the conditions appropriate in the normal and proper conduct of insurance business, adequate and proper insurance services and facilities throughout Tanganyika, (b) conduct its business without discrimination, excepting upon such grounds as are essential in the normal and proper conduct of insurance business.<sup>1</sup> Thus, by law the corporation was to continue to function along its pre-Arusha lines which were recognized as 'the normal and proper' norms of insurance business. What was to change after Arusha was not the manner of conducting insurance business, but rather the juridical nature of the ownership of the insurance institution. And, therefore, who was to transact insurance rather than how, seemed to have been the prime consideration.

---

1. S.7(a), (b) of the Insurance Act.

But four years after Arusha the management of the corporation undertook the responsibility of achieving certain objectives which are now widely recognized as the major objectives of the nationalization of the insurance industry in Tanzania. These were<sup>1</sup>: (a) to make available quick and efficient insurance service to each and everyone who is in need of insurance throughout the length and breadth of the country, (b) to enable each and every policyholder to obtain a fair deal and a fair value for his or her money (c) to channel people's savings for the purposes of financing the development plans of the country and the economic uplift of the entire population, (d) to carry out insurance business, not with a view to make profits, but as an essential service to the population which, while being completely self-supporting and offering a reasonable surplus on its turnover, would be run with the ideal of service first. Unfortunately, as we will see later, these objectives are contradictory to each other, to the objectives set out in the Insurance Act, and are not adhered to in practice.

### III The Head Office Bureaucracy:

The body responsible for the administration of the corporation is its board of directors.<sup>2</sup> The composition of the board is not regulated by statute but by the corporation's articles of association. The board consists of 5-9 members<sup>3</sup> (it consisted of 8 members in 1979). The Chairman of the board is

- 
1. The Insurance Industry in Tanzania: 10th Year Independence Anniversary, op.cit. p. 19.
  2. Article 15 of the corporation's articles of association.
  3. Article 15(b), ibid.

appointed by the President<sup>1</sup> (see below), and other members are appointed by the Minister of Finance<sup>2</sup> who is the official charged with the control of the corporation. The internal structure of the corporation's bureaucracy consists of the General Manager at the top, followed by lower level directors in charge of six directorates comprising: finance and planning, administration, reinsurance,<sup>3</sup> general insurance, life insurance and marketing and research. Each directorate consists of a director at the top and a number of managers in different grades i.e. from grade one to grade three. The number of managers varies from one directorate to the other, the largest being the general insurance and life insurance directorates which have four managers each. The number of high level managers at the corporation's head office is 16. There are also various regional and district managers in various parts of the country. In the whole of mainland Tanzania more than 1000 persons are employed by the corporation and most of them are Tanzanian nationals.<sup>3</sup> As will appear later, the concentration by such high level bureaucrats in the corporation was not without effect upon the volume of revenue accruing to the corporation and upon the nature of investment and, hence, the corporation's efficiency as a capital forming institution and one upon which the task of the socialist transformation is, in part, dependent.

- 
1. Article 15 (ibid) provides that 'there shall be a Board of Directors, which shall consist of (a) a chairman who shall be appointed by the Minister'
  2. Article 15(b), ibid.
  3. Annual Reports of N.I.C., also 'Desk Diary of N.I.C', and interview with Mrs. T.M. Mshuza, editor of Ngao (the corporation's quarterly magazine), Dar es Salaam, July, 1979.
-

#### IV. The Machinery For State Control and Supervision of N.I.C.

The vast expansion of the public sector in Tanzania, which was the result of the Arusha Declaration, set in motion a process of greater state intervention in the affairs of public enterprises. Intervention was justified by the desire to achieve the socialist transformation of the economy and society. The state was to ensure that public enterprises adhere to policies and goals which could bring about the socio-economic change. In this section the various forms of state control upon enterprises are examined with special reference to N.I.C.

State control of an enterprise in Tanzania varies in degree and intensity according to the particular legal form of the enterprise. The most common forms of public enterprises are corporations and companies although the departmental form also exists. While corporations are bodies set up under or through an Act of Parliament,<sup>1</sup> companies are bodies incorporated in Tanzania under the Companies Ordinance, 1931. Though both categories of enterprises share certain features and are subject to uniform controls - as will appear later - companies alone are subject to the provisions of the Companies Ordinance, and the body of rules applicable to them (not necessarily related to control) is much larger in comparison to public corporations. Yash Ghai summarises<sup>2</sup> the features common to Tanzania's companies and corporations, and the essential differences in the degree of control brought about by dissimilar legal forms as follows (a) the feature that the corporation and company share is their distance from the government. They are distinct

---

1. Yash Ghai (ed.), Law in the Political Economy etc., op.cit. p.206.

2. Ibid., p. 217.

legal categories and are not subject to the rules which govern the administration. They are therefore, much more able to operate in a businesslike manner. (b) The differences between them is that the company is, almost exclusively, governed by what is essentially a regime of private law which regulates its establishment, management and dissolution. The corporation on the other hand, is subject to some of the rules of administrative bodies.

As mentioned earlier, N.I.C. was a company registered under the Companies Ordinance 1931 (a piece of legislation largely framed on the lines of the Imperial Companies Act, (G.B.) 1929). In fact, N.I.C. stands as one of the few enterprises in Tanzania which are companies wholly owned by the government directly i.e. not being subsidiaries owned by other corporations or companies.<sup>1</sup> Nationalization had no effect on its corporate character. The share capital owned by foreign companies (49 per cent of the share capital) was taken over by the state and vested in the Treasury Registrar which is a corporation sole as mentioned earlier. In the light of summary given above of the features of companies and corporations, it becomes clear to us that N.I.C. is subject to a much wider body of rules than most enterprises - being subject to the provisions of the Public Corporations Act, 1969<sup>2</sup>, and the Companies Ordinance. The Companies Ordinance, however had provided

---

1. James and Ligunya mention other companies such as Tanesco and Workers Development Corporations established by Nuta, see R.W. James and S. Ligunya, "Organizational Relationship and the Control of Parastatals in Tanzania", E.A.L.R. Vol. 5, No.1 & 2, 1972, p. 45.

2. Act No. 17 of 1969.

for some consequences which were to follow a reduction in the number of members of a company below two shareholders: firstly, such reduction constituted a ground for winding up a company by court.<sup>1</sup> Secondly, under the Companies Ordinance, when such a reduction occurs and a company carries on business for more than six months, then every person who is a member of the company during the time that it so carries business after those six months is severally liable for the payment of the whole debts of the company contracted during that time.<sup>2</sup> These provisions were taken care of by the Insurance Act which provided that:<sup>3</sup>

Every provision in any written law or in the Articles of Association of the corporation providing for an act or thing to be done, or entitling any person to do any act or thing or take any action whatsoever as a result of a reduction in the number of members of the corporation below a certain number, shall be of no effect in relation to the corporation.

But although amended, and as will follow later, rendered in-operative in some substantial areas, the Companies Ordinance is an important instrument for the control of N.I.C. It derives this importance from the fact that the Insurance Act has fallen short of providing a comprehensive and detailed set of regulations over the corporation. In fact it is difficult to see how the Insurance Act is relevant to the corporation now as most of its provisions were so phrased as to deal with the conditions of

- 
1. S. 167(D) of the Companies Ordinance
  2. S. 29 of the Companies Ordinance
  3. S. 4 of the Companies Ordinance
-



the market pending the cessation of the foreign insurers' business in the country. A careful reading of the Act suggests this conclusion. The Act speaks of two categories of insurers (a) The corporation, and (b) 'an insurer... or person who, in the case of life insurance,... was an insurer prior to the effective date.'<sup>1</sup> The corporation is defined as the National Insurance Corporation<sup>2</sup> to which reference is made only in provisions dealing with the transfer of shares to the Treasury Registrar,<sup>3</sup> with the cancellation of the effect of some provisions of the Companies Ordinance,<sup>4</sup> the duties of the corporation after nationalization,<sup>5</sup> and the creation of a monopoly for N.I.C. with respect to life<sup>6</sup> and non-life insurance business<sup>7</sup> in the country. An insurer on the other hand, is defined as 'a person, firm, company or association of brokers carrying on insurance business.'<sup>8</sup> These were the insurers permitted to compete with the corporation in respect of non-life business until the first of January 1968.

---

1. S. 16(1) and S. 17(1) of the Insurance Act. Section 18(1) which deals with the power of the Minister to appoint a receiver, speaks of 'an insurer or former insurer' and S.19, which provides for a penalty for the contravention of the Act, speaks of a 'company, co-operative society or other body of persons corporate or unincorporate'.

2. S.2

3. S.3.

4. S.4

5. S.7

6. S.8

7. S.13

8. S.2.

Under the Insurance Act these were subject to some degree of control by the Minister of Finance who had powers under the Act to demand information,<sup>1</sup> to require the deposit of securities,<sup>2</sup> and to appoint a receiver of the assets and liabilities of an insurer.<sup>3</sup> The provisions empowering the Minister so to act do not refer to the corporation. As far as the corporation was concerned the only purpose of the Act was to make it the sole insurer in mainland Tanzania.<sup>4</sup>

Thus unlike in the Sudan, insurance regulation in Tanzania is not based on a code upon which the state control of the industry is solely dependent. This situation is not unique to Tanzania. In countries where insurance is nationalized, insurance concerns are set up directly under the control of the Ministry of Finance or Treasury, as the case may be, which directs the affairs of the concerns through directives and other regulations without an intermediary regulation code. Nationalization has created in such markets 'a situation necessitating legislation different from that for the supervision of private concerns'.<sup>5</sup> This is, as in the case of Tanzania,

---

1. S.16(1)

2. S.17(1)

3. S.18(1)

4. Interview with Mr. K. Makani of N.I.C., Dar es Salaam, August, 1979.

5. UNCTAD Secretariat, 'Insurance Legislation and Supervision in Developing Countries', op.cit. p.79.

often an instrument bringing the industry under state control without necessarily providing for detailed regulations to govern the conduct of business carried by the state-owned insurer.<sup>1</sup> And in some countries where the industry was nationalized insurance concerns were not made subject to the insurance supervisory authority which had existed before nationalization.<sup>2</sup> Insurance regulation statutes conventionally promulgated in free enterprise markets to regulate the industry do not seem to have the same degree of importance in nationalized markets.<sup>3</sup> In the Tanzanian case, the body of rules applicable to N.I.C. and designed to bring it under control should, therefore, be sought elsewhere than within the confines of the Insurance Act which, as we have seen above, was no more than an interim instrument the primary function of which was to regulate the market in the transitional period before N.I.C. became the sole insurer in mainland Tanzania.

This confirms the importance of the Companies Ordinance as a means of control over N.I.C. However, much of the Ordinance appears to have no practical relevance to the corporation now. Regulations related to the allotment of shares,<sup>4</sup> commissions in respect of subscription of shares,<sup>5</sup>

---

1. Ibid., pp.79-84.

2. For example, in Ceylon, ibid. p. 83

3. S.A. Fonkam, State Supervision of Insurance Companies in Cameroun: Unpublished Ph.D. Thesis (London, 1980), pp.334-46.

4. SS. 40-43

5. SS. 44-45.

issue of shares<sup>1</sup>, transfer of shares and debentures<sup>2</sup> and regulations related to the number of directors,<sup>3</sup> were all made superfluous consequent upon the acquisition of the corporation's share capital by the state. And although the shares are now wholly vested in the Treasury Registrar, the state in Tanzania seldom invokes the Treasury Registrar Ordinance (under which it could exercise powers as a shareholder) to control public enterprises.<sup>4</sup> But, in a sense, the government assumes the function of the general meeting by appointing N.I.C.'s board members and dismissing them. The power to appoint a corporation's management and to issue directives to it (see below) constitute some of the most important aspects of state control over an enterprise.<sup>5</sup> The Chief Executive of the Corporation is appointed by the President who has powers under the Public Corporations Act, 1969 to do so.<sup>6</sup> Other members of the

---

1. S.49

2. SS. 63-79

3. SS. 140-48

4. Yash Ghai (ed.) Law in the Political Economy, op.cit. p. 216.

5. Yash Ghai, "Fishery Parastatals in Developing Countries", a mimeo, 1981.

6. S.5(1) of the Act provides that 'the president shall, by order published in the Gazette, provide for the management of every public corporation established under the provisions of this Act'.

board of directors are appointed by the Minister as was seen above. Also, under the Public Corporations Act, the President 'may give to the Board of Directors of any public corporation, or any other person entrusted with the management of the corporation, directions of a general or specific character as to the exercise and performance by such Board or such person of their or his functions, and such Board or person shall give effect to any such directions'.<sup>1</sup> This power may be delegated to any person chosen by the President<sup>2</sup>, and in practice the Minister of Finance issues directives on a very wide range of matters.<sup>3</sup> Ministerial directives are addressed to the Chief Executive of the Corporation (and not to the Board of Directors) and are immediately implemented.<sup>4</sup>

---

1. S.6

2. S.11(1) of the Act reads 'The President shall not delegate any of his powers under this Act to any person in accordance with the provisions of this section.'

3. A.W. Bradley, "The Nationalization of companies in Tanzania", supra. p. 217.

4. Interview with Mr. K. Makani, of N.I.C., Dar es Salaam, August, 1979.

Increasingly, a body of rules applicable to all public enterprises, whether companies or corporations, is emerging and with the progress of time legal barriers are eroded in order to make control by the planning machinery, the Party, Parliament and other sources of control, more far-reaching in scope. One of the earliest developments which necessitated the harmonization of the various institutional forms of enterprises for the purposes of uniform control was the establishment of the standing Committee on Parastatal Organization<sup>1</sup> (SCOPO) in 1967. The committee was established administratively by the President and its functions were to eliminate salary differentials in the public sector (salary disparities existed between the government sector and the parastatal sector), to establish procedures for the transfer of staff from one corporation to another, and to ensure proper training programmes for the needs of the public sector.<sup>2</sup> For the guidance of the committee, a parastatal organization was defined as 'an institution, organization or

---

1. Referred to after as 'the committee'

2. Yash Ghai (ed.) Law in the Political Economy, op.cit. p. 249.

agency which is wholly or mainly financed or owned and controlled by the Government. The criterion of such public enterprise would be ownership by the Government of 50 per cent or more of the capital shares, or other forms of governmental participation and effective influence in all the main aspects of management of the enterprise.<sup>1</sup> The committee has, so far, issued several directives to a large number of enterprises - N.I.C. included - a task which was made easier by the harmonization of the various institutional forms of enterprises. In 1973, the entire parastatal sector was brought more under the grip of the state by the establishment of the Inspectorate for Control and Supervision of Parastatal Fund under the Parastatal Organisation (Financial Supervision and Control) Act<sup>2</sup>, 1975. The Inspectorate was empowered to<sup>3</sup>:

(a) examine the expenditure of parastatal funds by the various parastatal organizations and their employees, (b) to investigate the conduct and the performance of their functions by the officers having control of or access to the funds of parastatal organizations, (c) to review financial regulations of parastatal organizations and submit proposals to the Minister of Finance for ways and means of minimizing unproductive expenditure of parastatal funds, of efficient allocation of funds, and of averting loss by negligence or carelessness, and finally, to undertake such other enquiry and perform such function as the Ministry of Finance may direct.

---

1. R.W. James and S. Ligunya, "Organizational Relationships and Control of Parastatals in Tanzania", Supra., p. 44.

2. Act No. 16 of 1975

3. S. 3(4) of the Parastatal Organization Act, 1975.

Some degree of control over the parastatal sector is also possible through the provision of professional services such as legal advice and audit services. Legal advice is furnished to the parastatals through the Tanzania Legal Corporation. This Corporation is under the Control of the Attorney-General who has powers to give general directives to the personnel of the corporation who deal with parastatal problems. These directives are likely to reinforce a 'tendency towards compliance with the law and official guide lines'<sup>1</sup> by the entire public sector which seeks legal services. Audit services are also available to parastatals<sup>2</sup> through the Tanzania Audit Corporation, established under the Tanzania Audit Corporation Act,<sup>3</sup> 1968. The main function of the corporation is to provide 'audit services and services ancillary or incidental thereto, including advisory and accounting services.'<sup>4</sup> The corporation is under the direction of the Controller and Auditor-General who may, 'after consultation with the Board [of the corporation], give to the Board directions as to the exercise and performance of the functions of the corporation'<sup>5</sup> and the Board shall 'give effect to any such directions'.<sup>6</sup> The centralization of audit services can help 'towards a better use of service resources as well as the imposition of uniform standards!'<sup>7</sup>

---

1. Yash Ghai (ed.), op.cit. p.246.

2. These are specified in the First Schedule to the Act which covers 24 corporations, and in the Second Schedule which covers 21 companies.

3. Act No. 1 of 1968

4. The Tanzania Audit Corporation Act, 1968, S.4(1).

5. Ibid., S.6(1)

6. Ibid.

7. Yash Ghai (ed.) op.cit., p. 247.



Chief among the methods of control of N.I.C. and other parastatals by the Tanzanian state is the planning machinery. It is no longer possible, as it appears, for parastatals to resist interference by the Planning Ministry, and their relative autonomy in the sphere of planning, a phenomenon of the late 60s and early 70s<sup>1</sup> (but see below) has been eroded a great deal. The significance of the plan for the parastatal sector centres around the existence, in the plan, of strategies and programmes which have a direct bearing on the business of enterprises such as investment, output, productivity targets and broad national objectives<sup>2</sup> etc. The Minister of Finance and Planning regularly issues planning guide-lines which are discussed and approved by the Economic Committee of the Cabinet. These are then distributed to parastatals - N.I.C. included - which prepare their plans, discuss them with the Ministry of Finance and Planning, and subsequently submit final drafts to the Ministry.<sup>3</sup> And to secure maximum adherence to the planning machinery, the Finance Act, 1974 required all parastatals which are also companies such as N.I.C., to submit annually to the Treasury Registrar their projected production and investment levels.<sup>4</sup> The proposed financial operations of an enterprise are subject to review by the Treasury Registrar in consultation with Sectoral Ministers. This review must consider (a) the adequacy, feasibility and realism of the proposed financial and physical results, (b) the standard of the past and proposed financial management and

- 
1. In the Economic Survey of 1970/71 (Tanzania), the Planning Ministry admitted that parastatals were 'largely outside attempts at socialist planning of the economy; investment decisions are made essentially the same way as in the private sector of an unplanned economy', p.90, quoted by John Loxley and John Saul, 'The Political Economy of the Parastatals', E.A.L.R. Vol. 5, No. 1 & 2, 1972. p. 18.
  2. M.S.S. El-Namaki, Problems of Management in a Developing Environment, (Elsevier: North Holland Publishing Co., 1979), p.104.
  3. Ibid., pp. 108-110, see Fig. VI at p. 110.
  4. S.30(1) of the Finance Act, 1974.

budgetary control and (c), the consistency or otherwise of the proposed operations with the national planning and policy objectives, with particular reference to fiscal, credit, surplus generation and output expansion objectives.<sup>1</sup> However, it should not be understood from this brief account that the immense problems of planning in Tanzania have been done away with.<sup>2</sup> There are still *major* problems such as poor level implementation resulting from the weakness, or lack of, the implementation strategy in the plan itself.<sup>3</sup> But undoubtedly, unlike the Sudanese insurance industry which, as discussed in Chapter Three, is virtually free from planning regulations, N.I.C. appears to be well integrated into the economic plan of Tanzania, just as other enterprises are.

There are, yet, other forms of control and supervision over public enterprises. One such control is exercised by the Party. As early as 1971 Mwongozo (the Party guide-line) had provided the party with a role, though not sufficiently well-defined, in the control of public enterprises. This role was confined to ensuring that 'parastatals do not spend money extravagantly on items which do not contribute to the development of the economy as a whole.'<sup>4</sup> The case of the Kharada (mentioned in the last chapter) substantiates the sort of action which the party in Tanzania could take in influencing decisions taken by public enterprises. The Kharada announced a scheme to provide finance for the purchases of private vehicles by the party and government leaders and senior civil servants. The National Executive Council of the party criticized the

---

1. S.30(3) of the Finance Act 1974.

2. See G.F. Mbowe, 'Project Implementation and Control: A Critical Problem in Public Enterprises in Tanzania', Public Enterprise, Vol. 1, No. 1, 1980, pp. 57-65.

3. Ibid.

4. Para. 33.

scheme as being utterly inconsistent with Tanzania's declared policies of socialism and self-reliance. The Kharada had no option but to cancel the scheme.<sup>1</sup> In 1975, Tanzania's Interim Constitution of 1965 was amended<sup>2</sup> to provide that 'all political activity in Tanzania shall be conducted by or under the auspices of the Party [and] the functions of all organs of the state..... shall be performed under the auspices of the Party.'<sup>3</sup> At the present control by the Party over public enterprises centres around: (a) control over the entire range of operational activities undertaken by a public enterprise, (b) representation of the Party in intra-company debates by Party commissars (there is a high-ranking Party official in every public enterprise), (c) participation in decision-making regarding the employment of foreigners, (d) settling of industrial disputes, and (e) reviewing the financial conditions of an enterprise as reflected in its financial statements.<sup>4</sup> The Party representatives in N.I.C., and other officials with close links with the Party, have recently criticized a call by some bureaucrats to move the corporation's headquarters to the more grandiose 'investment house' (see below), and it is unlikely that the corporation will move head offices.<sup>5</sup>

- 
1. Yash Ghai (ed.) op.cit., p.232
  2. An Act to amend the Interim Constitution of Tanzania, 1965, No. 8 1975.
  3. Ibid., S.3.
  4. M.S. El-Namaki, Problems of Management in a Developing Environment, Supra., pp.43-4.
  5. Interview with Mr. D.S. Mashiku of N.I.C., Dar es Salaam, August, 1979.

The amendment to the Constitution which made the Party supreme was not to affect the legal status of the National Assembly (the Tanzanian Parliament) which shares with the President the power to legislate.<sup>1</sup> In practice, however, the Tanzanian Parliament does not appear to have an effective or systematic role in the regulation or control of public enterprises. And whatever role it plays is not a direct regulatory one upon enterprises, but upon the Ministers under whose responsibilities the parastatals function. It is a 'control over controllers'.<sup>2</sup> One of the few incidents in which Parliament intervened directly in the affairs of an enterprise concerned the State Trading Corporation (S.T.C.) which in the early 1970s was the subject of a public outcry caused by shortages of consumer goods. In 1972, Parliament formed a committee to investigate the affairs of the corporation. The committee was very critical of the corporation which was subsequently abolished altogether.<sup>3</sup> As far as N.I.C. is concerned Parliament has not been a source of control so far.

- 
1. As Nyrere himself observed 'The ... constitutional changes have not taken away a single power conferred by the Constitution on either the National Assembly or the President. The Laws of this country are still made by the Parliament i.e. the National Assembly and the President'. A speech in Parliament on 18th July, 1975, quoted by EL-Namaki, op.cit., p.245.
  2. Yash Ghai (ed.) op.cit. p.253
  3. Ibid., p.254.

To conclude this part, although Tanzania lacks an insurance regulation code, there are many, albeit not unlimited, avenues for state control of N.I.C. The most important aspects of control centre around the appointment of N.I.C's top management, the issue of directives, and the incorporation into the development plan of the corporation's investment and projected level of capital formation. Not only is state control of N.I.C. sufficiently far-reaching, but the corporation, together with the National Bank of Commerce (N.B.C.), are important institutions in the hands of the state through which the most effective method of control upon other enterprises i.e. the allocation of funds, is exercised.<sup>1</sup>

In the remaining parts of this chapter we shall see how this comprehensive control of insurance (in comparison with the Sudan) has influenced the chances of Tanzania in utilizing its insurance industry for the purposes of economic and social development. Other forms of control under the Companies Ordinance, by the Central Bank of Tanzania and the Ministry of Finance will be discussed in the appropriate places.

## V. The Effects of Insurance Nationalization on Tanzania's Economy: 1970-1977.

### (A) Insurance and Capital Formation

#### (1) Non-Life Insurance

When N.I.C. transacted business for the first time its portfolio consisted of the usual risks covered under familiar policies such as fire, marine cargo, personal accident, public liability, etc. Complicated business transactions such as marine hull, professional indemnity, custom and excise bonds, contract

---

1. Ibid., pp.239-40, see also Yash Ghai, 'Fishery Parastatals in Developing Countries', Supra., p. 103.

bonds and engineering risks were introduced gradually at varying periods.<sup>1</sup> After nationalization the corporation was required to handle the entire nation's business, but its underwriting capacity could only accommodate the country's business at great costs. In its first 3 months of business the corporation's management expenses amounted to over 54 per cent of its gross premiums compared with 25-30 per cent level of expenses in other parts of East Africa.<sup>2</sup> Nevertheless, the corporation's contribution to capital formation was spectacular. In the first three years following nationalization, a surplus of Shs. 82 m. was made despite the initial administrative and technical problems such as the lack of manpower (there were only 60 employees in the service of the corporation in 1967), lack of experience in new branches and the problems of dealing with unfamiliar agents.<sup>3</sup> One of the serious problems encountered was the problem of premium rationalization.<sup>4</sup> We have seen earlier that foreign insurers cancelled most of their policies without allowing for a proportionate refund. Some policyholders chose to continue their covers with the corporation but the latter had a hard time trying to fix adequate premiums. The corporation could have charged each policyholder the same rate for fire premiums or liability premiums, etc previously charged by his foreign insurer. But the corporation would have rendered itself open to criticism for charging dissimilar rates for similar risks as foreign insurers had not adhered to any tariff in respect of any branch of business.<sup>5</sup>

---

1. Lecture given by Mr. R. Vaidya (then General Manager of N.I.C.) on, 'Insurance in Tanzania', quoted by E.M. Tango, 'Effects of Nationalization on Insurance Business in Tanzania: Law and Practice', a paper submitted to the Faculty of Law, University of Dar es Salaam, (undated), p.4.

2. John Loxley, 'Structural Change in the Monetary System of Tanzania', op.cit., pp.107-8.

3. The Review, No. 15, 1 March, 1975, p. 13, also Mr. Vaidya 'Insurance in Tanzania' quoted by Tango, 'Effects of Nationalization on Insurance Business in Tanzania', Supra.

4. Ibid.

5. Ibid.

A remarkable rate of progress has been recorded by the miscellaneous insurance department since 1967. Between 1970-1977, its general fund, including technical reserves, has increased from Shs. 2.6 m. to Shs. 11 m. in 1977<sup>1</sup>, and the premium income has increased sixfold from Shs. 5.4 m. in 1970 to Shs. 29.6 m. in 1977 (see Table 9 below). The motor insurance branch has not been a successful one for N.I.C. While all claims of all non-life branches stood at Shs. 200 m. between 1967-1974, a sum of nearly Shs. 150m. was paid in respect of motor vehicle accidents alone.<sup>2</sup> This branch has also been the least important of the non-life departments in terms of reinsurance earnings or commissions as these have not exceeded Shs. 828.000 in any one year, indeed, that was the highest sum earned during the whole period of 1970-1977 (see Table 10 below). Fire insurance has developed, perhaps, more than any other branch of non-life business. Fire premiums stood at Shs. 11.3m in 1970, but rose to over Shs. 41m. by 1977, while fire reinsurance commissions amounted to Shs. 27.5m. during 1970-77 (See Table 11 below). Finally, the marine insurance branch has also recorded an extremely high rate of growth. Its premium income has increased from Shs. 2.9m. in 1970 to Shs. 33.4m. in 1977, and its total premiums during the period 1970-1977, amounted to Shs. 66m. (see Table 12 below). The dramatic increase in the premium income of this department during 1973/74 and afterwards was due to the fact that the drought of 1973/74 and the adverse climatic conditions in Tanzania have resulted in higher food imports which were insured by the corporation.<sup>3</sup>

- 
1. Annual Reports of N.I.C. 1972-1977.
  2. The Daily News (Tanzania) 23, July, 1976.
  3. Annual Report for 1974, p.13.

TABLE NO. 9

The Growth of Miscellaneous Insurance Business in Tanzania

1970-1977

(T. Shs. 000)

Year	Premiums	Reinsurance Commissions	Surplus
1970/71	5,419	3,094	2,555
1971/72	5,513	3,397	2,445
1973	11,067	3,450	0.920
1974	12,954	4,340	5,342
1975	15,807	5,354	0,916
1976	18,828	4,791	2,971
1977	29,568	8,656	5,040

Source: N.I.C.'s Annual Reports, 1972-1977.



TABLE NO. 10

The Growth of Motor Insurance Business in Tanzania (1970 - 1977)

(T. Shs. 000)

Year	Premiums	Reinsurance Commissions	Surplus or profit
1970/71	30,955	516	997
1971/72	35,935	201	-1,641
1973	26,514	621	- 638
1974	31,009	559	176
1975	37,144	828	1,766
1976	49,661	658	1,417
1977	70,228	625	3,804

Source: Annual Reports of N.I.C. 1972-1977.

TABLE NO. 11

The Growth of Fine Insurance Business in Tanzania (1970-1977)

(T. Shs. 000)

Year	Premiums	Reinsurance Commissions	Surplus
1970/71	11,325	2,518	5,544
1971/72	12,700	3,583	5,015
1973	14,314	2,388	7,940
1974	16,406	3,162	7,013
1975	22,100	3,925	8,799
1976	30,816	5,992	10,605
1977	41,529	7,080	15,931

Source: Annual Reports of N.I.C. 1972-1977.

TABLE NO. 12

The Growth of Marine Business in Tanzania (1970 - 1977)

(T. Shs. 000)

Year	Premiums	Reinsurance Commissions	Surplus
1970/71	2,996	1,551	1,594
1971/72	3,793	2,600	1,948
1973	3,687	2,720	1,020
1974	12,007	4,041	- 904
1975	16,669	6,604	2,903
1976	17,097	5,791	6,538
1977	33,412	5,080	1,034

Source: Annual Reports of N.I.C., 1970-1977.

## 2. Life Insurance Business

The number of life insurance policies issued by the corporation increased dramatically after the exclusive franchise of life business was granted to the corporation in 1967. These rose from only 2526 in 1966/67 to 6764 immediately after nationalization although, as mentioned earlier, the life portfolios of foreign agencies were not transferred to the corporation and as a result a number of policies issued by foreign insurers are still held by Tanzanians. At the end of 1976, N.I.C. had a life portfolio of 59,516 policies in force.<sup>1</sup> The type of life policies issued by the corporation are similar to those issued by any life insurer anywhere in East Africa. The corporation provides whole life policies, temporary assurance, family protection policies, endowment assurance, anticipated endowment assurance, and annuities or fixed term policies. The business of group life and pension schemes (which are included in the life portfolio) have also increased in volume. The schemes comprise: group term assurance, group endowment assurance, deferred annuities, and self-employed annuities.<sup>2</sup> Net life insurance premiums have also increased substantially as they rose from Shs. 13.1 m. in 1970 to Shs. 71.4 m. in 1977 ( See Table 13 below). Recently, however, life insurance business has responded unfavourably (from the point of view of the corporation) to Tanzania's inflationary conditions. The volume of total surrenders increased from Shs. 0.9m in 1973 to Shs. 1.5m. in 1974, and at the end of 1977, it stood at Shs. 5.4m.<sup>3</sup> Adverse economic conditions have also resulted in an increase of life insurance purchases as many a policyholder has taken out his policy in the hope of obtaining a future loan.<sup>4</sup>

- 
1. Annual Report for 1976, p. 14, see also the Insurance Industry in Tanzania: 10th Year Independence Anniversary, Supra, p.23.
  2. Interview with Mr. Radman Mongi of N.I.C. July, 1979, also annual reports of N.I.C.

TABLE NO. 13

The Growth of Life Assurance Business in Tanzania (1970-1977)

(Figures in T. shs. 000)

---

Year	Net Premiums	Claims	Surplus
1970/71	13,126	623	471
1971/72	19,095	971	1,288
1973	18,326	1,300	999
1974	23,501	946	1,533
1975	35,969	3,306	2,659
1976	48,753	4,428	3,851
1977	71,407	5,184	5,400

---

Source: Annual Reports of N.I.C. 1972-1977.

Thus as in non-life insurance so in life insurance, there were windfall gains from the nationalization of insurance in Tanzania. Total net premiums earned by the corporation in respect of all branches stood at nearly Shs. 250m. by 1977. And as will appear later from the examination of the corporation's investment policy, the lion's share of the income is made available to the government either directly or indirectly. But the accumulation of capital by the corporation is not without its own problems. Two major points may be considered here. Firstly, the reason for the enormous growth of the insurance premium income in Tanzania, especially of the non-life business, is to be found in the vast expansion of the public sector in terms of output and investment. The magnitude of exposure to risk by the parastatals is well substantiated by the economic weight given the parastatal sector in the country's development plans. In the second Five Year Plan issued in 1969, for example, the parastatal sector was planned to contribute 84 per cent of total investment and 79 per cent of total output; and in the Third Five Year Plan 1976-1981 (which ceased to be a guide to action) estimates for parastatal revenue indicated that a leading role was assigned for parastatals upon which the task of the socio-economic transformation is no doubt dependent.<sup>1</sup> In practice parastatals seek the protection of N.I.C. through their parent Ministries which arrange cover for them, and it appears that a large part of N.I.C's non-life portfolio consists of parastatal risks.<sup>2</sup> In effect, premiums paid by parastatals are no more than transfers of cash made from one parastatal to the other. Insurance of parastatals, therefore, involves unnecessarily prolonged procedures and

---

1. W. Edmund Clark, op.cit., passim.

2. John Loxley, "The Monetary System of Tanzania since 1967: Progress, Problems and Prospects", in Kim et al. op.cit., p.129.

enormous administrative costs.<sup>1</sup> Loxley has recently argued that an alternative method of cover for parastatal risks is called for. By simply 'making their own provision for an insurance reserve (invested in Government paper) and by adding to this annually to offset losses or to allow for a growth in the stock of physical assets, parastatals would be saved much of the huge volume of administrative work involved in taking out insurance cover for their multitudinous risks and in making claims for losses.'<sup>2</sup> Loxley's argument essentially questions the relevance of the existence of a state-owned insurer to which government or other public sector risks are transferred. This argument is examined thoroughly in the concluding chapter of this thesis, suffice it to say here that, apparently, a large part (not known precisely) of the capital accumulated by N.I.C. is actually contributed by other parastatals. The second major problem concerning the accumulation of capital by the corporation is the high cost of management and the high commissions which, particularly in non-life business, eat up a large portion of the accumulated fund (see Table 14 below). We have seen earlier that in the first 8 months after nationalization management expenses ate over half of the corporation's income. The life branch contributed a lot to high costs in the early 70s. In 1969/70, for example, the expenses of 'first year covers' stood at 60 per cent of the premium income with a renewal cost of 14 per cent, but in 1971/72 the same increased to 67 per cent and 17 per cent respectively.<sup>3</sup> Many avenues are open for the upper-rank bureaucrats to spend part of the accumulated surplus; and the business profits are, sometimes, directly swallowed by salary and wage increases. The Executive Chairman of the

---

1. Ibid.

2. Ibid.

3. John Loxley, 'Some Reflections on the Role and Effectiveness of N.I.C. A lecture given at the Institute of Finance Management, Dar es Salaam, 28.6.1974.'

TABLE NO. 14

Management Expenses and Commissions Paid by N.I.C. in Respect of Non-Life Business:1977

'T.Shs.000'

Branch	Premium Income	Commissions + Management Expenses	% of Commission + Management Expenses to Premium
Miscellaneous	29,567	11,062	37.4
Marine	33,412	8,704	26
Fire	41,529	15,420	37
Motor	70,228	12,520	17

-283-

Source: Annual Report of N.I.C. for 1977



corporation and the general manager have full financial powers to spend any amount of money for entertainment, and the same privileges, albeit to varying degrees, are also open for managers, chief accountants, and senior officials.<sup>1</sup> Thus N.I.C. does not appear to be different from other parastatals in the Tanzania the resources of which 'have been diverted and continue to be diverted toward not only fringe benefits for individuals but toward headquarters' expenditures as symbols of status and prestige'.<sup>2</sup> The erosive impact of salary increases upon the accumulated fund was well illuminated by a decline of profits of the fire business in 1974 despite an increase of 15 per cent in the premium income. This was due to 'an all round increase in the administrative expenses as a result of large increases of wage and salaries'.<sup>3</sup>

#### B. Insurance Investment

Of all business practices presently adhered to by N.I.C. none bears a stronger affinity to the pre-Arusha period than the corporation's investment practices. All that has changed over the years was the volume of investment and, hence the amount of funds channelled into each area of investment. The amount of money invested by the corporation increased from only Shs. 2.9m. in June 1966, to Shs. 122.7 m. by June 1977<sup>4</sup> a remarkable increase, no doubt.

---

1. N.I.C. Schedule of Financial Powers, 1978', p.12.

2. Philip C. Packard, 'Management and Control of Parastatal Organizations', Development and Change, Vol. III, 1971/72, p. 69.

3. Annual Report of N.I.C. for 1974, p.13.

4. Annual Reports of N.I.C. for 1977, p. 16.

By 1977, the corporation had invested a total of nearly Shs. 530m.<sup>1</sup> Funds are invested in government stocks, short-term deposits in banks, building projects, equities in other parastatals, loans on mortgages, loans on policies and letters of credit, in this order of importance (see Table 15 below). Investment income or returns from investment increased with a rate fairly parallel to the increase of the volume of investments. These rose from nearly Shs. 2m. to Shs. 19m. between 1968/69 and 1977 (see Table 16).

*The most basic characteristic of N.I.C. is that it is a finance institution to the Tanzanian Treasury.* A close look at the corporation's investment policy leads to no other conclusion. About 80 per cent of the corporation's investment fund in any one year is directly or indirectly made available to the Treasury, and consequently, to other enterprises. In June 1977, about 57.8 per cent of insurance investment went into government stocks (a total of Shs. 230m. was invested by N.I.C. in government stocks by that date, see Table 15 below), and 32.9 per cent went into the banking system as short term deposits. Bank deposits are made available to the government which owns all the banks and is, no doubt, the principal borrower from the banking system. Direct taxes upon the corporation also increased from Shs. 5m. in 1970/71 to Shs. 20m. by 1977; and dividends to shareholders (the Treasury Registrar) stood at Shs. 2m. in 1977 alone.<sup>2</sup> The corporation rates high among non-bank domestic finance institutions. The most important of these is the Provident Fund which contributed 68 per cent of total non-bank funds in 1973/74; this was followed by government sinking funds which put another 18 per cent, and N.I.C. which contributed 10 per cent.<sup>3</sup>

---

1. Ibid.

2. Annual Reports of N.I.C., 1972-77.

3. W. Edmund Clark, op.cit., footnote 16, p.198.

TABLE NO. 15

Investment of Insurance Funds in Tanzania: 1970-1977

(T. Shs. 000)

	1970/71	1971/72	1973	1974	1975	1976	1977
Govt. stocks	44,258	59,823	77,765	107,014	167,315	224,600	295,627
Building projects	18,753	33,167	39,258	39,942	39,626	39,646	47,100
Loans on mortgages	2,064	1,848	1,617	1,359	1,127	1,021	788
Loans on policies	1,373	3,024	4,625	6,589	8,791	11,009	15,889
Other Institutions	5,158	5,095	5,095	5,063	10,000	11,009	11,009
Letters of Credit	1,086	1,086	1,086	1,086	1,086	1,086	1,086
Deposits in Banks	30,825	26,688	39,263	73,263	93,963	117,050	157,461
							-286-

Source: Annual Reports of N.I.C., 1970-1977.

TABLE NO. 16

Investment income of N.I.C. (1968-1977)

(T.Shs.m)

<u>Year</u>	<u>Investment Income</u>
1968/69	1.89
1969/70	2.44
1970/71	2.98
1971/72	3.80
1973	3.78
1974	8.55
1975	12.19
1976	16.09
1977	19.00

Source: Annual Reports of N.I.C. (1972-1977)

The utilization of N.I.C. by the state as a tool for fiscal control over other enterprises was discussed earlier. The Minister of Finance has wide powers to direct the manner in which the accumulated capital could be disposed of, whether in the interest of other enterprises through allocation of funds by the Treasury or through other means. He may direct the corporation to pay to the government as dividend or contribution such portion of its net profits or surplus in any one year as he may direct.<sup>1</sup> He may, in consultation with the corporation, make financial regulations in relation to the management of the corporation's funds.<sup>2</sup> He may also specify the areas in which funds should be invested and the portion to be invested.<sup>3</sup> *Thus the extent to which the corporation could be utilized as a capital accumulation agency is largely controlled by the state.* And apart from the differences in the juridical ownership of the insurance institution this constitutes the second most essential difference between the Tanzanian insurance industry and its Sudanese counterpart. But this power to direct the investment of the corporation is not used to prevent investment in real estate which no doubt, yields fat returns. Indeed, of late (in 1980) the corporation has set aside a sum of Shs. 78.4m. for giant building projects in urban areas in the country<sup>4</sup> (these will be discussed later) - obviously with the consent of the upper ranks of the Ministry of Finance. Nor has state power been used to compel the corporation to invest in rural areas or in *ujamaa* villages which do not yield comparable yields.<sup>5</sup> Indeed, as will appear from the discussion below,

---

1. The Parastatal Organization (Financial Control and Supervision) Act, 1975, S.5(1).

2. Ibid.

3. The Companies (Regulation of Dividends, and Surpluses and Miscellaneous Provisions) Act, 1972, S.3(1) and S.11(2).

4. Ngao (N.I.C's Quarterly Magazine), No. 12, March, 1980, p.1.

5. Issa G. Shivji, "Insurance and Development", Supra, p.168.

despite the government's actual and potential powers to control the corporation an attempt to relate the corporation's investment policy to Tanzania's goals of achieving socialism is like the attempt to marry a square peg to a round hole - the two cannot maintain a happy union.

C. Insurance in the Balance of Payments of Tanzania

Undoubtedly, the nationalization of insurance has had a positive effect on Tanzania's balance of payments as the transfer of premiums by the foreign agencies abroad was almost brought to an end. It was not brought to a complete end once and for all because, as we have seen earlier, the take over of N.I.C. by the state was not accompanied by a compulsory transfer of the foreign insurers life portfolios to the corporation. As a result, some policies (their number is not known to the writer) are still held by Tanzanians and premiums are still collected by the agents and brokers who had solicited business for the agencies. Apparently, the agencies are still represented in Nairobi which is the destination of premiums paid by Tanzanian policyholders. In 1974, however, the Minister of Finance made a Notice<sup>1</sup> to the effect that 96 per cent of the net premium income of the agencies<sup>2</sup> which have subsisting obligations in the country should be invested as deposits in NBC or in approved securities as the Minister may require.<sup>3</sup> Premiums so deposited may not be released, pledged, mortgaged or otherwise used as a security, sold transferred or disposed of.<sup>4</sup> The income deriving from such

---

1. Insurance (Investment of Premiums) Notice, 1975. This was passed under S.20 of the Insurance Act.

2. The schedule to the Notice Lists 11 foreign (mostly British) companies.

3. Insurance Notice, S.3.

4. S.10(3)(a) of the Insurance Act.

investment or deposit shall be, and remain invested or deposited as if it were premium income required to be deposited or invested <sup>1</sup> under the Notice referred to above.<sup>2</sup> But when the assets of an insurer who has subsisting obligations in Tanzania exceed 110 per cent of such insurer's obligations, in the judgement of an actuary approved by the Minister, the above obligations do not apply<sup>3</sup> and the accumulated premiums could be transferred abroad. Unfortunately, the volume of these premiums is unknown and, accordingly, the impact of the portion of life policies subsisting from the pre-Arusha period in the country's balance of payments (a negative one) is difficult to estimate.

It was discussed earlier that some of the non-life business branches are sources of enormous commissions to N.I.C. The corporation, in fact, reinsures its own business until its capacity is exhausted and retrocedes the surplus abroad. These commissions are, therefore, retrocession commissions.<sup>4</sup> It follows that the greater the commissions earned the greater the sums remitted abroad. These commissions are the only guide to the volume of reinsurance leaving the country as the corporation's annual reports only mention incoming reinsurance and ignore the quota ceded abroad. The subject is surrounded by secrecy and all attempts to obtain even a rough estimate of the outgoing business have failed.<sup>5</sup> So far, however, reinsurance remittances seem to be increasing annually with respect to marine, fire and miscellaneous insurance,

---

1. S.10(3)(a) of the Insurance Act.

2. S.10(3)(b) ibid.

3. S.10(4) ibid.

4. Reinsurance and retrocession are used interchangeably and in the rest of this chapter 'reinsurance' is used to refer to both categories of transactions.

5. I'm indebted to many friends in Tanzania who attempted to obtain the figures for me.

but not motor or life insurance businesses as the reinsurance earnings of N.I.C. indicate (see Table 17 below). The only information available about the corporation's outgoing business suggests that this was rather substantial in the immediate post-nationalization period. In 1968, for example, reinsurance transfers stood at 78 per cent of the premium income, but the figure was brought down to 67 per cent by 1972, and until 1974 the average sum leaving Tanzania was between Shs. 16m. and Shs. 20m.<sup>1</sup> Comparing 1968 figures with 1972, it appears that fire insurance has reflected better results as the total ceded abroad was brought down from 81 per cent of all earnings to 65.4 per cent (see Table 18 below); marine reinsurance decreased from 88 per cent of gross premium to 74.4 per cent (Table 19); and miscellaneous reinsurance remained almost the same - around 66 per cent of premium income (see Table 20).

Apparently, outgoing reinsurance by N.I.C. is still large in volume.<sup>2</sup> The fact that the corporation's share capital has increased fivefold between 1967 to 1977, from Shs. 2m. to Shs. 10m., or that the corporation is wholly owned by the government and is remarkably solvent as we will see later, do not seem to have quenched the corporation's thirst for reinsurance protection. The Central Bank of Tanzania which controls the allocation of foreign reserves to parastatals (with the Treasury), and the transfers of funds abroad does not appear to have been influential in reducing outgoing quotas. It was not until 1975, for example, that the Bank called upon importing agencies to import their goods on C & F basis; and its 'call' was more of a request than a binding order.<sup>3</sup> And apparently, the Ministry of

---

1. John Loxley, "Some Reflections on the Role and Effectiveness of N.I.C.", Supra.

2. Ibid., also Loxley, "The Monetary System of Tanzania Since 1967", Supra.

3. Annual Report of N.I.C. for 1975, p.13.



TABLE NO. 17

Reinsurance earnings of N.I.C. (1970 - 1977)

(T.Shs. 000)

Year	Life	Motor Insurance	Fire	Marine	Miscell.
1970/71	055	515	2,518	1,552	3,094
1971/72	029	201	3,583	2,600	3,397
1973	336	621	2,387	2,721	3,451
1974	124	559	3,163	4,042	4,341
1975	087	828	3,925	6,604	5,354
1976	003	658	5,992	5,791	4,791
1977	006	625	7,080	7,080	8,656

Source: Annual Reports of N.I.C. 1972-1977

TABLE NO. 18

Fire Reinsurance By N.I.C. (1968 and 1972)

'T. Shs. 000'

	1968	1972		1972	Reinsurance as % of premiums
Total Premiums (11,036)			Premiums (7,055)		
Facultative	2,827	2,659		2,659	37.7
Quota Share	4,653	1,437		1,437	20.4
Surplus	1,164				-293-
Excess of loss	0.200	0.520		0.520	7.3
	8,844	4,616		4,616	65.4

Source: John Loxley, "Some Reflections on the Role and Effectiveness of N.I.C.", op.cit.

TABLE 19

## Miscellaneous Reinsurance By N.I.C. (1968 and 1972)

'T. Shs. 000'

	1968	1972		
Total Premiums (6,663)			Total Premiums (5,513)	
	Reinsurance		Reinsurance	Reinsurance as % of Premiums
Facultative	612	2,174	2,174	3.4%
Quota Share	2,378	0.593	0.593	55.0
Surplus	1,294	0.591	0.591	
Excess of loss	148	0.170	0.170	7.9
	4,432			66.3
				-294-

Source: John Loxley, "Some Reflections on the Role and Effectiveness of N.I.C.", op.cit.

TABLE 20

Marine Reinsurance by N.I.C. (1968 and 1972)

'T. Shs. 000'

	Total Premiums (6,134)	Reinsurance as % of premiums	Total Premiums (3,182)	Reinsurance as % of premiums
Facultative	1,680	27.4	0.424	10.2
Quota Share	2,327		0.871	
Surplus	1,351	60.0	1,127	62.8
Excess of loss	<u>037</u> 5,395	<u>0.6</u> 88.0	<u>0.045</u> 2,367	<u>1.4</u> 74.7
				-295-

Source: John Loxley, "Some Reflections on the Role and Effectiveness of N.I.C.", op.cit.

Finance has no objection to the corporation's reinsurance practice which is seen as a way of keeping in business one of the 'main investors in the country.'<sup>1</sup> In other words, the desire to reduce potential losses and to increase returns is readily reflected in the reliance upon western reinsurers, the object being to secure the involvement of reinsurers in underwriting the success of business. It is then possible for the corporation to remain in business as an insurer and a giant investor in the country.

Speculation about an adverse reinsurance situation in Tanzania is inevitable. The omission, in the corporation's annual reports of outgoing reinsurance and the emphasis on incoming cessions create the suspicion that the role of insurance in Tanzania's balance of payments is a negative one; but the extent of this role must remain unearthed. The corporation, however, has earned considerable sums of money from abroad from companies which cede part of their portfolios to Tanzania. The inward portfolio has actually increased from nearly shs. 9m. in 1974 to over shs. 14m. by 1977 (see Table 21 below). On the other hand, the retention capacity of the corporation has increased enormously and this is likely to result in much smaller outgoing cessions. Indeed, the capacity to

---

1. J. Shenyangwa, "The Responsibility of the Reinsurance Directorate", Ngao, No. 6, September, 1977, p.20.

TABLE NO. 21

Reinsurance inflow to Tanzania 1974-1977 (T.shs.m.)

Year	Reinsurance accepted from abroad
1974	8.9
1975	7.69
1976	10.22
1977	14.10

Source: N.I.C. Annual Reports (1974-77).

retain business has nearly doubled during the three year period ending in 1977 (See Table 22). Equally significant was the increase of the corporation's share capital five-fold between 1967-1977, an increase which was paralleled by the growth of the corporation's reserve fund from shs. 2.3m. in 1970 to shs. 74.3m. by June, 1977.<sup>1</sup> If claims by foreign cedants could be maintained at a level far below the volume ceded to Tanzania, and if the retention capacity could maintain its present rate of growth then, undoubtedly, the extraction of reinsurance surplus from Tanzania by western reinsurers could be diminished a great deal. The two way flow of reinsurance in and out of Tanzania constitutes the third most remarkable difference between Sudan and Tanzania.

---

1. The Insurance Industry in Tanzania: 10th Year Independence Anniversary op.cit. p.22, also Annual Report of N.I.C. for 1977, pp. 9, 10.

TABLE NO. 22

The retention capacity of N.I.C.

(T. Shs. m)

Year	Premiums booked in respect of non-life business
1974	72.27
1975	91.72
1976	116.40
1977	174.74

Source: Annual Reports of N.I.C. (1974-1977).

## VI. The objectives of Insurance Nationalization : What Has Been Achieved?

As we have seen earlier, no specific task was assigned to N.I.C. in order to contribute to the goals of socialism and self-reliance. The Insurance Act has simply assumed the existence, in Tanzania, of an established 'normal and proper' insurance practice in the light of which the corporation was to continue to function. In 1971, the management of the corporation sought to achieve a set of objectives which may be briefly reproduced in the following points: (a) to make available quick and efficient insurance service, (b) to enable the public to obtain a good deal and fair value for premiums paid, (c) to finance economic development through accumulated reserves and premiums, and (d) to carry out business with the ideal of service first.

In the pages following these objectives are examined with reference to current conditions in the insurance market in Tanzania and with reference to some obstacles which make their achievement a particularly difficult task.

### A. Insurance Law and Practice in Tanzania

#### 1. Insurance Law

Upon the attainment of independence in 1961, the colonial legal system was preserved in the country, and despite the enormous legislative activity of recent years, much of the old English Common Law had remained in force, for example, the criminal code, the law of tort and almost all commercial laws.<sup>1</sup> Tanzanian insurance law is no exception. The Insurance

---

1. Yash Ghai, "Notes Towards A Theory of Law and Ideology", Supra, p.47.



Act, which was a milestone in Tanzanian insurance history, made no attempt to balance the inequality in the bargaining power of the parties to the insurance contract before a single insurer was charged with an exclusive franchise to transact all sorts of insurance business. In East Africa, as elsewhere in the capitalist world,<sup>1</sup> the inequality of the parties is a predominant feature of the insurance contract.<sup>2</sup> In line with English Common Law principles of insurance, agents in East Africa are deemed to be the agents of the public<sup>3</sup> and not of the company for which they solicit business, even if they err or deliberately conceal material facts.<sup>4</sup> But actual or prospective policyholders are required to display nothing but the 'utmost good faith' when insurance cover is purchased although, in practice, the same does not appear to be equally required from the insurer or its agent.<sup>5</sup> In compulsory third party insurance tortious liability remained the basis on which motor insurance

- 
1. See e.g. Gordon Borrie and Aubrey L. Diamond, The Consumer, Society and the Law, (Harmondsworth: Penguin Books 4th ed. 1981, pp.245-64; also Friedrich Kessler, "Contracts and Power in America", in David Black and Maureen Mileski (eds.), The Social Organization of Law, (New York: Seminar Press, 1973), pp.167-79; also R.A. Hasson, "The Doctrine of Uberrima Fides in Insurance Law - a Critical Evaluation", 32, M.L.R. 1969, p.615.
  2. See generally, J.B. Byamugisha, Insurance Law in East Africa, (Nairobi: East African Literature Bureau, 1973).
  3. See e.g. Motor Union Insurance Co. V. Odamba, [1963], E.A.L.R.271.
  4. In the above case Jones J. stated that 'I have decided that Kanya (agent) had no information other than that disclosed, but even if he had the insurers would not be liable on the authority of Newsholme v. Road Transport and General Insurance Co.," Ibid.
  5. Having decided that agents need not communicate information to their principals Jones J. insisted that the 'contract of insurance requires the 'utmost good faith' ' and therefore the assured 'must disclose to the insurer every material fact....', Ibid., p.275.

is administered, the law focuses on the driver rather than his vehicle, a number of persons are excluded from compulsory motor insurance cover, and the scheme itself was said to be run by the wrong machinery and under wrong principles and provides no adequate protection to the public.<sup>1</sup> At a more fundamental level, the lingering pre-Arusha ethos of capitalist insurance techniques readily find expression in the principal legal instruments issued by the corporation i.e. insurance policies, which are characterized by incredibly small print conditions and warranties all of which are written in English. Recently, a Swahili version has been added but an explanatory note attached to the policy reads:<sup>2</sup>

The Swahili version is for explanatory purposes only and does not form part of the policy. The authentic text will be the text printed in English on the policy document.

Proposal forms for life insurance are incorporated into the policy with the usual basis of the contract clause and the declaration attached to life policies contains an undertaking by the prospective assured to forfeit all sums paid by him to the corporation in cases of fraud.<sup>3</sup> But the same does not apply to the corporation which had taken advantage (or so it appears) of the rule that insurance agents are agents of the public for the purposes of the formation of the contract. For when premiums paid to an agent are

- 
1. J.L. Kanywanyi, "Compulsory Motor Insurance Scheme in Tanzania: The Need for Change", E.A.L.R. Vol.4, No. 1 & 2, 1971, p.35 and p.91.
  2. "Explanation of Important Policy Conditions: Life Assurance Prospectus in use by N.I.C.
  3. Ibid.

subsequently misappropriated by such agent, the corporation will be protected by a clause which provides that 'under no circumstances should premiums be paid in cash to any of our agents',<sup>1</sup> but it is the duty of the agent to explain this to the public! And should the situation arise the applicant will only have himself to blame.<sup>2</sup> Thus if anything, insurance law in Tanzania does lend itself to be used by the corporation to enhance its position *vis-à-vis* the public.

## 2. Business Practices : Service or Profitability?

N.I.C. is still a company. It is empowered by its memorandum of association (drawn at the time when foreign insurers had a stake in the share capital), which has remained substantially unaltered, to carry on business of insurance of all forms and in all branches, just as any other insurance company elsewhere, to borrow or raise or secure payment of money in connection with its business, to purchase, hold, sell or dispose of any real property, and to perform any of these functions as principal agents, trustee or otherwise.<sup>3</sup> The bureaucrats who continued to discharge their normal duties after 1967, often assert that the corporation *was not* intended to function on any special basis or in any different style from that of any insurance company anywhere.<sup>4</sup> In fact N.I.C. is a leading member<sup>5</sup> of OEAI,

---

1. Ibid., p.14.

2. Interview with Mr. Ramadan Mongi of N.I.C., July 1979.

3. Article 3 of the memorandum of association of N.I.C.

4. This was repeated by more than one official interviewed by the writer.

5. The General Manager of N.I.C. is in fact the Chairman of the Organization of East African Insurers, see Ngao, No.12, March, 1980.

the Organization of East African Insurers, which provides a common platform for member companies from Uganda, Kenya, Swaziland, Zambia etc., to discuss insurance problems common to these countries - none of which proclaims to be building a socialist society like Tanzania. Instead of innovating goals and strategies which would distinguish it as an insurer of a society aspiring to socialism, N.I.C. is, evidently, content with, and was said to be proud of, its heritage of the experiences of former foreign partners - a heritage which enabled it 'to conduct its business in line with the true honoured systems of underwriting and professional standards governing this complex industry all over the world.'<sup>1</sup> Given these conditions it is difficult to see how the corporation could possibly provide its services to 'each and every person who is in need of insurance' without sacrificing the goals of profitability which, undoubtedly, have been inherited, among other things, from the pre-Arusha period. The notion of profitability, reflected as it is in the corporation's choice of investment, for example, (see below) certainly stands in the way of any attempt to extend insurance services to the less privileged. As an official of N.I.C. has put it:<sup>1</sup>

Let there be no mistakes about the role of N.I.C. .... N.I.C. is not like the Ministry of Health, which is required to build a hospital where there is none, we .... are not expected to go to villages in the countryside to transact business. What is the purpose of doing that? Who is going to purchase our services? If we are not within the reach of the majority ..... it is *bahati mbaya* [bad luck]. Insurance services are for those who

---

1. Interview with Mr. K. Makari, op. cit.

can afford to pay for them; when they need us they seek for us, we don't have to travel a long distance.

The corporation's investment in real estate (which yields fat returns) is evidence of the persistence of profitability as a guiding principle; indeed profitability is seen as a means of 'ultimate survival'.<sup>1</sup> In 1980, as mentioned earlier, a sum of shs.78.4m. was reserved for building projects. These consisted of a garage, a life insurance building, a block of offices in Mbeya, resident flats in Moshi and Arusha, senior staff houses in Dar es Salaam and a hospital to service only 100 employees.<sup>2</sup> And to maintain a high level of profits 'tightening measures' are introduced whenever a branch proves less profitable. The motor insurance branch offers a good example. When, in 1972, it incurred great losses because of the government's decision to increase the time bar in third party claims from one to three years, the general manager retorted:<sup>3</sup>

I may caution you that we may have to further tighten the controls in underwriting if the current trend of rising prices of spare parts and high labour costs .... lead to deterioration in the general level of maintenance of motor vehicles in the country.

Tightening controls of the branch in that context simply meant doing selective business i.e. accepting good risks only, with the result that

- 
1. Per A. Maalim, Executive Chairman of N.I.C. at the OEAI Conference at Arusha (February 1980), quoted by Ngao, No.12, March 1980, p.2.
  2. Ibid., p.1
  3. Annual Report for 1972, p.14.

less vehicles will be insured, or tightening the claims policy by paying less for motor accidents. In practice both policies are adhered to.

Recently, however, there has been some concern about 'country-side business' and attempts are being made to increase the scope of insurance consumption. Life insurance for a minimum sum insured of shs.2500/= was made possible for peasants for annual premiums not exceeding shs.146/= i.e. 40 cents a day<sup>1</sup> (one shs. = 100c.). But not many peasants have taken out life policies and, indeed, even among urban workers life insurance holds little attraction for the majority, essentially in view of meagre wage incomes.<sup>2</sup> And although the average sum insured has come down from shs. 16,655/= in 1967 to shs. 9,436/= in 1976, it is still three times higher than the target minimum of shs. 2500/= (see Table 23 below). And of course, not all those who can afford life insurance do get it, because some lives are better risks than others according to 'normal and proper' insurance practices. In 1977, for example, 33,276 new proposals for life insurance were made, but only 21,838 policies were issued.<sup>3</sup> The rest were rejected and it is unlikely that a rejected proposer could obtain a life cover in Tanzania again. Proposals for life insurance in use by the corporation contain questions about previous rejections, and answers are warranted to be true.<sup>4</sup> And in most cases second

---

1. 10th Year Independence Anniversary, op. cit. p.27.

2. John Loxley, "Some Reflections on the Role and Effectiveness of N.I.C." op. cit.

3. Annual Report for 1977, pp.13-14.

4. If an answer which is not true or precise is warranted to be true the corporation will be entitled to repudiate liability or avoid the policy altogether and keep the premiums, see Thomson v. Weems (1884) App. Cas. Case.671, and Kumar v. Life Insurance Corporation of India [1974] I. Lloyds L. Reports, 147, see also R.A. Hasson, "The 'Basis of the Contract Clause' In Insurance Law", 34, M.L.R., 1971, pp.29-41.

TABLE NO. 23.

Average Sum Assured in Tanzania (1967-1977)

(T.Shs.)

Year	No. of Policies.	Average Sum Assured.
1967	3,526	16,655
1970	12,941	14,385
1971	12,290	17,746
1972	20,040	13,494
1973	27,277	10,253
1974	35,649	9,439
1975	46,228	9,286
1976	59,316	9,436
1977	81,154	N.A.

Source: Ngao No.6, Sept. 1977 and Annual Report of N.I.C. 1977, pp.13-14.

proposals are rejected straight away.<sup>1</sup>

In the summer of 1979, the corporation was considering a plan to introduce 'deferred premiums life insurance' for the Tanzanian peasantry.<sup>2</sup> Under the plan life insurance cover will be extended to peasants in consideration for premiums payable after the end of each harvest. So far the plan has not been put in practice, and it is not known whether it will be implemented at all. Another plan aims at introducing crop insurance in *Ujamaa* villages and co-operatives.<sup>3</sup> Insurable crops cover produce goods viz: maize, beans, rice, onions, groundnuts etc., and cash crops such as cotton, coffee, simsim (sesame) and wheat.<sup>4</sup> The problem facing the latter plan is the difficulty of fixing an adequate premium rate although crop insurance research is in full swing in Tanzania now.<sup>5</sup> As with deferred life insurance premiums it is not known whether crop insurance will be carried out although public pressure upon the corporation to introduce it has been sounded.<sup>6</sup> If these plans are implemented the categories of insurance to be transacted under them will constitute the most radical departure from conventional insurance practices. As we have seen in Chapter Three no such departure could possibly take place in the Sudan given the conditions under which the industry operates.

- 
1. Interview with Mr. Ramadan Mongi of N.I.C., July 1979.
  2. I am indebted to Professor Vaidswaran of the Institute of Finance Management, Dar es Salaam for explaining to me some of the corporation's future plans.
  3. N.I.C.'s Marine Insurance Book, p.41, also 10th Year Independence Anniversary, op. cit., p.27.
  4. Ibid.
  5. Ngao, No.8, March 1978, p.15.
  6. Ibid.



## B. Solvency and Policyholders Protection

### 1. The Corporation's Solvency

As we have seen earlier, the ultimate protection to policyholders is the solvency of the insurance carrier and its ability to meet a claim any time a policy matures. In Tanzania, as in other countries where insurance is carried out by a state-owned enterprise, the solvency of the insurer is automatically guaranteed by the state 'whose financial solidity is not to be doubted'.<sup>1</sup> There is no defined margin of solvency in the sense in which the term is understood in the Sudan. On the other hand, the immense problems of assessing technical reserves and of ensuring their proper investment which greatly endanger the solvency of Sudanese insurers as we have seen, are entirely unknown to Tanzania where the share capital is wholly owned by the state. The state could, therefore, intervene at any time to rescue its corporation and ensure its solvency. At any rate, the power to wind up certain companies<sup>2</sup> - including N.I.C. - could no longer be exercised by courts<sup>3</sup> in Tanzania. The Companies Ordinance was amended<sup>4</sup> to give such powers to the Minister of Finance. The amendment did not specify the grounds upon which these companies could be wound up, but in the case of N.I.C. and in view of its significance to the Treasury as a

- 
1. S.A. Fonkam, 'State Supervision of Insurance Companies in Cameroun', Supra, p.344.
  2. These are listed in the Schedule to the Companies (Regulation of Dividends and Surpluses and Miscell. Provisions) Act, 1972.
  3. S.163 of the Companies Ordinance had given the High Court power to wind up any company registered in Tanganyika.
  4. S.6 of the Companies (Regulation of Dividends and Surpluses and Miscell. Provisions), Act, 1972, provides that 'Notwithstanding the provisions of any written law - (a) no court shall make an order for the winding up of any specified company, (b) no specified company shall resolve to be wound up, save with the consent in writing of the Minister'.

finance institution an order by the Minister to wind it up is a very remote possibility. This conclusion is also confirmed by the enormous excess of the corporation's assets over its liabilities which make the subject a purely academic one with no practical relevance. By June 1977, this excess amounted to shs. 421,5m. (see Table 24) or approximately \$42m. Also, the financial position of the corporation is kept under close security, and any financial difficulty would be detected at an early stage. Under the Companies Ordinance the corporation is under a duty to make a statement specifying its share capital and its assets and liabilities<sup>1</sup> on the first Monday in February and the first Tuesday in August.<sup>2</sup> Also a profit and loss account and a balance sheet must be kept.<sup>3</sup> In practice, and instead of the half yearly statement, an annual report which specifies the corporation's volume of business, its profit and loss account, balance sheet, share capital etc., is issued by the head office. And adequate measures to avoid a financial crisis could be taken one year in advance. For before the commencement of any financial year the corporation must submit to the Minister of Finance a cash flow budget setting out: (a) the sums of money which the corporation estimates to receive during the ensuing financial year, (b) the sources from which such sums are expected and (c) particulars of the estimated expenditures of the company during the ensuing financial year.<sup>4</sup>

- 
1. The Sixth Schedule to the Companies Ordinance.
  2. S.131 of the Companies Ordinance.
  3. S.123 (1),(2) of the Companies Ordinance.
  4. S.11(1) of the Companies (Regulation of Dividends and Surpluses and Miscell. Provisions) Act, 1972.

TABLE 24.

Excess of the Assets of N.I.C. Over Its Liabilities (1971-1977)

(Fig. in shs.m.)

Year	Excess of Assets Over Liabilities
1971	78,7
1972	99,6
1973	122,1
1974	165,6
1975	222,6
1976	290,6
1977	421,5

Source: Annual Reports of N.I.C. 1972-1977.

If the corporation's annual reports for the previous year had disclosed an actual or potential state of insolvency the Minister could make the necessary recommendations before a crisis materializes. And at the end of each financial year the accounts of the corporation are audited by the Tanzania Audit Corporation,<sup>1</sup> and the Minister may also issue any regulations he deems fit for the submission of audited balance sheets and other records, returns and particulars, and for the maintenance and auditing of such returns.<sup>2</sup> And if a person who is a director or officer of the Corporation commits a breach of such regulations he will be guilty of an offence punishable by a fine not exceeding 5 years.

The integrity of the insurance fund and its proper management (which are inseparable from the question of solvency) are also matters of concern for the Tanzanian government. An amendment to the Criminal Code in 1970 provided for the offence of causing economic loss to the government or a parastatal. Under S.284A of the code, an employee of an authority (including a parastatal organization) is guilty of an offence for which he can be imprisoned for up to two years if 'by wilful act or omission, or by his negligence or misconduct, or by any reason of his failure to take care or to discharge his duties in a reasonable manner, causes his employer to suffer any pecuniary loss or causes any damage to any property owned by or in possession of his employer'. The Prevention of Corruption Act,<sup>4</sup> 1971,

- 
1. S.21(3) of the Tanzania Audit Corporation Act, 1968.
  2. The Companies (Regulation and Dividends etc.), Act, 1972, S.13(1).
  3. Ibid., SS.13(2), 14 and S.15.
  4. No. 16 of 1971.

applies to public officers - a term widely defined to include employees of parastatals. The Act creates three basic offences of corruption: (a) the giving or receiving, soliciting or offering of a benefit or advantage to an agent (which includes a public officer) for doing or forbearing, or having done or forborne to do anything in relation to his principal's affairs or business,<sup>1</sup> (b) the use of documents by an agent or other person, relating to the business of the agent's principal when the document is false, erroneous or defective in any material particular, and which is intended to mislead the principal,<sup>2</sup> and (c) the obtaining or attempting to obtain by a public officer an advantage without a lawful or an inadequate consideration from a person whom he has reason to believe has been, or is likely to be concerned in any matter or transaction with him in his capacity as a public officer.<sup>2</sup>

The proper management of the insurance fund is also governed by regulations. The Minister of Finance has powers 'to make financial regulations in relation to the management of the funds'<sup>3</sup> of a parastatal. Such regulations need not be published in the Gazette, but the parastatal organization to which they are issued must 'ensure that the regulations are

---

1. S.5.

2. S.6.

3. The Parastatal Organization Act, 1975, S.4(1).

brought to the notice of all its employees who are likely to be affected thereby'.<sup>1</sup> And one of the most direct advantages of insurance nationalization in Tanzania was the emergence of a well trained management in virtually all branches of business. Most senior bureaucrats, however, had some training in western insurance institutions, notably London, Zurich and Bonn. The Institute of Finance Management also offers courses in insurance management; and in early 1980 N.I.C.'s Training Centre was opened to offer practical training for the corporation's employees.<sup>2</sup> Thus unlike the case of Sudanese insurance carriers, N.I.C.'s solidity and its proper management do not appear to be in doubt. But are these by themselves sufficient to protect the public?

## 2. A Fair Value for Insurance Premiums?

One of the objectives of N.I.C. was said to be the desire to ensure that 'every person in Tanzania who insures should get a fair deal and a fair value for his money'. Unfortunately, this has not been the case on many occasions. To begin with, rates of premiums charged by the corporation are not, in practice, subject to any regulations. As things in action, policies of insurance,<sup>3</sup> and consequently insurance premiums, do not fall under the jurisdiction of the Price Commissioner who has powers to regulate

---

1. Ibid., S.4(2).

2. Ngao, No.12, March 1980, p.1.

3. Raoul Colinvaux, The Law of Insurance, (London: Sweet & Maxwell Ltd. [3rd ed. 1970]), p.247.

the price of goods and services.<sup>1</sup> But, undoubtedly, if the Minister of Finance is of the opinion that rates of premiums are excessive he would issue regulations to the board of directors of the corporation to reduce premium levels. It appears, however, that premiums charged by the corporation, especially with regard to life insurance, are rather inflated because the 'actual experience of the corporation is better than that assumed in premium calculation'.<sup>2</sup> Higher premiums have lately been mitigated by the repayment of bonuses which have actually increased by a 100 per cent, from shs.10/= per shs. 1000/= in 1969 to shs. 20/= by 1978.<sup>3</sup> But this only goes to prove that the experience of the company bore no relation to its premium calculations. In relation to non-life business the fact that a substantial part of the premium income is drawn from other parastatals is likely to frustrate an attempt by N.I.C. to increase its rates excessively. This is also one of the most fundamental differences between government insurances in Tanzania and those in the Sudan. We have seen earlier that the co-insurance scheme in the Sudan was primarily devised as a means of ending competition between the companies so that public sector risks could be charged higher rates. We have also seen how the distribution between the companies of public sector risks under the co-insurance scheme operates to prevent the controller from using pressures against companies which do not

- 
1. Under the Regulation of Prices Act, 1973, the Price Commissioner has no power to regulate rates of premium although he has powers to regulate the prices of goods and services. Goods are defined under S.2 of the Act as 'all chattels (other than things in action and money), growing crops and things attached to or forming part of the land, which are agreed to be served before such sale or under a contract of sale.' Services are defined by S.2 of the Act as 'the sale or hire of goods, where sold or hired in connection with the rendering of service.'
  2. Ngao, No.12, March 1980, p.19.
  3. Ibid.

meet their claims to government units. No such thing exists in Tanzania. But as we will see shortly when the question of claims is in issue in Tanzania, a distinction must be drawn between ordinary policyholders and parastatal policyholders in respect of non-life insurance claims. Parastatal policyholders stand a good chance of having their claims met relatively easily (compared to ordinary policyholders) especially if they share the same parent Ministry with the corporation i.e. the Ministry of Finance. In this case the payment of claims is automatic.<sup>1</sup> Parastatals under Ministries other than the Ministry of Finance also have nothing to fear from the corporation's claims policy because the decision to settle a claim, especially a sizeable one, is often a political decision.<sup>2</sup>

It is the ordinary policyholder who has no political backing and who faces the corporation unaided that receives the blow. As in Sudan, so in Tanzania, once a claim is denied a policyholder could only resort to court if he wishes to pursue a claim against the corporation. The Permanent Commission of Enquiry (the Tanzanian Ombudsman) is not a possible remedy to be exhausted by such a claimant because of the Commission's lack of jurisdiction to deal with complaints against N.I.C.<sup>3</sup> There is no complaint machinery in

---

1. Interview with Mrs. Mshuza, Supra., July, 1979.

2. Ibid.

3. The Commission has jurisdiction to investigate complaints against 'persons in the service of the United Republic of Tanzania, persons holding office in the Party, the members and persons in the service of local government authority,..... corporate bodies established by statute and public authorities and boards, as may be specified by Act of Parliament .....', article 67(4) of the Interim Constitution of Tanzania 1965. The first Schedule to the Permanent Commission of Enquiry Act, 1967 (Act No.25 of 1966) lists a number of boards and public corporations which do not include N.I.C. as it is a company registered under the Companies Ordinance 1931.



the Ministry of Finance and no administrative authority appears to have power to investigate a complaint against the corporation. The Minister of Finance who has vast powers in connection with the corporation could pass directives or regulations to govern the manner in which claims could be considered. Unfortunately, this has not been the subject of regulations so far - thus giving the corporation all the freedom it needs to formulate its own claims policy. In practice strict adherence to policy terms and small-print conditions by the corporation has rendered a large number of individual claims either voidable at the option of N.I.C. or has enabled it to settle or pay *ex gratia*, a fraction only of what claimants should, in fairness, have obtained. Some cases on workmen's compensation claims upon the corporation substantiate these propositions. In Kibasa v. Stone Valley Tan Co. Ltd.,<sup>1</sup> the claimant's hand was trapped between a roller and a conveyor belt of a machine, but subsequent deterioration necessitated its amputation altogether. Compensation was assessed at shs. 7,545/= and was immediately met by the employer. When N.I.C. (which provides Employers' liability insurance) was informed of the accident it repudiated its liability on the basis that the claim had been settled before notice was given, in breach of a policy condition to that effect. Also, in Musa Omari V. Tanganyika Farmers' Association Ltd.,<sup>2</sup> the claimant's finger was chopped while he was off-loading plough-discs. The injury was assessed for compensation at shs. 180/= (\$18), but the claim was repudiated by N.I.C. because of

- 
1. Workmen's Compensation, 2948/1970, cited by Octavian W.S. Temu, "Workmen's Compensation : Law and Practice in Tanzania", research paper, Faculty of Law, University of Dar es Salaam, 1974/75, p.28.
  2. Workmen's Compensation, 3952/1972, Ibid., p.29.

late notice. A final authority in this line is Dependants of Tarawia V. Tinga Tinga Estate Ltd.,<sup>1</sup> where the deceased workman was thrown off a lorry which overturned and caused his death. When the corporation was notified, it required a death certificate in proof of death. No such certificate was issued at the time and, instead, the employer furnished the corporation with a burial permit. This was later rejected by the corporation as insufficient proof of death. It was not until the Tanzania Legal Corporation had furnished N.I.C. with a photocopy of the death certificate that the claim was met, exactly seven years after the accident.<sup>2</sup>

As the sole insurer in Tanzania N.I.C. is entrusted with a significant role in workmen's compensation as employers are required to obtain covers with it.<sup>3</sup> Even before the amendment to the Act (which provided for wider coverages) became effective in June 1967, workmen's compensation premiums have accounted for an average of 9.4 per cent of the corporation's premium income between 1963-1965.<sup>4</sup> Apparently, this contribution has not been appreciated by N.I.C. Indeed, the corporation's role in workmen's compensation has only contributed to the problems of the scheme which was, itself, born

---

1. Workmen's Compensation, 457/1971, Ibid., p.35.

2. Ibid.

3. Workmen's Compensation Act, 1967, Cap. 263, S.25.

4. 10th Year Independence Anniversary, op. cit., p.17.

disfigured with many flaws and gaps.<sup>1</sup> The corporation uses a clause, in workmen's compensation, of the kind mentioned in Kibasa case above. To the extent that a clause of this nature is treated as a warranty the breach of which entitles the corporation to repudiate its liability or avoid it, the corporation has actually inhibited prompt settlement by employees of injured workmen. When this is not possible the corporation could delay, unnecessarily, the payment of compensation as in the case of Dependants of Tarawia discussed above. It may be added here that the demand in that case of a death certificate and the rejection of the burial permit conform neither to law nor to public policy a good practice. But good practice and public policy apart, in insurance law the burden of proof is upon the assured or his dependants only to show that the loss was proximately caused by a peril insured against.<sup>2</sup> To prove a *prima facie* case the assured need not prove how the casualty occurred or what particular peril caused it, and once a *prima facie* case is proved, the burden of proof shifts to the insurer if he wishes to challenge the assured.<sup>3</sup>

When it was not possible for the corporation to take advantage of the situation by relying on the letter of the law, other practices were adhered to with the result that the public also failed to get a fair deal for their premiums. In recent years the corporation has adopted the practice of making

- 
1. The Workmen's Compensation Act applies to workmen under a contract of service which provides for them a stipulated wage or salary. As such the Act is limited in scope to a fraction only of Tanzania's workforce. Another problem with the Act is its scale of compensation which is related to workers' earnings, see M.C. Othman, "Social Security in Tanzania", research paper, Faculty of Law, University of Dar es Salaam, 1974, also Y.M.K. Rashid, "the Role of the National Provident Fund as a Social Security Institution in Tanzania", Faculty of Law, University of Dar es Salaam, 1974.
  2. See e.g. London Plate Glass v. Heath [1913]3K.B.411.
  3. Greaves v. Drysdale (1935)53 L.L.R.16.

several deductions on the sums payable to policyholders when payment is due. This takes place in motor insurance claims, but it is not known if it is also followed in other branches. In one such incident, a vehicle which was insured comprehensively for shs. 35,000/= was seriously damaged in a road accident and was considered a total loss by an assessor who estimated its pre-accident value at shs. 28,000/=. N.I.C. obtained salvage of the wreck, as it was entitled to, but only offered the assured shs.25,000/= which he had no choice but to accept. But before the sum was handed to him another deduction of shs.1,150/= was made, apparently, for no good reason and, certainly, no legal basis.<sup>1</sup> The corporation also uses an excess clause by which the sum payable is reduced, sometimes, by nearly one-third, while 'labour charges' deductions are made even if payment is made 'cash in lieu of repairs' and salvage is claimed.<sup>2</sup> To the knowledge of the writer no such practice exists in the Sudan. We have seen that a certain company (Khartoum Insurance Company) openly refuses to pay third party claims although these are rarely made upon the company. We have also said that marine insurance has been quite problematic and that covers are cancelled before the delivery of the insured goods to their final destination. But the motor insurance market appears to be fairly competitive and a good standard of service exists.

## VII. Insurance Business and the Transition to Socialism

The objectives of the post-Arusha insurance industry which the

- 
1. M.J.A. Mwaipela, "the Meaning of the Principal of Indemnity in the Context of Historical Development and Function of Insurance", research paper, Faculty of Law, University of Dar es Salaam (undated).
  2. Ibid.

management of the corporation has outlined, have only appeared in the records of the corporation in 1971 when the country was celebrating its first decade of *uhuru*. They, therefore, seem to have been a brain-child of the occasion - a sort of momentary enthusiasm, rather than a challenge to the Insurance Act's exhortations to conduct 'normal and proper' insurance business just as before. They were contradictory to each other, and almost impossible to put in practice given the circumstances under which the corporation operates. To the head office bureaucracy, trained as it was in western institutions, and having internalized western values, the essence of insurance business will remain the same, perhaps for many years to come. The corporation will continue to swallow other parastatals' risks for premiums which will partly be transferred abroad in order to purchase reinsurance protection - never mind the goals of self-sufficiency. Part of the fund retained in the country will be invested in fabulous building projects, with little benefit to the mass of Tanzanians. The spirit of the capitalist initiative techniques which remained to plague Tanzania's transition to socialism has also afflicted its insurance industry and inhibited the release of novel socialist insurance strategies.

But at the centre of power the danger has not been realized. In fact no danger is felt at all. The official message for Tanzania's parastatals was to invest 'additional wealth' to attain the goals of socialist construction.<sup>1</sup>

---

1. Defining the goals of public corporations in Tanzania the Minister of Finance stated that "they are required to play their full role with great task of socialist construction of our economy i.e. to attain planned economy, additional wealth must [therefore] be invested to attain this goal", Ngao, No.1, 1971.

No matter how a parastatal operates, its primary task must be to yield more and more revenue to the state. The rank and file of the bureaucracy have learnt the message and are determined to carry on with their policies to the end. 'Our duty' said an official of N.I.C.<sup>1</sup> 'is to accumulate wealth, but building socialism is the responsibility of the state'. Any deviation from the goal of accumulation might bring about an undesirable discontent at the centre. An official of N.I.C. has succinctly summarized the situation in these words:<sup>2</sup>

N.I.C. is a commercial business institution and has to make a profit. If losses are so exorbitant as to make us unable to meet our liabilities, the whole nation will condemn us as a failure just as in the case of some of our public corporations currently ...

It was imperative then, to set aside those carefully written objectives and opt for more pragmatic ones consonant with the corporation's legal duty and more capable of conforming to its image at the centre. In practice the 'real' objectives are set annually by the board of directors in the form of target underwriting results, investment returns, reinsurance commissions and the like. In the words of an official:<sup>3</sup>

We have an annual target set for us by the board [of directors] each year and

- 
1. Per ..... of N.I.C. Agent, 1979.
  2. An official quoted by F.A.R. Jundu, "Insurance: A commercial venture", research paper, Faculty of Law, University of Dar es Salaam, 1976/77, p.57.
  3. Interview with Mr. K. Makani, op. cit.

we attempt to reach the targets set....  
so far we have been successful.

Recently, the general manager of the corporation happily claimed that:<sup>1</sup>

Management-workers relationship for the year under review has been positive and this is one of the factors that has enabled the corporation to achieve its goals. This year the workers' council through which workers participate in setting the corporation's goals, met twice to debate on the budget and other important policy issues. Thanks to the diligence of the workers in this regard - *the targets set were not only achieved but surpassed.* [emphasis added].

In the eyes of many bureaucrats in Tanzania N.I.C. is a successful corporation. Its investments in real estate in Dar es Salaam - the Investment House (perhaps the highest building in Tanzania), the corporation's grandiose head office, and an emerging giant building are seen as evidence of this success. The more the corporation could show off by investing in fabulous buildings in urban areas (thus moving further from rural areas) the more it could conform to the image of a successful enterprise at the centre. In other words the more it is anti-

---

1. Annual Report for 1977, p.17.

socialist in its investment and business principles the more it is blessed! More importantly, and as the primary objective of the Arusha Declaration was to release the accumulative energies of the state, the nationalization of insurance - even though unaccompanied by a redefinition of the goals of the institution - has undoubtedly, resulted in windfall gains. To the Treasury, N.I.C. is an institution which pours over 80 per cent of its accumulated capital (this amounted to shs.111,4m. in 1977), either directly into the government coffers or indirectly through the banking system. It appears, therefore, that a redefinition of the goals of insurance which attempts to divert the institution from conventional underwriting practices - by making it function in the interests of the majority - is undesirable, either to the centre or to the corporation. Such redefinition would make the corporation less successful.



## CHAPTER SIX : CONCLUSION

### Insurance and Development : Statutory Regulation or Nationalization?

Like the rest of the countries which now form what is known as the Third World, the Sudan and Tanzania owe their underdevelopment to their incorporation into the world capitalist system. The theories of 'modernization' which propogated other explanations for underdevelopment are unlikely to be taken seriously by students of political economy nowadays. Under colonialism 'development' in both countries was a 'development of underdevelopment' in which economic structures and institutions were set up, but only to function 'properly' by being dependent upon the imperialist centre. The expansion of capitalism under colonial hegemony in both countries had thus introduced the laws of motion of the capitalist mode of production. The manner of utilization and distribution of economic surplus, while adhering to a capitalist order, was to be dictated by the needs of the centre even when colonial rule was over. That system of underdevelopment involved a vast array of institutions. Insurance companies and banks featured prominently. They had financed the railways, harbour construction, imperialist expeditions and invested enormous funds, not only in the two countries, but in the rest of the Third World. The role of insurance companies was to ensure the safety of capital thus invested and to secure its repatriation to the metropolitan-based investors. Insurance protected primary goods and raw materials against weather conditions,

labour riots and allied perils until the goods were safely unloaded at the metropolises. At that end they were manufactured into processed goods and food stuffs and again insured and shipped for marketing in the periphery, and so on. The role of insurance was to underwrite the success of colonialism as an economic venture. But the expansion of metropolitan insurers in the two countries and elsewhere was also indispensable to successful insurance underwriting for it allowed a world-wide geographical spread of the insured portfolios. It, therefore, reduced losses and increased profits. The success of insurance business was - is - synonymous with its geographical spread. And in carrying out their task under colonial rule metropolitan insurers had performed a category of services alien to peripheral economic structures such as handicrafts and household industries. Also, as the extraction of capital from the periphery was the primary factor which prevented its economic progress, insurance companies had contributed to this extraction and hence, the underdevelopment of the periphery.

But neither in Sudan nor in Tanzania did the formal termination of colonial rule bring about any fundamental economic or social change. On the contrary, as we have seen earlier, development along the capitalist path, which colonialism had bequeathed, only fostered and maintained underdevelopment under the neo-colonial state. The Sudan, in particular, did not seem to have challenged the capitalist trajectory for more than a short while. Following the political upheaval of the late 60s the state lent its power and coercion to the expectations of Sudanese capitalists by liberating the economy from foreign control on the home front. As a result, a Sudanese

bourgeoisie - much weaker in earlier times - was advanced to the top. It soon controlled state power and with it some major means of production and exchange. In Tanzania, on the other hand, capitalism was accepted as an article of faith until 1967 when the Arusha Declaration advocated an alternative socialist path for development. The state advanced itself to control the commanding heights of the economy and no bourgeoisie was allowed to exist as in the Sudan.

In both countries, however, the fortunes of metropolitan insurers were affected in form rather than in substance. Foreign insurers no longer exist in Tanzania, and they no longer dominate the Sudanese market as only one foreign insurer operates there now. The liberation of the insurance industry from direct foreign dominance was a positive development which could have paved the way for a better utilization of insurance for economic development in the two countries. But both markets soon became good hunting grounds for professional reinsurers. We have seen earlier that insurance imperialism is now more dependent upon the extraction of reinsurance premiums rather than upon direct insurance premiums. In both markets the dialectical relationship with the centre regarding insurance assumed a new dimension but remained essentially unchanged. For the expansion of international insurers and reinsurers no longer required their physical existence in the periphery because in the periphery economic development necessitated an automatic insurance and reinsurance dependency on the centre. This dependency is exploitative in nature. The periphery transfers away reinsurance premiums but only claims a portion of them. At the centre, the asymmetry between the

volume of reinsurance coming from the periphery and the portion going back keeps professional reinsurers in business and subsidizes the services rendered to the buyers of insurance and reinsurance in the metropolises. We need not discuss again the impact of the extraction of reinsurance capital upon the development of the country whence this capital is extracted.

But although both markets are free of foreign hegemony the differences between them are many. The differences in the socio-political conditions in the two countries have produced dissimilar conditions under which their respective industries now operate. In the Sudan the state refrained from entering the insurance field. All insurance companies are privately owned, and the role of the state in their regulation is confined to the provisions of the Insurers (Control) Act, 1960. This model we called 'the regulatory model'. In Tanzania the political developments of 1967 necessitated that all the major means of production and exchange - including insurance - be under state control. Tanzania thus adopted nationalization as the ultimate form of control. This model we called 'the direct model'. It is time now to ask how did the differences between the two models affect the chances of each country in utilizing the insurance institution for economic development? How did the institution respond to the problems of underdevelopment common to both countries? How did the different characteristics of the institution in the two countries (in terms of the juridical ownership of the institution and the structure of the regulation machineries) aid or otherwise frustrate the attempt to redefine the function of the institution? Which model is

more capable of resisting reinsurance imperialism of the centre? And which model is more suitable to the needs of underdeveloped countries? Possible answers to these questions will emerge from the discussion below.

In so far as the flow of reinsurance abroad directly affects the accumulated insurance fund in each of the two countries and hence the volume retained inside for economic development it deserves prior consideration. The question which arises here is which market is more resistant to the expansion of professional reinsurers, a market which is dominated by several insurers or a market which is monopolized by a single insurer? Undoubtedly, a fragmented national portfolio like that of the Sudan offers the least resistance. This conclusion derives from insurance theory itself. Insurance, as we have noted in the opening chapter, is a device for balancing the effects of chance according to the law of large numbers, and is based on the notion that the combination of uncertainties produces greater certainty. It follows that in Tanzania where a *single insurer* operates under a state monopoly of insurance services, a better medium exists for the law of large numbers to operate. This explains the enormous increase in the retention capacity of N.I.C. The relationship between the retention capacity and the need for reinsurance is an inverse one: the greater the capacity the less reinsurance will be needed. In the Sudan *with the national portfolio being divided among several insurers* there is a greater need for reinsurance to augment underwriting capacities, and greater likelihood for the small portfolios to be made uneven by the acceptance of big or disproportionate risks which again encourage the taking out of reinsurance. We have noted earlier that in view of the services which

reinsurance renders to small companies and in view of the methods and techniques which underlie the trade, smaller companies have no alternative but to rely heavily upon reinsurers every time their portfolios are made uneven. Indeed, this is the case in the Sudan now especially as public sector risks (some really big in size) are transferred to the companies which have failed to increase their capacities proportionate to the size of risks transferred to them. The companies became effectively *reinsurance brokers ceding away most of their income abroad*. And although a giant and partly state-owned reinsurer now exists in the country, the companies are neither bound to cede their business to it nor willing to do so in view of their preferences to international reinsurers. In Tanzania, due to the high retention capacity and the enormous assets owned by the corporation, the insurance portfolio has attracted business from abroad and this went some length toward counteracting the flow of reinsurance to the rest of the world. In the Sudan the divided portfolio has not allowed for such a development. The operation of a single insurer in Tanzania also enhanced the bargaining power of the country *vis-à-vis* international reinsurers, and justified the training of staff in reinsurance techniques. Reinsurance planning has, therefore, developed more in Tanzania than in the Sudan where the small portfolios did not create a need for training until recently. Reliance is, therefore, readily made on reinsurers; but undoubtedly, Sudanese insurers are not in the same position *vis-à-vis* international reinsurers as an insurer like N.I.C. is. In Tanzania, moreover, the

concentration of insurance services has enhanced the solvency of N.I.C. and (in theory) minimized its need for reinsurance. In the Sudan, on the other hand, the need to earn commissions (in view of the low standards of solvency) and to enhance capacity maximized reliance on reinsurers.

Tanzania which keeps more insurance funds within its borders than the Sudan does, also utilizes the portion retained better than Sudan as we have seen earlier. The capital formed directly pours into the coffers of the Government (up to 80 per cent of it) and is not accumulated by individuals as in the Sudan. This by itself reinforces a tendency towards a more even distribution of wealth within society. Insurance investments in the two countries are compared later; but it may be recalled that in both countries the non-life portfolios consist largely of public sector risks, and that in the case of Tanzania premiums paid by public corporations are in essence transfers of money from one corporation to the other which involves prolonged procedures and complications. In other words the creation of a state-owned insurer was more or less a futile exercise. Let us take the case of the Sudan first in order to bring out the merits of the Tanzanian case. In the Sudan as we have seen above, insurance companies do provide the government with the economic security it desires in the field of insurance. But the co-insurance scheme under which the government is insured holds little benefit for the government as it is devised in the interest of the companies first and foremost. To start with, these insurances do not correspond to any genuine need for protection supposedly deriving from random contingencies because the disparity between the premiums charged for risks and the claims

paid is enormous. Secondly, as risks are distributed by the companies according to their own plan no competition exists and the premiums have increased because of that. Thirdly, government insurances have increased the problems encountered by the controller in enforcing investment regulations with the result that companies are much freer now than before with respect to their investment priorities. Fourthly, the scheme has virtually incapacitated the controller from using government insurances as a means of pressure against companies with particularly bad records as far as claims are concerned.

In the case of Tanzania one critic of the corporation has argued that there is no need for parastatals to insure themselves. This was Loxley<sup>1</sup> who suggested alternatively that parastatals be saved the administrative cost of seeking insurance simply by making 'their own provision for an insurance reserve (invested in Government paper) and by adding to this annually to offset losses or to allow for a growth in the stock of physical assets.'<sup>2</sup> He seemed unimpressed by the argument that N.I.C. could provide a good medium for the assessment of loss in cases involving destruction of physical assets. His objections to this were that:<sup>3</sup> (a) the insurance market in Tanzania is relatively small and lacking in past experiences on which proper assessments could be made. In practice reliance is made upon

- 
1. John Loxley, "The Monetary System of Tanzania Since 1967", op. cit. pp.128-9.
  2. Ibid., p.129.
  3. Ibid.



London where evaluation or assessment is made on the basis of the British insurers' experiences and losses all over the world in addition to their profits. It is, therefore, difficult to see how these assessments could be relevant to Tanzania. (b) Since assessment by N.I.C. is extremely difficult, the return to the corporation from attempting proper estimates may not be worth the bother. Loxley's proposal for the establishment of a reserve fund essentially questions the existence of a state-owned insurer to which public sector risks are transferred. The proposal draws heavily on the experiences of some socialist countries and, indeed, Loxley cites the Polish experience to support his argument. In Poland, and perhaps in other socialist countries, insurance is seen as a regulator of the national economy and not merely as an institution which distributes the effect of losses between risk-averse enterprises as in capitalist countries.<sup>1</sup> It is argued there that 'if the development process of the National Economy has to attain the pursued end ....., there has to be a regulatory institution which would be able to eliminate disturbing occurrences or to compensate (equalize) unfavourable directions of the effects caused by these occurrences.'<sup>2</sup> One such regulator is insurance. Its regulatory function is, no doubt, enhanced by the massive public ownership of the means of production. This theory which advocates a regulatory role for insurance over and above the socialization of risk, is known as the 'cybernetic insurance theory.'<sup>3</sup> According to the theory there need not be a state-owned

---

1. Antoni Banasinski, "Insurance As A Cybernetic Institution of Self-Regulation of the National Economy." Astin Bulletin. Vol. 5, part 3, February 1971, pp.393-401.

2. Ibid., p.394.

3. Ibid., p.393.

insurer to which public sector risks are transferred as it could be substituted by a reserve fund. The premiums which form the fund need not even be paid by the economic units which need protection, as Loxley has suggested in the case of Tanzania, but should be drawn from state funds.<sup>1</sup> In Poland, the capital equipment of the public sector, in particular, is not covered by insurance. The reason for this is that 'the reconstruction of reduced economic capacities should not be decided automatically, as the reconstruction of just the same plant in just the same place because in many cases a more efficient way of recovering damaged capacities is either the construction of a new plant elsewhere or supplementary investments in existing plants.'<sup>2</sup> For this reason 'reserves are held centrally in the state budget to meet claims for repair or reconstruction of reduced capacities'.<sup>3</sup> It is submitted that the Polish experience has no relevance to the Tanzanian situation; and Loxley's proposal is not without its own problems. Firstly, and unlike in Poland, the scope of public ownership of the means of production in Tanzania is not so great as to require the transformation of the function of insurance from that of being a distributor of the effect of losses to being a regulator of the national economy. Private sector risks are also insured with the corporation and their pooling with public sector risks is the reason behind

---

1. Ibid., p.395.

2. J. Loxley, "The Monetary System of Tanzania Since 1969...", op. cit. p.130.

3. Ibid.

the enlarged insurance portfolio in Tanzania. If parastatals are to cease to insure their risks a reduction will occur in the size of the portfolio and the law of large numbers will not operate sufficiently well in favour of the corporation. Being run essentially as a capitalist institution as we have noted, such reduction will automatically result in increased reinsurance cessions by the corporation, consequent upon the reduced portfolio, and will also minimize the business ceded from abroad consequent upon its reduced capacity. True the overall drain may be reduced significantly if corporations were to cease insuring their risks with N.I.C., but whatever drain that might continue through the reinsurance of private sector risks will be very difficult to stop. We have noted earlier that even within the present framework in which the corporation operates there appears to be some hope that insurance could play a positive role in Tanzania's balance of payment if the retention capacity maintains its present level of growth and if the incoming portfolio continues to be fed from abroad. At some point sometime in the future incoming business might exceed the cessions transferred abroad and Tanzania would earn foreign exchange through its insurance institution. This will not be possible if the domestic portfolio shrinks through lack of public sector insurances. Secondly, the argument that insurance of capital equipment often results in automatic replacement of destroyed assets need not be a serious objection to insurance by parastatals. What insurance is all about is to ensure that a certain sum of money is payable on the happening of an event against which insurance is taken out. Where the planning authority or the Ministry which owns a plant

is of opinion that such sum be invested elsewhere the sum insured could be paid to such authority or Ministry and then applied to the appropriate alternative project. If insurance had not been taken out then the construction of a new plant or the improvement of existing plants, as the case may be, would still have necessitated drawing funds from some source for the purpose. In Tanzania and in view of the lack of capital the replacement of destroyed assets may not take place at all or may be delayed for some time pending the arrangement of the required funds. The existence of an insurance cover undoubtedly facilitates the carrying out of whatever remedial action is thought necessary. On the other hand and due to its experience in risk management N.I.C. could now provide the necessary information pertaining to the nature of losses which afflict the public sector, their frequency, their causes and perhaps even the kind of remedial action to be taken after a loss occurs. And the establishment of an alternative reserve fund by the parastatals is not without its own problems. A corporation wishing to establish a reserve fund might find itself obliged to keep aside all the sums needed to provide an adequate security in the case of loss or destruction of capital equipment, and would certainly have to reduce its capital investment to meet this requirement. Undoubtedly, this will have a direct effect on employment, investment and output.<sup>1</sup> And even if the fund is to be established by the payment of small premiums, as Loxley suggests, the contributions will, in effect, be premiums and these

---

1. Robert L. Carter & G.M. Dickinson, Barriers To Trade in Insurance, (London : Trade Policy Research Centre, Thames Essay No.19, 1979), p.47.

are better quantified and measured in Tanzania (even on rough estimates) by N.I.C. than by any other parastatal. And, undoubtedly, the establishment of a reserve fund invested in government paper is tantamount to creating a quasi-insurance concern at the Treasury if records are to be kept of corporations' contribution to government stocks, and if other administrative tasks consequential upon the establishment of the fund are to be discharged. The work load may be eased at the corporation but only to be exported to the Treasury which might even seek the assistance of the corporation in view of its experience in risk management. And, of course, the fund itself would also involve the transfer of liquid assets from one public corporation to the other with the result that a premium paid by N.D.C., for example, might well be used to pay for a claim by Tanzania Tourist Corporation since the premiums of each corporation will not be earmarked to cover its own losses. There does not appear to be a good reason for the public sector not to insure itself with a state-owned insurer even in a socialist country. The juridical nature of the ownership of the means of production appears to have little to do with the degree of risk to which the means of production are exposed. At any rate, not all socialist countries have followed the Polish example. In Czechoslovakia, for example, a law categorically prohibited the insuring of state property in 1952, but in reforms introduced in 1966 that prohibition was lifted and the value of insurance services, even to state enterprises, was again recognized.<sup>1</sup> Thus what appears to be the most serious

---

1. Karl Urban, "The Economic Role of Insurance", Inter-regional Seminar on Insurance and Reinsurance, UNCTAD Secretariat, TD/B/C3/83, (Geneva, 1970), pp.4-22, at p.8.

objection to the existence of N.I.C. as an insurer for state enterprises is not in fact as serious as it sounds.

Indeed the existence of a state-owned insurer appears to be a better solution for the problems which afflict government insurance under a regulatory model. None of the problems of public sector insurances in the Sudan (which we have examined above) apply to any degree to parastatal's insurance in Tanzania. We have seen that the corporation cannot increase its premiums at will like Sudanese insurers. The payment of a claim to a parastatal in Tanzania is almost automatic especially if a claim is a sizeable one. And there is no question of parastatal insurances being an obstacle to investment priorities of N.I.C., while the very high standard of solvency it maintains provides the utmost security for the public sector.

In utilizing insurance investment for economic development Tanzania has also succeeded where the Sudan has failed. In Tanzania the Minister of Finance could, in theory, direct the corporation to pour *all* its premium income into the Treasury, and in practice about 80 per cent of the income is made available for government borrowing in one way or another. Thus the problem of parastatal insurances being exaggerated in relation to the actual amount and cost of claims is softened by the flow back of insurance premiums into the Treasury and therefrom to the same premium-paying parastatals through financial support of the Treasury. In the Sudan government insurances are *essentially losses* to the public sector which

claims a fraction of its premiums. And although a certain proportion of premiums is deposited in banks and is available for government borrowing, ultimately this will have to be repaid to the banks and taken back, not by a state-owned insurer as in Tanzania, but by the few individuals who own the companies. And, of course, the investment of premium income primarily benefits those individuals, not the state, which appeared to have prejudiced its own chances for using insurance investments by its own decision to insure its property. Thus in Tanzania N.I.C. permits private (as well as government) funds to be channelled into the government coffers; in the Sudan government funds are channelled into private investment. The gross premium income in Tanzania amounted to \$30m. at the end of 1977,<sup>1</sup> most of which was used by the government; in the Sudan the same amounted to \$24m.<sup>2</sup> most of which was used in the companies' own interest.

Our discussion so far is leading towards one obvious conclusion: the failure of the regulatory model to allow for a proper utilization of the insurance institution for economic development. A regulation code, by itself, does not appear to be an adequate intermediary to depend upon in 'a soft state'<sup>3</sup> characterized by weaknesses such as 'deficiencies in ..... legislation and, in particular, in low observance and enforcement; lack of obedience to rules and directives handed down to public officials.....; frequent collusion of those officials with powerful persons or groups of

- 
1. UNCTAD Secretariat, "Third World Insurance at the End of the 1970's," TD/B/C.3/169/Add.1,31, July, 1980. (UNCTAD, Geneva, 1980), p.7 and p.13.
  2. See generally, Gunnar Myrdal, Asian Drama, Supra.
  3. Gunnar Myrdal, "The Soft State in Underdeveloped Countries," U.C.L.A. Law Review, Vol. 15, 1968, p.1120.

persons whose conduct they should regulate...'. The case of the Sudan studied in this thesis confirms the existence of virtually all these conditions. As we have seen, foreign insurers themselves drafted the Act in their best interest and by so doing pre-empted the field of insurance regulation before Parliament could pass a much tougher piece of legislation. Reinsurance is not subject to control under the Act, rates of premiums and policy terms are left to the companies to decide upon according to their practice, investment regulations are openly disregarded and the controller has no adequate capacity to enforce the minimal regulations in the Act. Information as to solvency of the companies comes from the companies themselves and the manner in which assets and liabilities are assessed are determined by them alone. But even when insolvency is disclosed it is not likely that the appropriate legal measures will be invoked against them. The weakness of the insurance section *vis-à-vis* the market which we have mentioned above, finds expression in the lack of a legal department at the section to monitor violations of the Act, the lack of an actuary to investigate insurers' solvency, and the lack of a qualified accountant to verify annual documents. The crossing of boundaries between the section and the industry by the regulation bureaucracy (in the direction of the industry) has become an important mechanism by which the regulator is co-opted by the regulated and has weakened the section a great deal. But any improvement in the capacity of the section to regulate the market must first be sanctioned by the industry. Thus the section was destined to remain a mere depository of annual documents primarily engaged



in the peripheral issues of regulation rather than a watch dog on the industry. With little effort the industry could keep the controller engaged with the rituals of regulation so as to make his behaviour predictable and to keep him a captive of a certain level of movement at which his activities are tolerable. To the politically powerful industry *the controller is essentially a broker who procures the bulk of business (free of commission) rather than an enforcer of rules.* And from the observation of the writer during the time of research at Khartoum, the controllers' office is, in the eyes of the industry, really no more than a convenient seasonal meeting place from which government insurances are obtained every summer. It is situated in the middle of Khartoum (in a building owned by the General) and within walking distances from all head offices. And for company representatives the controller is one of their social milieu whose primary task is to preside over the distribution of gains between the companies - not to object to, or vary, terms; but to see which government risk is obtained by which company and how best the premiums could be paid to it.

Undoubtedly, the risks are much greater when the task of social and economic transformation in an underdeveloped country is entrusted to pieces of legislation like the Sudanese Act. Indeed the entire legal order (including regulation laws) in many a country in black Africa has not been an effective vehicle for bringing about economic change. To Seidman<sup>1</sup> this was due to the authoritarian nature of the legal order itself.<sup>2</sup> He defines

---

1. Robert B. Seidman, The State, Law and Development, (London: Groom Helm, 1978).

2. Ibid., pp.462-72.

law in terms of being 'a process by which government structures choice'.<sup>1</sup> To him the legal order 'structures society simultaneously with society's structuring of the legal order'<sup>2</sup> and the constraints 'that limit choice represent the influence of society on the legal order; the fact of choice represents the legal order's potential for influencing society'.<sup>3</sup> African 'role-occupants' or addressees of law had their choices structured for them by an authoritarian colonial order. That authoritarianism was a necessary condition for the success of colonial rule and, in turn, reflected the nature of colonial hegemony. At independence the economic and social structures remained intact to serve the interests of a 'political elite' and the ruling class which emerged as beneficiaries of the inherited structures. The legal order thus retained its authoritarianism and its irrelevance to the needs of genuine socio-economic transformation. The failure of development thus 'result[ed] ..... from the contradiction between an authoritarian legal order and the participatory imperatives of development.'<sup>4</sup> And as long as role-occupants remain isolated from the democratic process of law-making the legal order will not induce changed behaviour and will not bring about economic development. This is, undoubtedly, true of many a situation in Africa as Seidman's study has shown. But in the context of regulation statutes like The Insurers (Control) Act here, one cannot speak of 'authoritarianism' or lack of participation in law-making

---

1. Ibid., p.77.

2. Ibid.

3. Ibid.

4. Ibid., p.468.

by role-occupants. The irrelevance of statutes of this sort to the needs of development was actually due to participation, in their making, by their addressees i.e. insurance companies, rather than to their exclusion from the process. When they made the law they did not 'structure' their choices or impose upon themselves the constraints which the needs of development should have necessitated. And if such a law were to serve the goals of real change its powerful role-occupants should, as far as possible, be excluded from the process of its promulgation.

Seidman's analysis appear to have much in common with William Harvey's study<sup>1</sup> of the role which law and legal institutions could play in the preservation of 'democratic values' while 'stimulating and guiding the modernization of economies'.<sup>2</sup> After a short stay in Nkrumah's Ghana (2 years) Harvey suggested that an authoritarian African legal order was unlikely to bring about 'modernization' (he rejects the concept of development because it implied to him a teleological view of social movement). According to Harvey, only the support of democratic consent could be a vehicle 'for the achievement of law and effective legal action'<sup>3</sup> which would ultimately bring about 'modernization'. His preferences as to the nature of change were clearly stated:<sup>4</sup>

[T]he modernizing activities of the various institutions created by law would be the means to move the general population towards levels of understanding and value agreements that would permit greater reliance on modernizing activity guided and regulated by general norms.

- 
1. William B. Harvey, "Democratic Values, Social Change, and Legal Institutions in the Development Process", In Arnold Rivkin (ed.), Nations By Design (New York: Doubleday Anchor, 1968), pp.62-82.
  2. Ibid., p.62.
  3. Ibid., p.81.
  4. Ibid., p.79.

Myrdal's analysis of the 'soft state' and the problems which afflict the regulatory model (discussed so far) reveal Harvey's hopes as too unrealistic. The Sudanese model provides sufficient evidence that private activity could not be effectively 'guided and regulated by general norms.' Indeed greater reliance on private activity directly contradicts the goals of equal distribution of wealth in society and creates a situation in which public interest and rapid development are sacrificed to entrepreneurial promotion. This in turn perpetuates underdevelopment rather than achieves development as Harvey has suggested. And the existence of a law - an exercise in democracy as it might appear to some - of the Sudanese type, actually worsens the chances of a state in making use of its industry in any effective manner, as we have seen, in contrast to systems in which law is subordinated to state ownership of the institution. For it gives the state a false sense of security i.e. that the industry is regulated, while the publicity given to its existence wards off the industry's potential critics. The mere existence of the Act in the Sudan's statute book performs a function in Sudanese society closely related to a function for law which Thurman Arnold formulated thus:<sup>1</sup>

It is part of the function of law to give recognition to ideals representing the exact opposite of established conduct. Most of its complications arise from the necessity of pretending to do one thing, while actually doing another.

---

1. Thurman Arnold, "Law as Symbolism", in Vilhem Aubert (ed.), Sociology of Law, (London: Penguin Books, 1969), p.47.

What is pretended is that insurance is being regulated in the interest of development; what the legislature is actually doing is to allow entrepreneurs all the freedom of action they need. It is part of the symbolism of the law which maintains the status quo in the interest of the powerful. But contrary to Harvey's hopes for a 'modernization', or rather development, being achieved through legal action our discussion so far favours the direct model in which all defects of a regulatory code are taken care of by state ownership of the institution, and under which the role of law in development is subordinated to that of the wider state intervention in the running of the institution. And what justifies state intervention is the fact that the market mechanism in most underdeveloped countries is little developed and the state is often unable to exert control through market institutions to augment regulation statutes. Public enterprises therefore 'offer the prospect of a more direct form of control.'<sup>1</sup>

The superiority of the direct model to the regulatory model does not appear to be in doubt and its suitability to the needs of underdeveloped countries is, to a large extent, substantiated by the Tanzanian experience. The ownership of the institution by the Tanzanian state has not only facilitated proper utilization of the institution but has actually enabled the state to exercise the most effective form of control over other enterprises through the allocation of funds. And as we have seen in Chapter Five, by virtue of its ownership of N.I.C. the state has successfully integrated the corporation into the economic plans of the country. In contrast to

---

1. Yash Ghai, "Fishery Parastatal in Developing Countries", Supra., p.83.

Tanzania, the government in the Sudan has failed to exercise any form of negative operational controls upon the insurance sector. And in the absence of coherent national strategies and objectives, insurance regulation was bound to be little more than a futile exercise, its objectives never articulated with precision, and its effectiveness more dependent on the personal qualities of the bureaucracy than on scientific principles of regulation. Tanzania has a lot to offer to other Third World countries wishing to use their insurance industries properly; the Sudan has nothing to offer.

And in the literature there is hardly any argument against the nationalization of insurance in underdeveloped countries which could be taken seriously. One argument put forward by Irukwu<sup>1</sup> is that nationalization of the industry is bound to deprive a government of the taxes payable by insurance companies! This argument necessarily assumes that companies pay more money by way of taxes than they actually earn, and does not call for further comment. He also argued<sup>2</sup> that nationalization would deprive citizens from having access to the controller of insurance who could act as an independent arbitor when a complaint is lodged against a company. We have seen that the controller of insurance in the Sudan has absolutely no powers to deal with public complaints and that when a complaint is made to him (on the basis of his status *vis-à-vis* the industry) he could only intervene to the extent desired by the parties (which effectively means by the company against which the complaint is made) and his decisions would not have the force of law. Indeed, nationalization - in theory - offers

---

1. J.O. Irukwu, op. cit., p.177.

2. Ibid.

a better chance for the public to have their disputes settled before legal channels are attempted, that is, of course, where the appropriate machinery for dispute settlement exists which is not the case in Tanzania. Another argument against nationalization is that a state-owned insurer is likely 'to receive little support from citizens or commercial organizations of other countries'<sup>1</sup> as these are alleged to prefer having contacts with private capital than with publically owned institutions. This assumption is simply not true in the case of N.I.C. which has received a lot of business from abroad while the Sudan, in contrast, is merely an exporter of reinsurance to other countries including Tanzania itself! It is also assumed that the problems of management of the insurance fund would multiply once a government takes over an insurance industry since there hardly exists a high quality management ready to run the enormous portfolio.<sup>2</sup> There is some truth in this argument, indeed, as we have seen earlier, in the case of N.I.C. in the immediate post-nationalization period the lack of expertise was readily reflected in enormous administrative costs which amounted to over half the accumulated premiums. But undoubtedly a great portfolio is more likely to justify the training of personnel than in the case of a small portfolio as we have mentioned earlier. And in Tanzania today there is a high standard of management and more than one institution in the country offer training facilities for insurance personnel. The Sudan certainly lags behind in this respect. Indeed nationalization appears to be the best remedy for improving the standard of management and expertise in any market in underdeveloped

---

1. Ibid., p.178.

2. Ibid.

countries. Being a service, the production of insurance is a labour-intensive activity, demanding a well-educated labour-force, including a wide range of professional expertise in financial, legal and technical subjects.<sup>1</sup> It is unlikely that each company would have its own lawyer, actuary, reinsurance expert, underwriting expert etc., in a market where several insurers operate. And in so far as nationalization involves the unification of portfolios there will be a concentration of skilled manpower and expertise in one concern.

Carter and Dickinson<sup>2</sup> have also warned against restrictions on foreign supply of insurance often imposed by countries which 'have adopted socialist policies of taking into state ownership all ..... their domestic insurance market.'<sup>3</sup> The consequences of such restrictions are that:<sup>4</sup>

[T]he lack of insurance cover [which might follow from restricting foreign supply of insurance] could result in a reduction in the risk-taking propensity of enterprises, so reducing output and employment. Even if more risky investment decisions are not deferred, output and employment could still suffer if firms decide to carry a higher level

- 
1. An outline of the educational and training needs of the industry can be found in the UNCTAD Study Report, "Insurance Education for Developing countries," TD/B/C.3/121/ Suppl.1 (Geneva: UNCTAD, 1975).
  2. R.L. Carter & G.M. Dickinson, Barriers To Trade in Insurance, Supra.
  3. R.L. Carter & G.M. Dickinson, "Economic Effects of Restrictions on International Trade in Reinsurance", a paper presented at the Third International Reinsurance Seminar at Cambridge, 4th-6th April, 1977.
  4. Barriers To Trade in Insurance, op. cit. p.47.



of working capital to cover the extra operating risks. Moreover, the absence of an adequate supply of property and liability insurance for new, technologically-advanced products and processes may adversely affect the growth of a particular economy.

There is no disagreement about the need for foreign supply of reinsurance for risks which have a high foreign exchange content such as refineries, aircrafts, and the like. These could be, indeed, need be, ceded to more able reinsurers in whose favour the law of large numbers operates on a world level. But Carter and Dickinson seemed to have overlooked the fact that the restriction of foreign supply of insurance is *naturally* accompanied by the establishment of national insurance firms to fill the gaps in the insurance market. The risk-taking propensity will obviously increase rather than decrease if the national firm or firms were to replace foreign ones and take responsibility for the entire nation's insurance. In the case of N.I.C., for example, the issued and paid up capital has increased from shs.2m. in 1967 to shs.10m. by 1977 and, accordingly, the potential for risk-taking has increased a great deal. And as parastatals' risks are insured by the corporation there is no question of excessive capital retention by a parastatal so as to be its own insurer. Thus neither output nor employment have suffered through attempts to keep aside large liquid reserves to cater for contingencies that might arise. The responsibility is directly shifted or transferred to N.I.C. On the other hand and although ultimately the solvency of the corporation is ensured by the Treasury the corporation's own reserve fund i.e. the general reserve fund, has increased

from only shs.2.3m. in 1970 to shs.74.3m. by the end of 1977.<sup>1</sup> To the extent that risk-taking capacity increases with the volume of capital and reserves, the present insurance industry in Tanzania is more competent than ever to provide a very wide range of covers.

We may safely argue now that though nationalization by itself is not a panacea for all the ills of the industry if offers the most adequate framework within which the industry could be made to operate in the interest of a particular society. The Sudan which refrained from nationalizing insurance has also failed to make use of it in any meaningful sense; Tanzania which nationalized insurance has made several breakthroughs hardly achieved elsewhere in black Africa. Even Loxley - N.I.C.'s most articulate critic - admits that 'the direct financial gains from nationalizing insurance [in Tanzania] undoubtedly outweigh those from nationalizing any other sector.'<sup>2</sup> But, unfortunately, features common to the industries in the two countries do exist. In both countries the industry still bears all the hallmarks of its metropolitan model with little chance of adapting to local needs, although in Tanzania there has been an attempt to involve a larger segment of the population through cheap life insurance and crop insurance. In both countries the public is still at the mercy of insurers when a claim is made, although in Tanzania regulations could be made to govern the settlement of disputes. And although the Ombudsman has no jurisdiction to deal with individual claims against the corporation, the Party and Parliament could intervene if the corporation becomes a source of a public outcry. Even *Mwongozo* could be invoked against the corporation since it provides that

---

1. The Insurance Industry in Tanzania: 10th Year Independence Anniversary, op. cit. p.22, also the Annual Report for 1977, pp.9-10.

2. John Loxley, "The Monetary System of Tanzania Since 1967...", op. cit. p.128.

'the activities of parastatals should be a source of satisfaction and not discontent'.<sup>1</sup> But these are theoretical possibilities only; in practice it is hard to distinguish between the institution in the two countries as each appears to be worse than the other. Nevertheless any argument against nationalization of insurance which invokes the possible advantages of competition<sup>2</sup> must weigh such advantages against others which nationalization might bring in its train. At any rate, as the case of the Sudan indicates competition could be eliminated by a device such as a co-insurance scheme. Also, in the two countries a large portion of the insurance fund is invested in real estate with little benefit to the common man, although in Tanzania the larger portion of insurance funds pours into the Treasury. And the markets of both countries are still open to professional reinsurers and direct insurers, although Tanzania is more resistant to their expansion.

Nationalization of insurance in Tanzania was not a futile exercise, but it was not accompanied by a redefinition of the goals and functions of the institution in the post-Arusha period. This in turn has allowed the head office bureaucracy to pursue policies and goals identical to those of a capitalist insurance company anywhere in the world, but in so doing it only increased the vulnerability of the clients of the industry. That is why the differences between the insurance institution in Tanzania and in the Sudan appear more like differences of degree than of kind.

---

1. Para. 33.

2. This is the classic argument against insurance nationalization, see Irukwu, *op. cit.*, p.177, also J.C. Keir, "Nationalization of Insurance in Developing Countries", Best's Review, June 1975, pp.21-4.

Bibliography

(1) Books:

Abbas, M., The Sudan Question, (London: Faber and Faber Ltd.

Abdel Rahim, M., Imperialism and Nationalism in the Sudan, (Oxford: Oxford University Press, 1969).

Abdel Wahab, A., "Development Planning in the Sudan", in El-Hassan, A. M., (ed.), An Introduction to the Sudan Economy, (Khartoum: Khartoum University Press, 1978), pp.216-33.

Ahmed, A.G.M., "The Relevance of Indigenous Systems of Organization of Production to Rural Development : A Case from Sudan", in El-Hassan, A.M. (ed.), Essays on the Economy and Society of Sudan, Vol. I, (Khartoum: Khartoum University Press, 1977), pp. 57-66.

Ali, A.A.G., "Money, Banking and Foreign Trade", in El-Hassan, A.M. (ed.), An Introduction to the Sudan Economy, Supra., pp.

Ali, S.A.A., "Sudanese Financial Institutions and Their Functioning", in El-Hassan, A.M. (ed.), Growth, Employment and Equity, (Khartoum: Khartoum University Press, 1976), pp.5-28.

Amin, S., Accumulation on A World Scale, (New York and London: Monthly Review Press, 1974).

Anderson, O.M., "The Co-operative Movement and its Growing Pains", in Svendsen, K. and M. Teisen (eds.), Self-Reliant Tanzania (Dar es Salaam: Tanzania Publishing House, 1969), pp.286-95.

Apter, D.E., The Politics of Modernization, (Chicago: University of Chicago Press, 1965).

Arnold, T.W., "Law as Symbolism" in Aubert, V. (ed.), Sociology of Law, (Harmondsworth:Penguin Books [reprinted 1972]), pp.46-51.

- Arrighi, G. and J. Saul, Essays On The Political Economy of Africa, (New York and London: Monthly Review Press, 1973).
- Avineri, S. (ed.), K. Marx on Colonialism and Modernization, (New York: Doubleday Anchor, 1969).
- Baker, R.A., "The Purpose of Reinsurance" in Strain, R.W. (ed.), Reinsurance, (New York: College of Insurance, 1980), pp.33-48.
- Baran, P.A., The Political Economy of Growth, (New York: Penguin Books [reprinted 1973]).
- \_\_\_\_\_ and E.J. Hobsbawn, "The Stages of Economic Growth: A Review" in Wilber, K.C. (ed.), The Political Economy of Development and Underdevelopment, (New York: Random House, 1973), pp.45-53.
- Baranard, A.W., A Century of Service: The Story of The Prudential, (London: Witherby Ltd., 1948).
- Barnett, T., The Gezira Scheme: An Illusion of Development, (London: Frank Cass, 1977).
- Beale, R., After The V & G Crash: Reflections on Motor Insurance in Britain, (London: City Press and Compton Press, 1972).
- Bechtold, P.K., Politics in The Sudan, (New York, Washington and London: Praeger Publishers, 1976).
- Bellerose, R.P., Reinsurance For the Beginner, (London: Witherby Ltd. [2nd ed. 1980]).
- Bernstein, H., "Sociology of Underdevelopment v. Sociology of Development?" in Lehmann, D. (ed.), Development Theory : Four Critical Studies, (London : Frank Cass, 1979).
- Beshir, M.O., Southern Sudan : Background to Conflict, (London : Hurst, 1968).
- \_\_\_\_\_ Educational Developments in The Sudan, 1898-1956, (Oxford: Oxford University Press, 1969).

- Borrie, G.A. and A.L. Diamond, The Consumer, Society and The Law, (Harmondsworth: Penguin Books [4th ed. 1981]).
- Bosen, J., "Tanzania: From Ujamaa to Villagization" in Mwansasu, B. and C. Pratt (eds.), Towards Socialism in Tanzania, (Dar es Salaam: Tanzania Publishing House, 1979), pp.125-43.
- , et al, Ujamaa - Socialism From Above, (Uppsala: Scandinavian Institute of African Studies, 1977).
- Bradley, A.W., "Nationalization of Companies in Tanzania" in Thomas, P. (ed.), Private Enterprise and the East African Company, (Dar es Salaam: Tanzania Publishing House, 1979), pp.207-28.
- Brett, E.A., Colonialism and Underdevelopment in East Africa, (London: Heinemann, 1973)
- Bukharin, N., Imperialism and World Economy, (New York and London: Monthly Review Press, 1973)
- Byamugisha, J.B., Insurance Law in East Africa, (Nairobi: East African Literature Bureau, 1973)
- Carter, L.R., Economics and Insurance, (Cheshire: PH Press, 1972)
- Reinsurance, (London: K Lwer Publishing, 1979)
- Chamberlain, M.E., The Scramble for Africa, (London: Longman, [3rd. ed. 1972]).
- Clark, W.E., Socialist Development and Public Investment in Tanzania 1964-1973, (Toronto: University of Toronto Press, 1978).
- Cliffe, L., "From Independence To Self-Reliance" in Kimambo, I and A.J. Temu (eds.). A History of Tanzania, (Dar es Salaam: Tanzania Publishing House, 1969), pp.240-85.

- Cliffe, L., "Underdevelopment or Socialism? A Comparative Analysis of Kenya and Tanzania" in Harris, R. (ed.), The Political Economy of Africa, (Massachusetts: Schenman Publishing House, 1975), pp.139-85.
- \_\_\_\_\_, and J. Saul (eds.), Socialism in Tanzania, Vol. I, (Nairobi: East African Publishing House, 1972).
- \_\_\_\_\_, Socialism in Tanzania, Vol. II, (Nairobi: East African Publishing House, 1973).
- Cockerell, H.A.L., and E. Green, The British Insurance Business, 1547-1970. (London: Heinemann, 1978).
- Colinvaux, R., The Law of Insurance, (London: Sweet and Maxwell [3rd ed. 1970]).
- Coulson, A., (ed.), African Socialism in Practice: The Tanzanian Experience, (Nottingham: Spokesman, 1979).
- Coupland, R., The British Anti-Slavery Movement, (Oxford: Oxford University Press, 1933 [reprinted Cass, 1964]).
- Cronjé, S. et al, Lonhro: A portrait of a Multinational, (New York: Penguin Books, 1976).
- Dickson, P.M., The Sun Fire Office, 1710-1960, (Oxford: Oxford University Press, 1960).
- Dinsdale, W.A., History of Accident Insurance in Great Britain, (London: Stone & Cox, 1964).
- Dobb, M.H., Studies in the Development of Capitalism, (London and Henley: Routledge Paperback, 1963 [reprinted 1978]).
- El-Hassan, A.M. (ed.), Growth, Employment and Equity, Supra.
- \_\_\_\_\_, (ed.), Essays on the Economy and Society of the Sudan, Supra.
- \_\_\_\_\_, (ed.), An Introduction to the Sudan Economy, Supra.

- Ellis, T.H., European Integration and Insurance: Creating a Common Insurance Market, (London: Witherby Ltd., 1980).
- El-Mardi, S.E., "Insurance Industry in the Sudan" in El-Hassan, A.M., (ed.), An Introduction to the Sudan Economy, op.cit., pp.162-82.
- El-Namaki, M.S., Problems of Management in a Developing Environment, (Elsevir: North Holland Publishing Co., 1979).
- El-Rasheed, S., "The Experience of Public Industrialization in the Sudan" in El-Hassan, A.M. (ed.), Essays on the Economy and Society of the Sudan, op.cit. pp.83-114.
- Fawzi, S., The Labour Movement in the Sudan : 1946-1955, (Oxford: Oxford University Press, 1957).
- Finucane, J.R., Rural Development and Bureaucracy in Tanzania: The Case of Mwanza Region, (Uppsala: Scandinavian Institute of African Studies, 1974).
- Firt, R., The Barrel of Gun, (New York: Penguin Books, 1972).
- Fisher, A.G. and J.H. Fisher, Slavery and Muslim Society in Africa, (New York: Doubleday & Co., 1971).
- Fitzpatrick, P., Law and State in Papua New Guinea, (London: Academic Press, 1980).
- Frank, A.G., Capitalism and Underdevelopment in Latin America, (New York and London: Monthly Review Press, 1967).
- , Latin America: Underdevelopment or Revolution, (New York and London: Monthly Review Press, 1970).
- , Lumpenbourgeoisie: Lumpendevelopment, (New York and London: Monthly Review Press, 1972).
- Gaiteskell, A., Gezira: A Story of Development in the Sudan, (Faber and Faber Ltd., 1959).



- Garang, J., "On Economic and Regional Autonomy" in Wai, D. (ed.), The Southern Sudan: The Problem of National Integration, (London: Frank Cass, 1973), p.88.
- Ghai, Y.P. (ed.), Law in The Political Economy of The Public Enterprise, (Uppsala: Scandinavian Institute of African Studies and New York: International Legal Centre, 1977).
- Ghai, D. and Y.P. Ghai, "Asians in Tanzania: Problems and Prospects" in Svensen, K. and M. Teisen (ed.), Self-Reliant Tanzania, Supra. pp. 91-110.
- Gilmore, R.F., "Planning and Managing a Reinsurance Fund", in Strain, R.W. (ed.), Reinsurance, Supra. pp. 347-417.
- Golding, C.E., The Law and Practice of Reinsurance, (London: Buckley Press, [4th ed. 1965]).
- Green, R.H., "Law, Laws and Public Enterprise Planning in Africa" in Ghai, Y.P. (ed.), Law in the Political Economy of the Public Enterprise, Supra., pp.49-71.
- \_\_\_\_\_ "Tanzanian Political Economy Goals, Strategies and Results" in Mwansasu, B. and C. Pratt, (eds.) Towards Socialism in Tanzania, Supra., pp. 19-43.
- Grossmann, M. (ed.), Insurance Markets of the World, (Zurich: Swiss Reinsurance Co., 1964).
- Gwassa, G.C.K., "The German Intervention and African Resistance" in Kimambo, I., and A.J. Temu, (eds.), A History of Tanzania, Supra., pp. 85-122.
- Harvey, W.B., "Democratic Values, Social Change, and Legal Institutions in the Development Process" in Rivkin, R. (ed.), Nations By Design, (New York: Doubleday Anchor, 1968), pp.62-82.
- Hayter, T., Aid as Imperialism, (New York: Penguin Books, 1974).

- Hill, R., Egypt in the Sudan, (Oxford: Oxford University Press, 1959).
- Holt, M.P., The Mahdist State in the Sudan, (Oxford: Oxford University Press, 1958).
- , A Modern History of the Sudan, (London: Weidenfield and Nicolson, 1972).
- Huntington, S.P., Political Order in Changing Societies, (New Haven: Yale University Press, 1968).
- Illiffe, J., Tanganyika Under German Rule, (London: Cambridge University Press, 1969).
- Irukwu, J.O., Insurance Management in Africa, (West Africa: Caxton Press, 1977).
- Ivamy, H.E., Marine Insurance, (London: Butterworth [2nd ed. 1974]).
- Jones, C., "Insurance Companies", in Platt, D.C. (ed.), Business Imperialism, (Oxford: Oxford University Press, 1977), pp.53-74.
- Kaniki, M.H.Y., "Tanu, The Party of Independence and National Consolidation" in Ruhumbika, G., (ed.), Towards Ujamaa - Twenty Years of Tanu Leadership, (Dar es Salaam: East African Literature Bureau, 1974), pp.1-29.
- Kay, G., Development and Underdevelopment: A Marxist Analysis, (London: Macmillan, 1979).
- Kessler, F., "Contracts and Power in America" in Black, D., and M. Mileski (eds.), The Social Organization of Law, (New York: Seminar Press, 1973), pp. 167-79.
- Kimball, S.L. and D.S. Denenberg (eds.), Insurance Government, and Social Policy, (Georgetown: R.D. Irwin, 1969).
- Kramer, H.T., "The Nature of Reinsurance", in Strain, R. W. (ed.), Reinsurance, op.cit. pp.1-31.

- Lazarus, S., "Halfway Up Liberalism: Regulation and Corporate Power" in Nader, R. and M.J. Green (eds.), Corporate Power in America: The Nader Report, (New York: Grossman Publishers, 1973), pp. 215-34.
- Lees, F.A. and H.C. Brooks, The Economic and Political Development of the Sudan, (London: Macmillan, 1977).
- Lengyel, S.L., International Insurance Transactions, (London: Wadley and Ginn, 1953).
- Lenin, V.I., The Development of Capitalism in Russia, (Moscow: Progress Publishers, 1964).
- , Imperialism: The highest stage of Capitalism, (Moscow: Progress Publishers [17th printing 1970]).
- Leys, C., Underdevelopment in Kenya: The Political Economy of Neo-Colonialism, (London: Heinemann, 1975).
- Lloyd, P.C., Classes, Crises and Coups: Themes in the Sociology of Developing Countries, (London: Paladin, 1973).
- Loxley, J., "Financial Planning and Control in Tanzania" in Rweyemamu, J. et al. (eds.), Towards Socialist Planning. (Dar es Salaam: Tanzania Publishing House, 1972), pp. 50-71.
- "Structural Change in the Monetary System of Tanzania" in Cliffe, J. and J. Saul, (eds.), Socialism in Tanzania, Vol. II, Supra., pp. 102-10.
- "Monetary Institutions and Class Struggles in Tanzania" in Mwansasu and Pratt, op.cit., pp. 72-91.
- , "East African Stock Exchange" in Thomas, P. (ed.), Private Enterprise and The East African Company, Supra., pp. 132-55.
- , "The Monetary System of Tanzania Since 1967: Progress, Problems and Prospects", in Kim, K.S. et al. (eds.), Papers on the Political Economy of Tanzania, (London: Heinemann, 1979), pp.128-31.

- Mahgoub, M.A., Democracy on Trial, (London: André Deutch, 1974).
- Mapolu, H., "The Organization and Participation of Workers" in Kim, K.S. et al. (eds.), Papers on the Political Economy of Tanzania, Supra., pp. 272-77.
- Martin, F., The History of Lloyds and of Marine Insurance in Great Britain, (London: Macmillan, 1876).
- Marx, K., Capital, Vol. I, (London: Lawrence & Wishart [6th ed. 1977]).
- , Capital, Vol. III, (London: Lawrence & Wishart [6th ed. 1977]).
- , Pre-Capitalist Economic Formations, (London: Lawrence and Wishart, 1964).
- , and F. Engels, Selected Works, (Moscow: Foreign Language Publishing House, 1962).
- Mascarenhas, A., "After Villagization: What?" in Mwansasu & Pratt, op.cit. pp. 145-65.
- Mayerson, A.L., Introduction To Insurance, (New York: 1962)
- , "Insuring The Solvency of Property and Liability Insurance Companies" in, Kimball, S.L. and D.S. Denenberg (eds.), Insurance, Government, and Social Policy, Supra., pp. 146-90.
- Meher, R.I. and E. Cammak, Principles of Insurance, (Illinois: R. D. Inc., 1976).
- Msambichaka, L.A. and R.B. Mabele, "Agricultural Credit and the Development of *Ujamaa* Villages" in Kim, K.S., et al. op.cit. pp. 207-15.
- Myrdal, G., Asian Drama: An Inquiry Into the Poverty of Nations, (New York: Pantheon, 1968).
- Nabudere, D.W., The Political Economy of Imperialism, (Dar es Salaam: Tanzania Publishing House, [2nd. ed. 1978]).
- Nkrumah, K., Neo-Colonialism: The Last Stage of Imperialism. (London: Panaf, 1965).

- Niemi, S., "Industry in the Sudan" in El-Hassan, A.M. (ed.), An Introduction To the Sudan Economy, op.cit., pp.76-95.
- , Economic Planning in the Sudan 'in Arabic', (Khartoum: Khartoum University Press, 1978).
- Nurkse, R., The Problems of Capital Formation in Underdeveloped Countries, (Oxford: Oxford University Press, 1953).
- Nyerere, J.K., Freedom and Socialism, (Oxford: Oxford University Press, 1968).
- , Freedom and Unity, (Oxford: Oxford University Press, 1969).
- , "The Arusha Declaration: Ten Years After" in Coulson, A. (ed.), African Socialism in Practice: The Tanzanian Experience, Supra., pp. 43-71.
- Ochola, S.A., Minerals in African Underdevelopment, (London: Bogle-L'Overture, 1975)
- Ospiov, G., Sociology: Problems of Theory and Method, (Moscow: Progress Publishers, 1969).
- Oxaal, I., et al., Beyond the Sociology of Development, (London: Routledge & Kegan Paul, 1975).
- Parker, I., "Contradictions in The Transition to Socialism: The Case of N.D.C." in Mwansasu and Pratt, op.cit., pp. 46-70.
- Pratt, C., The Critical Phase in Tanzania: 1945-1968 (London: Cambridge University Press, 1976).
- Raynes, H.E., A History of British Insurance, (London: Pitman & Sons Ltd., [2nd. ed. 1964]).
- Revel, J.S., The British Financial System, (London: Macmillan, 1973).
- Rhodes, R.I. (ed.), Imperialism and Underdevelopment: A Reader, (New York and London: Monthly Review Press, 1970).
- Riegel, A.S. and J. Miller, Insurance Principles and Practices, (Prentice-Hall Inc. Englewood Cliffs, 1966).

- Roberts, A.D., "The Pre-Colonial History of Tanzania" in Svendsen and Teisen, op.cit., pp. 29-45.
- Robinson, R., "Non-European Foundations of European Imperialism: Sketch for a Theory of collaboration" in Owen, R. and B. Sutcliffe (eds.). Studies in the Theory of Imperialism, (London: Longman [6th ed. 1980]), pp. 117-40.
- Rodney, W., How Europe Underdeveloped Africa, (London: Bogle-L'Overture [2nd ed. 1978]).
- Rosenstein-Rodan, P.N., Capital Formation and Economic Development, (London: Allen and Unwin, 1964).
- Rostow, S.W., The Stages of Economic Growth: A Non-Communist Manifesto, (London: Cambridge University Press, 1960).
- Russel, P. and S. McCall, 'Can Cession be Justified? The Case of Northern Sudan' in Wai, D., The Southern Sudan: The Problem of National Integration, Supra., p.96.
- Rutman, G.L., The Economy of Tanganyika, (New York: Frederick A. Praeger, 1968).
- Rweyemamu, J., Underdevelopment and Industrialization in Tanzania, (Nairobi: Oxford University Press, 1973).
- , et al. Towards Socialist Planning, Supra.,
- Salaam, M.M.A., "Agriculture in The Sudan" in El-Hassan, A.M. (ed.), An Introduction to the Sudan Economy, op.cit., pp.38-60.
- Seidman, R.B., The State, Law and Development, (London: Croom Helm, 1978).
- Shivji, I.G. (ed.) The Silent Class Struggle in Tanzania, (Dar es Salaam: Tanzania Publishing House, 1973).
- , Class Struggles in Tanzania, (Dar es Salaam: Tanzania Publishing House, 1975).

- Spero, J.E., The Politics of International Economic Relations, (London: Allen and Unwin, 1978).
- Suliman, A.A., Issues in the Economic Development of the Sudan, (Khartoum: Khartoum University Press, 1975).
- Supple, B., The Royal Exchange Assurance : 1720-1970, (London: Cambridge University Press, 1970).
- , (ed.). Essays on British Business History, (Oxford: Oxford University Press, 1977).
- Swainson, N., The Development of Corporate Capitalism in Kenya: 1918-1977, (London: Heinemann, 1980).
- Taha, A.A., "The Industrial Relations System in the Sudan" in El-Hassan, A.M. (ed.), An Introduction to the Sudan Economy, op.cit., pp. 183-199.
- and A.H. Saeed, The Liberation of Sudanese Economy ('in Arabic'), (Khartoum: Khartoum University Press, 1971)..
- Temu, A.J., "The Rise and Triumph of Nationalism" in Kimambo, I. and A.J. Temu, op.cit., pp. 189-213.
- The Sudanese Insurance and Reinsurance Co., 10th Year Book, (Khartoum: Khartoum University Press, 1977).
- Todroff, W., Government and Politics in Tanzania, (Nairobi: East African Publishing House, 1967).
- Warburg, G., Islam, Nationalism and Communism in a Traditional Society: The Case of Sudan, (London: Frank Cass, 1978).
- Ward, W.E. and L. White, East Africa: A Century of Change, 1870-1970, (London: Allen and Unwin, 1971).
- Weiner, M. (ed.), Modernization: The Dynamics of Growth, (New York: Basic Books, 1966).

- Whiely, W.H., "Swahili: The National Language of Tanzania" in Svendsen and Teisen op.cit., pp.111-18.
- Wilkins, C., "Transport in the Sudan" in El-Hassan, A.M. (ed.), An Introduction to the Sudan Economy, op.cit., pp.102-21.
- Williams, E., Capitalism and Slavery, (London: Andre Deutsch [3rd ed. 1972]).
- Woodward, P. Condominium and Sudanese Nationalism, (London: Rex Collings, 1979).
- Wolf, L., Empire and Commerce in Africa, (London: Allen and Unwin [2nd ed. 1968]).
- Wynn, S., World Trends in Life Insurance (London: Associated Business Programmes, 1975).



Articles:

- Atta-alla, B.M., "Insurance and *Sharia* Law", Journal of the Administration of Government Legal Actions 'in Arabic', (Cairo) No. 3, 1970, pp. 78-107.
- Banasinski, A., "Insurance As A Cybernetic Institution of Self-Regulation of the National Economy", Astin Bulletin, Vol. 5, part 3, Feb. 1971, pp. 393-401.
- Barbour, K.M., "The Sudan Since Independence", Journal of Modern African Studies, Vol. 18, No. 1, pp. 73-97.
- Benktander, G., "Inflation, Insurance and Reinsurance", International Insurance Monitor, April, 1975, pp. 47-9.
- Bradley, A.W., "Legal Aspects of Nationalization in Tanzania", E.A.L.R., Vol. 3, 1967, pp. 149-176.
- Cardoso, F.H., "The Consumption of Dependency Theory in The United States", 12, Latin American Research, 7.
- Collins, C., "Colonialism and Class Struggle in The Sudan", Middle East Research and Information Project, No. 46, pp. 3-20.
- Denenberg, H.S., "The Search for Countervailing Power", International Insurance Monitor, Vol. XXIII, Nos. 7-8, July/August, 1969, pp. 166.
- Dupre, G., and P.R. Ray 'Reflections on the Pertinence of a Theory of Exchange', Economy and Society, Vol. 2, No. 2, 1973, pp. 131-162.
- Freyhold, M.V., "The Post-Colonial State and its Tanzanian Version", Radical Science Journal, No. 8, Jan./Feb. 1977, pp. 75-89.
- Ghai, Y.P., "Notes Towards a Theory of Law and Ideology: Tanzanian Perspectives", African Law Studies, No. 13, 1976, pp.31-84.
- Hasson, R.A., "The Doctrine of Uberrima Fides in Insurance Law - A Critical Evaluation", 32, M.L.R., 1969, pp. 615-37.

- Hasson, R.A., "The 'Basis of the Contract Clause' in Insurance Law", 34, M.L.R., 1971, pp.29-41.
- Hurley, I.W., "Insurance in the Former French Territories of North, West and Equatorial Africa - The Changing Scene", Journal of the Insurance Institute of London, Vol. 52, pp. 30-40.
- James, R.W. and S. Ligunya, "Organizational Relationship and The Control of Parastatals in Tanzania", E.A.L.R., Nos. 1 and 2, Vol. 5, 1972, pp. 39-64.
- Kanywanyi, J.L., "Compulsory Motor Insurance Scheme in Tanzania: The Need for a New Approach", E.A.L.R., Vol. 4, No. 1, pp. 35-65 and No. 2, pp. 91-107.
- Keir, J.C., "Nationalization of Insurance in Developing Countries", Best's Review, June, 1975, pp. 21-4.
- Kimball, S.L., "The Purpose of Insurance Regulation: An Inquiry in the Theory of Insurance Law", Minn. L.R., 1961, pp. 471-524.
- Lijadu, O., "Government Control of Operations of Insurance in Developing Countries", Journal of West African Insurance Consultative Association, Vol. 1, 1975, pp. 34-45.
- Loxley, J. and J. Saul, "The Political Economy of the Parastatals", E.A.L.R., Nos. 1 and 2, Vol. 5, 1972, pp. 9-34.
- Mbowe, G.F., "Project Implementation and Control: A Critical Problem in Public Enterprises in Tanzania", Public Enterprise, No. 1, Vol. 1, 1980, pp. 57-65.
- Myrdal, G., "The Soft State in Underdeveloped Countries", U.C.L.A. Law Review, Vol. 15, 1968, pp. 1118-34.

- Nsereko, D.D., "The Tanzanian Nationalization Laws", E.A.L.R., Vol. 3 and 4, 1970/71, pp. 1-23.
- O'Neill, N., "Imperialism and Class Struggle in the Sudan", Race and Class, Vol. XX, pp. 1-18.
- Packard, P. "Management and Control of Parastatal Organizations", Development and Change, Vol. 3, 1971/72, pp. 62-76.
- Pickering, M., "The Control of Insurance Business in Great Britain", Wis.L.R., No. 4, 1969, pp. 1141-1169.
- Ratcliffe, A.R.N., "Services to the Economy", Journal of the Insurance Institute of London, Vol. 71, pp. 155-64.
- Richardson, G.F., "The Effect of Legislation in Latin America Limiting the Freedom to Reinsure Internationally", C.C.P.U. Journal, December, 1979, pp. 197-207.
- Ripoll, J., "UNCTAD and Insurance", Journal of World Trade Law, Vol. 8, 1974, pp. 75-106.
- , "Some Thoughts on Insurance and Development", Best's Review, February, 1976, pp. 43-48.
- , "Contribution of Agricultural Insurance Towards Economic Development", The Platform, Jan. Feb., 1980.
- Shenyangwa, J., "The Responsibility of the Reinsurance Dictorate", Ngao, No. 6, September, 1977, pp. 19-20.
- Shivji, I.G., "Insurance and Development", E.A.L.R., Vol. 3, 1970, pp. 143-173.
- Snyder, F., "Law and Development in the Light of Dependency Theory", Law and Society Review, Vol. 14, No. 3, Spring, 1980, pp. 723-82.

Sowsslier, J., "Some Technical Aspects of Reinsurance Balance of Results",

The Review, Nov. 15, 1968, pp. 1337-43.

Uster, K., "The International Activity of Swiss Insurers and Reinsurers",

International Insurance Monitor, May, 1974, pp. 177-79.

Papers.

Amin, S., "Underdevelopment and Dependence in Black Africa", a paper presented for the U.N. African Institute for Economic Development and Planning, Dakar, 1971.

Bosen, J., "Development and Class Structure in Smallholder Society and The Potential for *Ujamaa*", mimeo., University of Dar es Salaam, 1972.

Carter, L.R., "Multinational Insurance Companies", discussion papers in industrial economics, No. 34, University of Nottingham, 1975.

\_\_\_\_\_ and G.M. Dickinson, "Barriers to Trade in Insurance", (Trade Policy Research Centre, Thames Essay No. 19, 1979).

\_\_\_\_\_ , "Economic Effects of Restrictions on International Trade in Reinsurance", a paper presented to the Third International Reinsurance Seminar, Cambridge, 4th-6th April, 1977.

Dunning, J.H., "Insurance in the Economy", (Institute of Economic Affairs, Occasional Paper, 34, 1971).

El-Amin, S.M.A., "Insurance Regulation in the Sudan: An Inside View", unpublished paper written for the Insurance Section of the Ministry of Finance, Khartoum, 1979.

El-Mardi, S.E., "Insurance Funds and Their Investment in the Sudan", unpublished paper, undated.

\_\_\_\_\_ , "African Insurance Markets: Structure and Development", a paper published by the Economic and Social Research Council, Khartoum, 1976.

\_\_\_\_\_ , "Insurance of Public Sector Corporations in the Sudan", a paper published by the Economic and Social Research Council, Khartoum, 1980.

- Ghai, Y.P., "Fishery Parastatals in Developing Countries", unpublished mimeo., 1981.
- Hassan, A.A., "The Role of Insurance in the Development of Sudanese Economy", a dissertation paper submitted to the Faculty of Economics and Social Studies, University of Khartoum, 1979.
- Jundu, F.A.R., "Insurance: A Commercial Venture", a research paper presented to the Faculty of Law, University of Dar es Salaam, 1977.
- Loxley, J., "Financial Intermediaries and their Role in East Africa", a paper presented to the University of East Africa Social Science Conference, Nairobi, 1966.
- Maseko, I.J., "Workers Participation in Management in Tanzania", mimeo., University of Dar es Salaam, 1972.
- Mtango, E., "Effects of Nationalization on Insurance Business in Tanzania: Law and Practice", a research paper submitted to the Faculty of Law, University of Dar es Salaam, undated.
- Mustafa, A.E., "The Structural Malformation of the Sudanese Economy", a paper published by the Economic and Social Research Council, Khartoum, 1977.
- Mutwali, Y., "Co-Insurance in the Sudan", unpublished paper written for the Insurance Section of the Ministry of Finance, Khartoum, 1979.
- Mwaipela, M.J.A., "The Meaning of the Principal of Indemnity in the Context of Historical Development and Functions of Insurance", a research paper presented to the Faculty of Law, University of Dar es Salaam, undated.
- Othman, M.C., "Social Security in Tanzania", a research paper presented to the Faculty of Law, University of Dar es Salaam, 1974.
- Raikes, P., *Ujamaa Vijijini and Rural Development*", mimeo., University of Dar es Salaam, 1973.

- Rajab, M., "Current Developments of Arab Insurance Markets and Their Relationship with London and other International Markets", a paper presented to The Arab Insurance Conference, London, 1977.
- Rashid, M.K., "The Role of the National Provident Fund as a Social Security Institution in Tanzania", a research paper presented to the Faculty of Law, University of Dar es Salaam, 1974.
- Sender, J., "Some Preliminary Notes on the Political Economy of Rural Tanzania Based on a case study in Western Usambaras", mimeo., University of Dar es Salaam, 1974.
- The Insurance Section of the Ministry of Finance", the Role of The Insurance Section in the Development of Sudanese Economy", unpublished paper, undated.
- The Secretary of State for Trade (U.K.), "Insurance Intermediaries", (London: HMSO, 1977).
- The Sudanese Insurance Association, "Treaty Limits of Sudanese Insurers", unpublished paper presented to the Ministry of Finance by the Sudanese Insurance Association, 1978.
- The Sudanese Communist Party, "Mechanized Farming and the Development of Capitalism in The Traditional Sector", S.C.P. Publications, No. 4, 1976.
- \_\_\_\_\_ , "Traditional Sector and the National Democratic Revolution", S.C.P. Publications, February, 1976.
- Temu, O.W.S., "Workmen's Compensation: Law and Practice", a paper presented to the Faculty of Law, University of Dar es Salaam, 1975.

Reports.

Annual Report of the Controller of Insurance (Sudan) to the Minister of Finance, "Performance of Insurance Companies", unpublished, 1977.

Committee to Review the Functioning of Financial Institutions, "Second Stage Evidence", (London: HMSO, 1979).

"Final Report to the Government of the Democratic Republic of the Sudan", by M. Sadiq, (UNCTAD expert), unpublished, Khartoum, 1971.

Lloyds Bank Ltd., "Sudan - Economic Report", published by Lloyds Bank, Overseas Division, (London, March, 1980).

"Report of the Economic Committee on the Insurance Sector", unpublished report, submitted to the Minister of Finance, (Khartoum, 1970).

Report of the Interdepartmental Committee, unpublished, Khartoum, July, 1957.

Report of "The Ministerial Committee for the Evaluation of the Assets of Sudanese Insurers", unpublished, June/July, 1973.

"The Insurance Industry in Tanzania: 10th Year Independence Anniversary", published by N.I.C., Dar es Salaam, 1971.

U.N., "Domestic Financing of Economic Development", (U.N., New York: Department of Economic Affairs, 1950).

———, "The Tying of Aid: Progress Report", TD/7/supp.4., (U.N. New York, 1967).

UNCTAD Secretariat, "Reinsurance Problems in Developing Countries", TD/B.C.3/106/Rev. 1, (U.N. New York: 1975).

—————, "Insurance Education for Developing Countries", TD/B/C.3/121/Supp. 1., (Geneva: UNCTAD, 1975).



UNCTAD Secretariat, "Insurance Legislation and Supervision in Developing Countries", TD/B/393/, (U.N. New York, 1972).

\_\_\_\_\_, "Inter-Regional Seminar on Insurance and Reinsurance - Prague, 20-30, October, 1969", TD/B/C.3/83 (UNCTAD, Geneva, December, 1971).

\_\_\_\_\_, "Proceedings of UNCTAD", E/CONF. 46/5, Appendix (iv), 'SUDAN', (U.N. New York, 1964).

\_\_\_\_\_, "Investment of Technical Reserves of Insurance Concerns in the Country Where the Premium Income Arises", TD/B/C.3/87, (U.N. New York, 1971).

\_\_\_\_\_, "Third World Insurance at the End of the 1970s", TD/B/C.3/169/ Add. 1, 31, July, 1980, (UNCTAD, Geneva, 1980).

Circulars, Letters and Memoranda:

Circular Letter No. MNE/Ins./82/2/15. (Khartoum), dated 9.4.1973.

Circular Letter No. MET/82/2-15-C, (Khartoum), dated 8.9.1964.

Circular Letter No. MT/Ins./82-2-15-C, (Khartoum), dated 6.8.1969.

Circular Letter by the State Minister of Commerce (Khartoum), dated 29.9.1973.

Presidential Circular No. 1, 1969, (Dar es Salaam).

\_\_\_\_\_ No. 1, 1970, (Dar es Salaam), "The Establishment of  
Workers' Councils, Executive Committees and Boards of Directors."

Letter by Mr. Glassborrow to the Attorney-General, dated 1 July, 1955.

Letter by Mr. Glassborrow to the Attorney-General, dated 13 July, 1957.

Letter by Attorney-General to the Council of Ministers, dated 1.5.1958.

Letter by the Minister of Industry, Commerce and Supply to the Attorney-  
General, dated 10 July, 1958.

Letter by the Attorney-General to the Director of Establishments, dated 8.8.1969.

Letter by the controller of insurance to the Attorney-General, dated 15.11.1959.

Letter by the Attorney-General to the Permanent Undersecretary of the Ministry  
of Finance, dated 9.11.1959.

Letter by the Business Profit Tax (of the Department of Taxation) to the  
controller of insurance, dated 13.12.1969.

Letter by the Attorney-General to acting controller, dated 15 July, 1962.

Letter by the Attorney-General to acting controller, dated 12.8.1969.

Letter by the Attorney-General to the controller, dated 8.11.1978.

Letter by the Acting controller to the Attorney-General, dated 23 July, 1968.

Letter by the Acting controller to the Attorney-General, dated 19.11.1963.

Letter by the Alliance Marine Insurance Co. to the Commercial Registrar,  
dated 2.10.1962.

Letter by Mr. Porteous, G. C. (Chairman of the Foreign Fire Offices) to the Minister of Finance, dated 18.6.1960.

Letter by the Blue Nile Insurance Co. to the controller of insurance, dated 17.8.1971.

Letter by the controller of Insurance to the Minister of Finance, dated 17.9.1971.

Letter by the controller of Insurance to the Minister of Finance, dated 17.8.1975.

Letter by the controller of Insurance to the Minister of Finance, dated 17.10.1972.

Letter by the Sudanese Insurance and Reinsurance Co. to the Minister of Finance, dated (May), 1975.

Letter by the Minister of Finance to the controller, dated 17.8.1975.

Letter by Mr. Cole, J.S.R. (of the Ministry of Justice) to the controller of insurance, dated 6.6.1962.

Letter by the Governor of the Bank of Sudan to the controller, dated 22.12.1961.

Letter by the Minister of Finance to the Governor of the Bank of Sudan, dated 17.6.1962.

Letter by the Sudanese-Kuwaiti Road Transport to the controller of insurance, dated 23.11.1974.

Letter by the Financial Manager of the Sudanese Tractors Corporation to the controller, dated 12.5.1975.

Letter by the controller to the Commissioner of the Police, dated 11.3.1975.

Letter by the controller to the Fire Brigade, dated 18.8.1973.

Letter by the National Trading Co. to the Minister of Finance and Commerce, dated 25.5.1954.

Letter by the Minister of Economics and Trade to the Minister of Local Governments, dated 23.5.1972.

"The Sudanese Insurance Market", a memo. by Osman, A.M., former controller of insurance, undated.

Memo. by Abdel Magid, A., (Minister of Finance) to the Council of Ministers, dated 15 June, 1960.

Memo. by the Joint Committee of British Insurance Offices in the Sudan to Mr. Glassborrow, undated.

Memo. by Mr. Glassborrow to the Attorney-General, dated 27 June, 1958.

Memo. by the controller of insurance to the Minister of Finance, dated 13 January, 1970.

Memo. by Suliman, A., (Minister of Finance) to the Council of Ministers, dated 4.4.1970.

Memo. by El-Rasheed, I., (of the Attorney-General) to the controller of insurance, dated 18.7.1968.

Memo. by the Attorney-General to the Acting controller of insurance, dated 10 January, 1967.

Memo. by El-Tuhami, O. (of the Attorney-General) to the controller of insurance, dated 8.11.1978.

Memo. by Katan, W. (of the Attorney-General) to the controller of insurance, dated 8.10.1978.

Memo. by Mr. Glassborrow dated 20.5.1956.

Memo. by the controller of insurance to the Minister of Finance, dated 18.8.1971.

Memo. by the Sudanese Insurance Association to the controller of insurance, undated.

Memo. by Mr. Glassborrow dated 26 June, 1958.

Memo. by the controller of insurance to the Minister of Finance and National Economy, on "insurance cover for Sudan Shipping Line", undated.

Memo. by the controller of insurance to the Deputy Minister of Finance, dated 2.10.1972.

Memo. by Lloyds to Mr. Glassborrow, dated 3.11.1955.

Memo. by the controller of insurance to the Minister of Finance on "Investment of insurance companies", dated 17.10.1972.

Memo. by the Sudanese Insurance Association to the Minister of Finance, dated 23.9.1971.

Memo. by the controller of insurance to the Minister of Finance on "Valuation of Insurance Companies' Real Estate Assets", dated 15.8.1973.

Memo. by the controller of insurance to the Minister of Finance on the "Re-organization of the Sudanese Insurance Market", dated 27.11.1971.

Journals and Newspapers Cited:

Africa Confidential, 6.10.1972.

Al-Ayam (Daily) Newspaper (Sudan), 29.7.1977 and 22.9.1977.

Al-Sahafa (Daily) Newspaper (Sudan), 3.9.1979 and 15.9.1980.

Asharq Al-Awsat, (London), Sunday 22.2.1981.

Daily News (Tanzania), 10.4.1974 and 23 July, 1976.

Journal of Insurance, 31 January 1979.

Journal of the Insurance Institute of London, Vol. 53, 1964.

Vol. 60, October 1971.

Journal of World Trade Law, 1967.

Latin American Perspectives, Issue 21, No.2, Spring 1979.

Lloyd's List, 4. March, 1977.

Middle East Economic Digest, 14 July - 10 August, 1980.

Ngao, No. 1, March 1971, No. 6, March 1978, No. 12, March 1980.

Policy, July 1971.

Policyholder Insurance Journal, 11 September, 1970.

Review of African Political Economy, No. 10, 1975.

Sada Libnan, March, 1979.

The Banker, January, 1978.

The Economist, 12.2.1972.

The Financial Times, 25.3.1977, 22.11.1976, 2.7.1980.

The Guardian, 11.4.1981.

The Nationalist (Tanzania), 14.2.1967, 18.10.1968.

The Review, No. 15, 1 March, 1975.

The Times, 8.2.1971, 8.8.1971.

Statutes and Regulations Cited:

The Sudan.

Title to Lands Ordinance, 1899.

The Land Settlement Ordinance, 1905.

The Companies Ordinance, 1925.

The Road Traffic Act, 1945.

Approved Enterprises (Concessions) Act, 1956.

The Bank of Sudan Act, 1959.

The Insurers (Control) Act, 1960.

The Industrial Bank Act, 1961.

The Insurers (Control) Regulations, 1962.

The Mechanized Farming Corporation Act, 1969.

The Auditor-General's Act, 1970.

The Nationalization of Companies Act, 1970.

The Trade Union Act, 1971.

The Development and Promotion of Industrial Investment Act, 1972.

The Organization and Encouragement of Investment in Economic Services  
Act, 1973.

The Development and Encouragement of Industrial Investment Act, 1974.

The Social Insurance Act, 1974.

The Agricultural Investment Act, 1976.

The Financial Accounting and Procedures Act, 1977.

Faisal Islamic Bank Act, 1977.

The Investment Act, 1980.

Kenya:

The State Reinsurance Corporation of Kenya Act, 1970.

Uganda:

Control of the Business of Life Assurance Ordinance, 1945.

Tanzania:

The Companies Ordinance, 1931.

The Co-operative Societies Ordinance, 1932.

The Life Assurance Ordinance, 1945.

The Treasury Registrar Ordinance, 1959.

The Security of Employment Act, 1964.

The Interim Constitution of Tanzania, 1965.

The Permanent Commission of Inquiry Act, 1966.

The Insurance (Vesting of Interest and Regulation) Act, 1967.

The Permanent Labour Tribunal Act, 1967.

Workmen's Compensation Act, 1967.

The Permanent Commission of Inquiry Act, 1967.

The Tanzania Audit Corporation Act, 1968.

The Public Corporations Act, 1969.

The Prevention of Corruption Act, 1971.

The Companies (Regulation of Dividends and Surpluses and Miscellaneous Provisions) Act, 1972.

The Regulation of Prices Act, 1974.

The Finance Act, 1974.



The Parastatal Organization (Financial Supervision and Control) Act, 1975.

The Insurance (Investment of Premiums) Notice, 1975.

U.K:

The Employers' Liability Act, 1880.

The Assurance Companies Act, 1948.

The Insurance Companies Act, 1958.

The Insurance Companies Act, 1974.

Cases Cited:

Attorney-General v. Forskring S. National, [1925], A.C.639.

Dependants of Tarawia v. Tinga Tinga Estate Ltd., (unreported), Workmen's Compensation (Tanzania) 457/1971.

Greaves v. Drysdale (1935), 53. Lloyds L.R. 16.

Hassan Musa v. Phoenix Assurance [1964], S.L.J.R. 54.

Kibasa v. Stone Valley Tea Co. Ltd., (unreported), Workmen's Compensation, (Tanzania), 2948/1970.

Kumar v. Life Insurance Corporation of India [1974], Lloyds L.R. 147.

Liquidators of Glasgow Assurance Corporation v. Welsh Insurance Corporation Ltd. [1914]. S.C.320.

London Plate Glass v. Heath [1913], 3.K.B.411.

Motor Union Insurance Co. v. Dodoma [1963] E.A.L.R. 271.

Musa Omari v. Tanganyika Farmers' Association, (unreported), Workmen's Compensation (Tanzania), 3952/1972.

Robert Kelgeleris v. Sudanese Motor Insurance Co. [1960], S.L.J.R. 88.

Thomson v. Weems (1884), 9. App. Cas. 671.

Interviews:

Interview with Ahmed Mohamed E. Osman (Chairman of the Board of Directors and General Manager of N.R.C.), Khartoum, September, 1979.

Interview with the controller of insurance, Khartoum, May, 1979.

Interview with Yahya Mutwali of the insurance section, May, 1979.

Interview with the Deputy General Manager of the African Insurance Co. (Sudan) Ltd., May, 1979.

Interview with the Deputy General Manager of United Insurance Co. Ltd., April, 1979.

Interview with Mr. Ramadan Mongi of N.I.C., Dar es Salaam, July 1979.

Interview with Mr. D.S. Mashiku of N.I.C., Dar es Salaam, August 1979.

Interview with Mr. K. Makani of N.I.C., Dar es Salaam, August 1979.

Interview with Mrs. T.M. Mshuza (editor of *Ngao*), Dar es Salaam, July 1979.

Interview with Mr. Vaidswarn of the Institute of Finance Management.

Dar es Salaam, August 1979.