

AGRICULTURAL CREDIT IN TANZANIA 1961-1966 (*)

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1. Introduction

We have elsewhere given an account of the emergence of formal agricultural credit in Tanzania¹. During the 1905-46 period, a commercial banking system began to be created which, however, for legal reasons, only provided credits for non-African settlers. From 1947 to 1960, institutions specialized in agricultural development began to appear which largely based their operations on traditional banking criteria with a heavy emphasis on securities. Thus, at independence, in 1961, the average African farmer continued to encounter difficulties when it came to obtaining loans from institutions operating in the organized financial market.

The present article deals with the third period in the history of formal agricultural credit in Tanzania, the years between *uhuru* (independence) in 1961 and the Arusha Declaration in 1967, a period when greater efforts than hitherto were made to reach the small African farmer to induce him to switch to improved methods of production. These efforts, however, proved to be only a very limited success.

During the 1961-66 period, which was characterized by the emergence of national policies in the monetary sector, some old agricultural credit institutions were abolished, others were completely reorganized and new ones were established. The 1961-66 period constitutes an important phase in the history of institutional lending in Tanzania since it marks the beginning of present rural lending policies.

The first years of independence were characterized by a rather cautious attitude towards the agricultural structure inherited from the colonial period. During the struggle for independence, there was constant emphasis on the need to bring colonial agricultural policy to an end. In fact, the resistance to colonial interference with peasant life had been one of the rallying points for Tanganyikan nationalists². Nevertheless, when it was time to draw up a new agricultural policy, a completely different line was at first pursued.

Some clouds were present on the horizon. «At independence, the Tanzanian nationalists inherited a thriving capitalist agriculture, based on plantations, settlers, and an expanding class of African farmers», writes Andrew Coulson³. However, immediately after *uhuru* large parts of Tanganyika were more or less deserted by the settlers. Much of

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1. Lundahl and Msambichaka (forthcoming).

2. Hydén (1980), p. 70.

3. Coulson (1982), p. 145.

the land was taken over by the Africans but other parts reverted to bushland. Soon, part of the plantation sector was also to find itself in difficulty. Sisal prices fell dramatically between 1964 and 1967, with the result that employment in the plantation sector fell as well, replanting stopped, and many plantations had to declare themselves unable to repay commercial bank loans⁴.

These problems made it necessary not to upset the rest of the agricultural sector, neither the «progressive» farmers nor the majority of African peasants. A twofold strategy was adopted. On the one hand, it was decided to follow the recommendations of the World Bank mission that visited Tanganyika in 1959 and 1960⁵, which revolved around more intensive land use. The so-called transformation approach, which «seemed to offer a version of capitalist farming under government control⁶», envisaged settlement schemes whereby new farms were to be set up by voluntarily recruited farmers in empty or sparsely populated areas and (to a lesser extent) more intensive agriculture in areas that were already populated⁷. The approach built on the use of heavy doses of capital equipment as well as on infrastructure provided by the government. The second part of the agricultural strategy was known as the «improvement approach». This continued the colonial policy of changing the peasant approach to cultivation, although on this occasion it was based «more on exhortation and persuasion than on compulsion⁸».

The agricultural strategy during the first post-uhuru years continued to be bimodal. The transformation approach centered around an intensive use of machinery by a selected number of farmers while the improvement approach left the majority untouched. Emphasis was on finding «progressive» farmers and on areas with good «absorption possibilities» rather than on the agricultural sector as a whole⁹. This, as we will find below, was also the main policy in the financial field.

The five most important institutions of agricultural finance during the period were:

- a) The Agricultural Credit Agency (ACA),
- b) The National Cooperative and Development Bank (NCDB), with its two subsidiaries:
- c) The National Cooperative Bank (NCB), and

4. Ibid., pp. 156-47.

5. IBRD (1961).

6. Coulson (1982), p. 147.

7. Hyden (1980), pp. 71-75, gives the details. Cf. also Kahama, Maliyamkono and Wells (1986), p. 27.

8. Ibid., p. 76.

9. Ibid., pp. 76-82, gives the details. Cf. also Bank of Tanzania (n.d.), pp. 86-87.

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- d) The National Development Credit Agency,
 - e) The Tanganyika Development Finance Company Limited (TDFL).

Agricultural credit was also provided by a number of marketing boards and credit unions.

2. The Agricultural Credit Agency

During the very year of independence, the new national government followed the recommendations of the World Bank mission. The activities of the Land Bank of Tanganyika were brought to an end and replaced by the Agricultural Credit Agency. The new organization took over the administration of the Local Development Loan Fund as well, while the African Productivity Loan fund was placed under the aegis of the Ministry of Commerce and Industry¹⁰.

The main purpose of the ACA was to provide loans to increase agricultural productivity, improve farm efficiency and produce quality as well as to increase the standard of living of farmers (and fishermen)¹¹. Both short (up to 12 months), medium (not exceeding 5 years) and long term (not exceeding 25 years) loans were given. The loans were disbursed to individual farmers, cooperative societies, local authorities and farming companies as well to farming associations — a minimum of 100 shillings and a maximum of 200,000 for individuals and 500,000 for the other borrower categories¹². These restrictions were imposed in order to minimize repayment problems and to avoid issuing unproductive loans.

To be able to cover a large area with scattered small farmers, the Agricultural Credit Agency decentralized lending decisions. Two types of loan committees were formed: the District Loan Committee and the Executive Loan Committee. The former handled district level loans of up to 4,000 shillings and the latter, in Dar es Salaam, dealt with larger loans¹³.

At the end of the first year of ACA's operations, a total of 7.4 million shillings had been lent. The average single loan amounted to 15,000 and 1,400 shillings for executive and district-loans, respectively. Their distribution according to purpose is shown in Table 1.

10. Caselli (1975), p. 246.

11. Ibid., p. 247.

12. Msambichaka and Mabele (1979), p. 208.

13. Caselli (1975), p. 247.

Table 1

AGRICULTURAL CREDIT AGENCY LOAN DISBURSEMENT BY PURPOSE, 1962

Executive loans	No.	%	District loans	No.	%
1. Purchase of land	2	4.3			
2. Permanent improvements	106	16.4	1. Permanent improvements	660	53.1
a) Buildings	8	3.5	a) Water supply	1	negl.
b) Water supply	7	1.2	b) Crops	655	33.9
c) Crops	91	11.7	c) Forestry	4	19.2
3. Purchases	115	26.9	2. Purchases	947	46.9
a) Machinery	71	17.4	a) Machinery	279	13.7
b) Fishing equipment	16	3.8	b) Fishing equipment	148	29.8
c) Cattle and oxen	24	5.1	c) Cattle and oxen	20	3.4
d) Poultry and equipment	4	0.6			
4. Annual crop production	133	52.4			
Total	356	100.0	Total	1,607	100.0
Total value of loans (shs.)	5,223,160		Total value of loans (shs.)	2,215,820.0	

Source Msambichaka and Mabele (1979), p. 208.

More than fifty percent of the executive loans were short-term loans. No such loans were available at the district level where longer loans made for permanent improvements and purchases of different kinds predominated.

Although the ACA attempted to, and actually did, reach more small farmers than its predecessors, it seems to have done so only to a limited extent. In the first place, the allocation of loans at the local level was dependent on the District Agricultural Officer, assisted by a committee, which mainly included members of the local elite. As Michael Collinson has remarked, «The committee, at district level was far too remote from the ordinary small farmer, and penetration into the community proper was poor¹⁴».

On the one hand, this made credit dependent on contacts while on the other hand it limited the applicants to that group of farmers who in the eyes of the District Agricultural Officer were deemed «progressive», i.e. the bimodal strategy resorted to between 1947 and 1960 continued to be implemented¹⁵. Loan applications were received from less

14. Collinson (1975), p. 256

15. Msambichaka and Mabele (1979), p. 208. For the bimodal strategy see Johnston (1972) and Johnston and Kilby (1975), Chapter 4.

than 0.25 percent of all Tanzanian farmers, «even in the first flush», and the average size of district level loans to individuals in 1962 was almost 1,400 shillings, which «would represent gross over-capitalisation of the typical smallholder, so funds were channelled to the already commercial operators¹⁶».

The costs of administering small farmer loans proved to be high. The task facing the ACA was that of disbursing credit to thousands of small farmers, each asking for relatively small amounts. Frequently, the cost per loan of such operations turned out to be both higher than for large loans and sufficiently high to make the entire operation run at a loss for the ACA. «Earnings on the small amounts were insufficient to cover these costs; there was little question of charging sufficiently high interest rates to cover them¹⁷». In addition, since the ACA lacked the trained personnel needed for project evaluation and technical assistance, loans were frequently made that were dubious both from the private return point of view and in terms of the contribution they made to agricultural development. As a result, the rate of default became very high¹⁸. The organization was also plagued by the inheritance of liabilities from its predecessors. These liabilities were to a large extent in the form of irredeemable loans from the government which eventually had to be written off. Thirdly, the political unrest during the first year of operation led to the withdrawal of more than half the deposits.

Additional government grants could not straighten out the situation. The ACA soon found itself as dependent as its predecessors on overdrafts from the commercial banks¹⁹. An attempt was made to rescue the ACA by channeling more and more of its loans via the cooperative movement for a couple of years. However, in 1964, it was deemed imperative that the entire rural credit system be reorganized in order to minimize the problems of management and the size of defaults. A new institution was formed: the National Cooperative and Development Bank.

3. The National Cooperative and Development Bank

The idea behind the new bank was that agricultural credit would be channeled through the cooperative movement, which at this time had reached a quite respectable size,

16. Collinson (1975), p. 257.

17. Collinson (1968), p. 140.

18. Binhammer (1968), p. 4, Caselli (1975), pp. 347-48.

19. Binhammer (1968), p. 4.

(having expanded from 857 cooperative societies in 1961 to 1,362 in 1964)²⁰. This would smoothen the flow of funds from the central government and make the process administratively less cumbersome. As part of this strategy, the National Cooperative and Development Bank was created as a holding company for two other institutions: the National Development Credit Agency (NDCA) and the National Cooperative Bank (NCB). Its task was to coordinate the activities of these two organizations.

The capital of the NCDB came from the cooperative unions in the form of subscriptions of share capital (3.4 million shillings at the end of 1967), contributions and dividends from the two subsidiaries as well as loans from the NCB²¹.

4. The National Cooperative Bank

The National Cooperative Bank was established by reorganizing the Cooperative Bank of Tanganyika which had been founded in 1962. The government and the TANU party had then felt that the behavior of the foreign owned private commercial banks was not compatible with the country's level of development and aspirations regarding economic and social development, not least in the rural sector. A bank actively involved in rapid promotion of rural development along cooperative lines was considered to be of the utmost importance. With this in mind, the NCB was formed in 1964²².

Following a rapid expansion of cooperative unions immediately after independence, the principal role of the NCB was to act as a banker for the cooperative unions and provide various types of credits. However, up to 1968, it restricted itself to crop finance, because production and development credits for agriculture were issued by the NDCA²³. The NCB financed the purchase of the crop for the cooperatives until the time it was paid by the final buyer, via a system of overdraft facilities, using crop finance bills as securities. It was also engaged in mobilizing rural savings and in extension activities²⁴.

20. Westergaard (1970), p. 128.

21. Caselli (1975), p. 248.

22. Binhammer (1968), p. 5, Bank of Tanzania (n.d.), p. 169.

23. Caselli (1975), p. 249.

24. Binhammer (1968), p. 5.

At the time of opening business, the NCB had a capital of 6.6 million shillings. However, by 31 March the same year, it had total assets of 81.5 million. Deposits increased drastically. During the three-year period 1964-66, they constituted about 10 percent of total commercial bank deposits and at the end of the period 94 percent of the NCB funds were deposits. Short-term lending to cooperatives increased from 32.3 million shillings to 97.3 million over these years²⁵. After 1968, the NCB widened the scope of its activities to other types of loans as well. This was motivated by a desire to earn more on the growing level of funds that they had acquired as a result of the expansion of the marketing boards²⁶.

In spite of what seems to have been a reasonably good default rate²⁷, the operations of the NCB as a separate bank institution came to an end in 1971. It was felt that the NCB was duplicating the short-term lending activities of the National Bank of Commerce (NBC) and hence it was taken over by the latter institution²⁸.

5. The National Development Credit Agency

When the National Development Credit Agency was established in 1964, it took over the assets and liabilities of the ACA and those of the African Productivity Loan Fund as well. The NDCA thus started with an inherited capital of 26 million shillings (21 million from the ACA and 5 million from the fund) of which 11.9 million consisted of bad debts that the government allowed the NDCA to write off²⁹.

The primary function of the NDCA was to disburse production and development credit to smallholders. The objective was to increase agricultural productivity. Activities which were eligible for NDCA credit included agricultural development, processing, storage and transportation of crops. Agro-based small scale industries and cooperative marketing activities were also on the list of potential areas. Both short, medium and long term loans were issued. The NDCA completed the administrative innovation that had been introduced during the last two years of operation of the ACA: the channeling of credit and repayment through the cooperative unions, using the field officers of the Ministry

25. Kimei (1987), pp. 88-89.

26. Caselli (1975), pp. 249-50.

27. Binhammer (1968), p. 6.

28. Caselli (1975), p. 250.

29. Binhammer (1968), p. 7.

of Agriculture to supervise loan activities at the district level³⁰. Finally, mobilization of savings from individuals, to be used for agricultural development purposes, were envisaged to take place via the agency. (This, however, never materialized in practice)³¹.

The lending activities of the NDCA may be divided into three parts: the so-called Tractor Purchase Scheme, loans made with funds that came from the International Development Agency (IDA) and loans that employed the agency's own funds.

The Tractor Purchase Scheme was a failure, at least from the credit point of view:

From 1963, the government bought 673 tractors for 20 million shillings, of which 13.1 million were still outstanding at the end of March 1967. The NDCA undertook to collect repayments from tractor recipients and to pay the bills of exchange financing the tractors at the proper date; but things were so badly arranged that the bills often fell due before the money with which to honour them. The gap had to be bridged with government-guaranteed overdraft facilities. Some of the money due for tractors proved unrecoverable, and the bank had to ask for more government funds to cover this loss³².

Much more important in quantitative lending terms were the IDA loans. Between 1965 and 1969, a total of 35 million shillings was obtained from the IDA on concessionary terms (fifty years, ten years amortization-free, an administrative charge of 0.75 percent per year, but no interest) by the government. These funds were relent to the NDCA at 3.25 percent, by the latter to cooperative unions at 5.5-7 percent, and finally by the unions to the farmers at an additional one percent³³. As table 2 reveals, IDA loans were almost entirely devoted to export crops.

Repayment rates were high on the IDA loans. In March 1969, no less than 66 percent had already been repaid by the final borrowers to the NDCA. The repaid money did not have to be relent for the same purposes, but the NDCA was free to use it for other activities. This meant that a revolving fund was created out of the IDA funds. Altogether, within the framework drawn up, the IDA program was a clear success:

The NDCA used the funds almost entirely for productive purposes, and lent them to the most dynamic sectors or to those of key importance for agricultural development. Under IDA

30. Caselli (1975), p. 250, Msambichaka, Ndulu and Amani (1983), p. 71.

31. Binhammer (1968), p. 8.

32. Caselli (1975), note, p. 252.

33. Binhammer (1968), p. 9.

Table 2

USE OF IDA LOAN FUNDS AS OF 31 MARCH, 1969 (PERCENT)

Fertilizers, insecticides and sprays for cotton	28.0
Coffee sprays	14.0
Farm equipment	7.0
Tobacco, tea, castor and pyrethrum processing, plant and machinery	12.9
Coffee spraying	8.0
Tea stumps and fertilizers	14.8
Salaries	12.0
Unallocated	3.3
Total	100.0

Source: Caselli (1975), p. 254.

supervision, better project assessment led to better credit allocation than in the past, and the NDCA gained valuable experience which it put to good use in its lending from its own resources³⁴.

The third part of NDCA operations was financed out of the agency's own funds. These operations expanded rapidly. During 1968-69, 194 applications were received, out of which 75, involving a total of 19.4 million shillings, were approved. As envisaged in the new credit policy most of these went to the cooperative societies, via the cooperative unions. In 1969, a mere 15 percent was distributed to individuals³⁵. Almost 55 percent of the total amount was allocated to loans for financing annual crops³⁶.

The lending record of the National Development Credit Agency turned out to be a mixed one. On the one hand, the NDCA undoubtedly did a much better job than its predecessors. While the ACA had dealt with a maximum of some 5,000 loan applications per year, the NDCA — working through the cooperative movement — was able to reach more than 100,000 farmers annually³⁷. Besides, credits were distributed at a generally lower cost and the default level was reduced in comparison with the ACA³⁸. (However, as we will find below, it still remained high in absolute terms).

34. Caselli (1975), p. 253.

35. Ibid., p. 254.

36. Ibid., p. 255.

37. Binhammer (1968), p. 11. The potential coverage was even wider: «With 35 unions supervising some 1500 primary societies with a registered membership of the order of 750,000 farmers the movement can bring credit facilities to between 35 and 40 per cent of the total small farm population». (Collinson (1975), p. 259).

38. Caselli (1975), p. 256.

At the same time, loans continued to flow to regions growing export crops. By the time of dissolution of the NDCA in 1971, the organization had extended 70 percent of the total loan portfolio to the nine richest regions and only 11 percent to the six poorest regions. Only one ujamaa village had until then received a loan from the NDCA³⁹. According to the political rural development philosophy, this performance was not satisfactory because it did not reflect the intended significance of ujamaa villages in the process of acceleration of rural transformation and minimization of regional economic disparities.

Neither was the NDCA able to avoid political tampering with its activities. The prime example of this was the Tractor Purchase Scheme although the practice seems to have been more or less generalized. «Projects were forced on to NDCA and the unions alike, being steered through the Executive Committee by the large government representation playing a role subservient to the political arm⁴⁰. This made it extremely difficult for example to cut off unions with too high default and overdue rates from credit. Collinson gives a concrete example:

Such an action effectively cut off development opportunities for all farmers of a large area. For example, to refuse credit to the Victoria Federation of Cooperative Unions jeopardised cotton fertiliser and insecticide introduction, central to the programme of cotton expansion, affecting the opportunities of perhaps 100,000 cotton farmers⁴¹.

Two other factors contributed to keeping the default rate high. Within the NDCA itself, there was a lack of qualified personnel to carry out appraisal and supervision of loans. To a large extent, the creditworthiness of the cooperative unions determined who got the loans. Frequently, the lack of trained personnel made political tampering with loans easier. «Increasing the number of unions covered depends wholly on the availability of qualified credit supervisors. The emphasis is on an independent, capable, local supervisor, as a counterbalance interested in preserving the capital of NDCA against local political and government pressures on the unions...» writes Collinson⁴². (Frequently, cooperative loan applications were the result of decisions made by the local development committee)⁴³.

The major beneficiaries and the direction of credit differed little from what had taken place prior to 1964. Credits were channeled through cooperatives but the final recipients

39. Msambichaka, Ndulu and Amani (1983), p. 71 Cf. e.g. Loxley (1975), p. 282.

40. Collinson (1975), p. 258.

41. Ibid., p. 259.

42. Ibid., p. 274.

43. Collinson (1968), p. 144.

continued to be the same «progressive» farmers as before. The cooperative movement had undergone a very rapid growth, which meant that trained and experienced personnel who could be used in the process of scrutiny was scarce⁴⁴. Furthermore, working through the cooperatives left «some doubt whether farmers' credit demands... [were] effectively transmitted to the agency»⁴⁵.

The other factor increasing the default rate was that once the credit had been received by the unions, effective control more or less ceased. It was difficult to find out what happened to the loans on their way through the societies to the final borrowers⁴⁶.

The latter problem directly affected the rate of repayment. The responsibility for recovering the loans was on the cooperative unions and with a lack of documentation at the society level it was a hopeless task trying to straighten out who owed money and how much was overdue. In addition, at the union level, funds were credited to each society's general account where they were mainly used to offset crop finance overdrafts instead of becoming available for repayment to the NDCA. Furthermore, many societies simply did not have enough current income to cover what was due as interest and amortization payments. No standard procedure for deducting money from the final individual borrowers had been worked out, with the result that this was left to the societies, which then had to face all kinds of local pressures against deduction⁴⁷.

As remarked above, the cooperative movement had expanded very rapidly after independence. During the colonial period, very few cooperatives had been created, since the colonial government was careful to retain control over the cooperatives and avoid their transformation into a political movement. A keen eye was also kept on the finances. Those societies that turned out to be economically unviable were simply dissolved. After the war, registration increased. Spurred by the example of the Kilimanjaro Native Cooperative Union, which by then was well-known across the country, a number of new societies and unions were formed in a politico-economic environment where the British had started to take a greater interest in African welfare.

The growth of the cooperative movement accelerated after independence. However, there was an important difference. While the British had been careful in matters of feasibility and viability of the societies, the movement was now turned into a political

44. Binhammer (1968), p. 11.

45. Chant (1968), p. 7.

46. Collinson (1975), p. 258.

47. Ibid., p. 269.

vehicle, organized from the top, without always being based on popular demand. This development was summarized by Göran Hydén:

Encouraged by the economic success of the cooperatives during the colonial period and convinced that cooperatives were in line with the efforts to build an African type of socialism, government leaders and individual politicians encouraged people in every region to form cooperatives⁴⁸.

This, in turn, had an important corollary, namely that registration of cooperatives was encouraged without paying attention to economic and financial aspects. No more societies were dissolved and the control of operations virtually ceased as the number of cooperative societies outgrew the staff of the Cooperative Development Division. The scope for graft and mismanagement increased⁴⁹. «The result», writes Coulson, «was inefficient, corrupt and undemocratic cooperatives⁵⁰». In the mid-1960s, consequently the credit administration was weak⁵¹.

At the local level, all this contributed to making credit largely ineffective. Application procedures were not attuned to the demand pattern imposed by the agricultural seasons which in turn meant that fertilizer, insecticides etc. did not reach the farmers in time or, conversely, the farmers were pushed to apply for credit with the result that inputs would be purchased long before the farmers themselves had made up their minds whether to buy or not. These were not the only timing problems:

Untimely application was responsible for many problems at the other stages of loan administration; hasty cash disbursements by NDCA to the union, deterioration of stocks left on hand due to late arrival, accumulating interest on stocks carried over and payment demands without the unions having sold goods to members were some of these.

The unions themselves had problems to face; local development committees, eager for rapid progress, often grossly inflated any rational expectation of sales. A classic example was the purchase of 9,000 tons of cotton fertiliser by the Victoria Federation of Cooperative Unions in 1965, the balance of which was still in store in 1970. During this intervening period, some 15% had been lost due to constant rehandling in attempts to redistribute it to areas with a greater demand⁵².

48. Hydén (1984), p. 117.

49. Ibid.

50. Coulson (1982), p. 150.

51. Collinson (1975), p. 261.

52. Ibid., p. 263.

Frequently, hardly any appraisal at all was made at the local level. In particular, rejections were few. All the local administrative work in connection with NDCA lending operations fell on the agricultural officers who were primarily extension agents. Consequently, executive work with credit simply constituted an unwanted burden for most of them. Secondly, in the face of heavy political pressures, the easy way out was to forward applications to Dar es Salaam:

... it requires a strong personality to refuse to endorse an application made by the local co-operative organisation representing the farmers of the area. It is equally difficult to refuse individuals making application for an executive loan, for the people with the knowledge to apply for these are, to a large extent, strong local personalities. In both cases it is easier for the officer concerned to pass on the application to Dar es Salaam to be rejected than to endorse it himself⁵³.

This naturally contributed both to delays in the lending process and to the creation of timing difficulties, with a concomitant loss of profitability for the farmers.

Revision of lending procedures was difficult. As Collinson remarks, «A lack of definite priorities allows pressures arising at the local level to exert undue influence on lending⁵⁴». In addition, political support higher up was absolutely necessary. However, after the publication of the report of the Presidential Special Committee of Enquiry into the Cooperative Movement and Marketing Boards⁵⁵, in 1966, and under the influence of the experience with the IDA loans, which were supplemented with a team of professionals which strengthened the administration within the NDCA, revised procedures were introduced in 1968. This to some extent improved the situation⁵⁶. Nevertheless, when the NDCA was liquidated in 1971, the proportion of bad debts amounted to no less than 40 percent of the total loans of the agency — over 41 million shillings⁵⁷.

6. The Tanganyika Development Finance Company

One more financial institution that has been involved in agriculture (although its primary

53. Collinson (1968), p.145.

54. Ibid., p. 143.

55. URT (1966).

56. Collinson (1975), p. 263.

57. FAO (n.d.), p. 4.

activities are in other sectors) must be mentioned. The Tanganyika Development Finance Company Limited (TDFL) is the oldest financial institution in Tanzania that is still in operation. It was created at the end of 1962 under a joint sponsorship of the Tanganyika government, the Commonwealth Development Corporation of Great Britain and the Federal Republic of Germany. Each sponsor contributed 10 million shillings to the initial capital of the TDFL. At the end of 1965, the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden also joined the group, contributing another 10 million⁵⁸. As of December 31, 1984 the shareholders were the Tanzania Investment Bank (TIB), the Deutsche Gesellschaft für Wirtschaftliche Zusammenarbeit (Entwicklungsgesellschaft), and the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden, which each held 30 percent of the shares. The CDC had the remaining 10 percent⁵⁹.

The TDFL was established on the grounds that selective financial assistance from foreign countries could supplement local efforts and resources in the promotion of viable commercial undertakings. To this end, it has developed and supported business activities which have a high domestic resource and employment content and which attract or save foreign exchange. The company is unique in the Tanzanian financial context in that it treats the private sector on an equal basis with the public sector. However, the projects financed must complement government policy. Most of the loanable funds have come from outside; over 75 percent during the 1967-80 period⁶⁰. Its efforts are directed mainly towards medium and large scale industrial projects, locally controlled estates and plantations and agro-based industries which process food grains and horticultural products, and towards dairies and fisheries. In 1984, 18.4 percent of the investments of the TDFL were allocated to agriculture, fishing and agroindustries⁶¹.

7. Marketing Boards⁶²

During the period dealt with in the present section, ten different parastatal marketing boards were in existence. Of these, three: the Lint and Seed Marketing Board (LSMB), established in 1952, the National Agricultural Marketing Board (NAMB), founded in

58. Caselli (1975), pp. 274-75.

59. TDFL (1984), p. 3.

60. Binhammer (1969), p. 9, Kimei (1987), p. 165.

61. TDFL (1984), p. 11.

62. Binhammer (1968).

1962, and the Tanganyika Tobacco Board (TTB), dating from 1963, had also accumulated funds that could be used for lending purposes. However, only the LSMB had provided credit on a more substantial scale, for cotton growing, marketing and processing.

The LSMB derived its funds from different sources: trading surpluses, fees, licences, rents, «godowns», interest earned on loans and investments and, finally, bank overdrafts. During the first years of operation, up to 1959, 107 million shillings had been collected in a Price Stabilization Fund, which was, however, later gradually emptied, as the money was transferred into the General Fund of the LSMB, to be used for marketing purposes. By 1967, the figure was down to 40 million shillings.

Although the main function of the LSMB was price stabilization, beginning in 1962, the board also operated an agricultural credit pilot scheme, lending to cooperative societies at 5.5 percent interest (relent by the latter to their members at 7.5 percent) to be used for fertilizer and agricultural equipment. In addition, credit was given to cooperatives for purchase of cotton seed bags.

8. Credit Unions

In the early 1960s, a new form of cooperative savings and credit organizations was introduced: credit unions, or savings and credit societies, as they were known in Tanzania. The purpose of these unions, which were first encouraged by Catholic missionaries, as «an effective tool for helping their parishoners economically, socially, and morally⁶³», was to encourage thrift on the one hand and to extend credit to union members at low interest rates, not only for production but also for precautionary purposes.

The credit union movement was welcomed in Tanzania, for several reasons:

Savings and credit societies met the tests of government and the citizenry on many important criteria: socially they followed traditional precepts of community action and shared responsibility; economically they appealed to the self-help objectives of mobilizing individual savings for local needs; and politically they promised to become institutions that could provide a moderate approach to socialism⁶⁴.

63. Dublin and Dublin (1982), p. 49. Later, parish membership was eliminated as a requirement (ibid., p. 57).

64. Ibid., p. 48.

Consequently, credit unions were incorporated into the first five-year plan, the goal being a total of 400 unions by 1969. A Savings and Credit Society Section was established in the Ministry of Agriculture and Cooperatives⁶⁵. A Savings and Credit Union League of Tanganyika (SCULT) was organized in 1964, to deal with education, organization and promotion for the unions, and financial assistance was obtained from credit unions abroad as well as from Credit Union National Association (CUNA), the worldwide organization of the credit union movement. By the end of 1967, 169 unions had been formed, in both rural and urban areas⁶⁶.

Working as revolving funds, the credit unions provided loans for a wide variety of purposes:

Members of a society practice thrift by saving on a planned basis. Such savings are accumulated as share accounts with the member's society. Funds deposited in share accounts are available to member borrowers. Loans have frequently been made for the purchase of bicycles, furniture, tools and roofing, for building houses, for the payment of school fees, medical bills, old debts and taxes for the purchase of land, fertilizers etc. Loans have also been made to provide dowries. Because the prime security for savings and credit society loans is the character of the borrowing member, Africans are able to procure consumer type finance hitherto unavailable to most of them⁶⁷.

At the end of 1967, total savings via the credit union movement amounted to 2.6 million shillings, 2.3 million of which were outstanding as loans to members⁶⁸.

9. Conclusions

Formal agricultural credit had a slow start in Tanganyika. The commercial banks that had been established up to the end of the Second World War were allowed to serve only the non-African settler community. The institutions that appeared during the postwar period up to independence adhered strongly to conservative banking principles, with the result that the vast majority of African farmers had to rely on the informal credit market.

65. Binhammer (1968), p. 17.

66. *Ibid.*, p. 17.

67. *Ibid.*, p. 18.

68. *Ibid.*

No major changes took place in government lending policies during the first few years after uhuru. A number of new institutions were created. The Agricultural Credit Agency catered both to individuals, cooperatives and companies. However, the typical African smallholder was reached only to a very limited extent, as well as at high administration costs. It was mainly the better-off, «progressive» farmers that were able to benefit from ACA credits.

In 1964, however, the rural credit was reorganized. Lending was to take place basically via the cooperatives. A National Cooperative and Development Bank was founded as a holding company for two other institutions. Of these, the National Cooperative Bank concentrated on crop finance for the cooperatives, while the National Development Credit Agency dealt with production and development credit for smallholders. The latter was the most important rural credit agency during the 1960s. However, its lending record was far from satisfactory. Lending was highly concentrated to the richer regions and to export-producing areas. To a large extent, lending operations were politicized. In addition, the indiscriminate growth of the cooperative movement made it impossible to ensure that the necessary competence for evaluation of loan applications existed. As a result, credit was largely ineffective and the rate of bad debts reached a high level.

On the eve of the Arusha Declaration, the conclusion to be drawn was that organized agricultural credit had hardly got off the ground in Tanzania. The household budget survey that was conducted in 1967-68 revealed that among the rural households 80 percent of all loans came from relatives, more than 15 percent from traders, moneylenders and employers, while a mere 4.5 percent derived from public institutions⁶⁹ — which in addition did not function well.

69. Hydén (1980), pp. 79-80.

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Abstract

The article deals with the history of formal agricultural credit in Tanzania during the first years of independence, up to the Arusha Declaration in 1967. During this period greater efforts than hitherto were made to reach the small African farmer and make him switch to improved methods of production.

The period also saw the emergence of national policies in the monetary sector. Some old credit institutions were abolished and new ones were established. The foundations were laid for present rural lending policies. In quantitative terms little was achieved, however. In 1967-68 no more than 4,5 percent of all loans to rural households came from, inadequately functioning, public institutions.

LE CRÉDIT AGRICOLE EN TANZANIE 1961-66

RÉSUMÉ

Les formes de crédit agricole se sont développées lentement en Tanzanie. Les banques commerciales qui se sont établies jusqu'à la fin de la deuxième guerre mondiale n'étaient autorisées à offrir leurs services qu'aux colons non-africains, et les institutions qui sont apparues dans la période s'étendant de l'après-guerre à l'Indépendance appliquaient à la lettre les règles bancaires conservatrices. C'est ainsi que la plus grande majorité des agriculteurs africains devaient se tourner vers d'autres formes de crédit.

Pas de changements profonds furent introduits dans les politiques de crédit du gouvernement durant les toutes premières années de l'Indépendance. De nouvelles institutions furent créées. L'Agence du Crédit Agricole fournissait aussi bien les particuliers, les coopératives que les entreprises. Cependant, les emprunts des petits propriétaires africains restaient fort limités, et consentis seulement avec des coûts administratifs très élevés. Seuls les mieux lotis, les agriculteurs «plus progressifs», purent bénéficier des crédits ACA.

En 1964, cependant, le système de crédit agricole fut réorganisé. Les prêts de capitaux devaient être mis en place par l'intermédiaire des coopératives. Une Banque Nationale de Coopération et une Agence Nationale pour le Développement furent fondées comme une société de holding pour deux autres institutions. C'est ainsi que la Banque Nationale de Coopération se concentrait sur le financement des récoltes des coopératives tandis que l'Agence Nationale pour le Développement du crédit pour les petits propriétaires. Cette dernière était la plus importante agence de crédit rural dans les années 60. Ces prêts étaient loin d'être satisfaisants. Les riches régions ainsi les zones de productions exportatrices bénéficiaient grandement de ces prêts. En règle générale, les opérations de prêts avaient un caractère politique. Aussi la croissance inégale des coopératives ne permettait pas d'assurer une compétence nécessaire d'évaluations pour les applications des prêts. C'est pourquoi le crédit était le plus souvent inefficace et le taux de mauvaises créances était élevé.

A la veille de la Déclaration d'Arusha, on tirait la conclusion que la politique de crédit agricole n'était pas encore en place en Tanzanie. L'enquête, réalisée en 1967-68, sur le budget des ménages ruraux révèle que 80% des prêts des ménages provenaient des parents, plus de 15% venaient des négociants, prêteurs d'argent et employés. Seulement 4,5% étaient issus des institutions publiques — et de surcroît avec beaucoup de difficultés.