

PART THREE

**COMMERCIAL BANKS AND OTHER FINANCIAL
INSTITUTIONS IN TANZANIA**



Chapter I

COMMERCIAL BANKS

1. HISTORY OF COMMERCIAL BANKING, AND ITS NATIONALIZATION IN 1967

The salient aspects of the development of commercial banking in Tanzania have already been mentioned here and there in previous sections of this book, beginning with the earliest ventures, the *Deutsch-Ostafrikanische Bank* in 1905 and the *Handelsbank für Ostafrika* in 1911, and their replacement by branches of British banks after the first world war. By 1923 these had established four banking offices in Dar es Salaam, three at Tanga and one each at Tabora, Lindi, Mwanza, Bukoba and Kigoma, and before the second world war they opened additional branches at Moshi, Arusha and Iringa. In addition, the *Banque du Congo Belge* had two branches, one in Dar es Salaam and one at Kigoma.

After the second world war until the early sixties, bank expansion proceeded apace. Some attempts at rationalization were made after 1961, but even so, at the time of bank nationalization in 1967 more than 70 bank branches and agencies were operating in Tanzania, of which four in Zanzibar. The British Big Three had no less than 47 branches and agencies, and the rest belonged to a number of smaller, mostly foreign-owned banks such as the

National Bank of Pakistan, the Bank of Baroda, the Bank of India, the *Algemene Bank Nederland NV* (formerly *Nederlandsche Handel-Maatschappij*), Jetha Lila Bankers (a small private Indian bank in Zanzibar) and the Commercial Bank of Africa (whose majority shareholder was a consortium of foreign, mostly American, banks, while the co-operative movement of Tanganyika also had a small holding). In addition there were three indigenous banks, the National Co-operative Bank, the Tanzania Bank of Commerce and the People's Bank of Zanzibar.

The National Co-operative Bank was founded in 1964 and was mainly concerned with agricultural credit¹. The Tanzania Bank of Commerce was established in 1965 when it took over the majority shareholding in the Ottoman Bank, the Tanzanian government subscribing 60 per cent of the reconstituted bank's equity and the rest being taken up by nine other banks in Tanzania. The new bank's chief purpose was described by the Finance Minister in June 1964, when he said: "Its creation will ensure that government plays a much more vigorous role in the commercial sector of the economy. It will also ensure that the accounts of all government bodies and parastatals can be held with a bank owned and controlled by the government itself²."

The People's Bank of Zanzibar was founded in 1966 to transact commercial banking operations only for the Zanzibar government and a group of government organizations.

As Tanzania's banking system was in early 1967, it was still dominated by the Big Three — Barclays Bank D.C.O., the Standard

¹ See below, Chapter 2, 4(e).

² *Speech of the Honourable Minister for Finance Introducing the Estimates of Revenue and Expenditures 1964/65 to the National Assembly on 16th June, 1964*, p. 7. See also H.H. Binhammer, *Commercial Banking in Tanzania*, *op. cit.*

Bank and National and Grindlays Bank. It is they who must bear the brunt of the criticism rightly levelled at commercial banking throughout East Africa at the time, that is, concentration on export business, insufficiency of credit to the local population, unduly strict standards of loan security, foreign dependence, scant contribution to the mobilization of local savings, and drainage of local funds towards the United Kingdom. In this last connection it is worth repeating here that the Tanzania branches did not make nearly as much use of overdraft facilities at their London head offices as did those in Kenya and Uganda ¹.

But in the meantime important political changes had occurred in Tanzania. On 6 February 1967, President Nyerere announced the decision to nationalize the country's commercial banks, in line with the Arusha Declaration. The assets and liabilities of the nationalized banks were vested in the Minister of Finance, who on 7 February appointed a management committee to supervise them and to set discretionary limits to their lending.

On 15 February the National Assembly passed what is formally known as the National Bank of Commerce (Establishment and Vesting of Assets and Liabilities) Act, 1967 (No. 1 of 1967) ², by which all foreign-owned banks except the Jetha Lila Bankers ³ were nationalized and their assets and liabilities vested in the National Bank of Commerce. The interim management committee was soon absorbed by the new bank's Board of Directors.

The decision to nationalize the banking system follows directly from the Arusha Declaration, which says that "to build

¹ See above, Part One, Table 17 and accompanying text.

² See National Bank of Commerce, *Reports and Accounts 7th February to 30th June, 1967*.

³ The Jetha Lila Bankers discontinued business in 1968.

and maintain socialism it is essential that all the major means of production and exchange in the nation (including banks) are controlled and owned by the peasants through the machinery of their government . . . " ¹. It was part of the new policy of socialism based on self-reliance ². Before nationalization, commercial banking in Tanzania was almost entirely in foreign hands, and people used to say that though the country had its political independence, it certainly did not yet enjoy full economic independence, because there was no means of effective control over foreign institutions ³. Up to a point, it would no doubt have been possible to impose a certain behaviour upon the banks, thanks to the well-furnished operational tool-kit of the Bank of Tanzania, but what was really wanted was the active and enthusiastic co-operation of all financial institutions in giving effect to the new policies propounded in the Arusha Declaration ⁴.

Commercial banking in Tanzania would henceforth have to transcend the limitations of the expatriate banks, it would have to diversify the range of its lending, help rural development, promote the use of money and recourse to credit institutions even in the remotest areas, and improve the distribution of disposable financial resources both geographically and among different

¹ Arusha Declaration, in: Julius K. Nyerere, *Freedom and Socialism*, *op. cit.*, p. 233.

² Address by the Minister for Finance to the National Assembly when Introducing a Bill to Establish the NBC, 14 February 1956.

³ See "Speech by Mr. Amon Nsekela, Chairman and Managing Director of the NBC, to the Economic Society of Tanzania on Wednesday, 31st January, 1968" *Annals of the National Bank of Commerce*, 1967, p. 23.

⁴ "The only effective way of ensuring complete harmony between political and economic policies in any country is to create a situation in which those dominating the economic policies also dominate the political, and vice versa" (*Ibid.*, p. 24).

economic sectors. Nationalization, it was hoped, would bring the following benefits:

- (a) more efficient mobilization and redistribution of savings, geared to the requirements of economic development;
- (b) speed up the rate of the formation of household savings both in urban and rural areas;
- (c) a banking system which, while not oblivious of the need to earn profits, would give priority to the aspect of service to the community;
- (d) a denser network of banking facilities throughout the country;
- (e) equitable remuneration of deposits¹.

The nationalization of the banking system left Tanzania with three commercial banks — the National Bank of Commerce, far and away the largest, the National Co-operative Bank and the People's Bank of Zanzibar. Between the former two a fair amount of competition developed in time, especially after the NBC branched out into new fields². This came in for some criticism, it being argued that for a developing country like Tanzania it would surely be better to co-ordinate credit institutions instead of letting them compete with each other, and that in any case competition was out of place in an economy aspiring to socialism³.

In 1970 there was one more change in the structure of the banking system, in the direction of yet further concentration and specialization. This was achieved by the takeover of the National

¹ National Bank of Commerce, *Annual Report and Accounts for the Year ended 30th June, 1971*, p. 16.

² NCDB Group, *Annual Report 1968*, p. 7.

³ See John Loxley, *The Monetary System of Tanzania since 1967: Progress, Problems and Proposals*, University College, Economic Research Bureau (Restricted) Paper 69.6, Dar es Salaam, 1969, p. 14-15.

Co-operative Bank by the National Bank of Commerce, in two instalments — on 24 October and 21 November 1970. Tanzania, therefore, now has only two commercial banks, the National Bank of Commerce and the People's Bank of Zanzibar.

2. COMMERCIAL BANK DEPOSITS, LENDING AND LIQUIDITY, 1966 TO 1972

Figures illustrating the commercial banks' activities in the years 1966 to 1972 are assembled in Tables 45 to 52. Let us examine them.

Looking at the assets and liabilities of the banks (Tables 45 and 46), we note, first, the predominance of domestic over foreign assets, even though the latter — which consist mainly of deposits with foreign banks and foreign notes — have recently been rising. In any case, foreign assets always exceeded foreign liabilities throughout the whole period, except for the months July to November 1966 — a last hangover from the pre-1966 habitual net debit position of East African banks.

Among domestic assets, we note the decline of deposits with the Bank of Tanzania, due to the dwindling need for clearing and to the discontinuation of the "Money-Employed Scheme". Interbank deposits, too, are on a downward trend; they first dropped in 1967 in the wake of banking nationalization, then rose again owing to financial relations between the NBC and the NCB, and after their merger declined once more. On the other hand security holdings, especially of longer-term stocks, have been rising in response to Central Bank directives¹, and so have loans and bills.

¹ See above, p. 150.

TABLE 45

COMMERCIAL BANKS: COMPOSITION OF ASSETS, 1966 TO 1973
(end-year figures in million shillings)

Assets	1966	1967	1968	1969	1970	1971	1972	1973 (31 March)
Domestic assets								
Cash	32.2	27.5	39.8	45.3	42.6	62.8	78.4	57.9
Deposits with Bank of Tanzania	48.6	3.1	49.2	35.7	2.7	2.0	3.7	4.0
Treasury Bills	6.0	30.0	104.0	41.0	—	15.0	99.0	99.0
Other government securities	10.1	12.7	39.6	142.7	152.4	279.6	360.2	383.9
Loans and bills	797.3	818.1	898.6	1,092.6	1,347.1	1,504.6	1,548.9	1,453.6
Others (incl. claims on other banks)	262.5	108.6	143.4	213.8	205.6	192.2	177.9	175.8
Total domestic assets	1,156.7	1,000.0	1,274.6	1,571.1	1,750.4	2,056.2	2,268.1	2,174.2
Foreign assets								
Liquid	85.0	138.8	114.2	260.5	357.3	575.2	670.8	741.1
Others	35.0	55.0	78.1	34.6	25.3	36.5	22.6	13.1
Total foreign assets	120.0	193.8	192.3	295.1	382.6	611.7	693.4	754.2
Fixed assets	50.6	103.9	91.2	91.2	86.6	92.7	100.9	104.4
Total assets	1,327.3	1,297.7	1,558.1	1,957.4	2,219.6	2,760.6	3,062.5	3,032.8

Source: Bank of Tanzania, *Economic Bulletin*, March 1973, Table 10.

TABLE 46

COMMERCIAL BANKS: COMPOSITION OF LIABILITIES, 1966 TO 1973
(*end-year figures in million shillings*)

Liabilities	1966	1967	1968	1969	1970	1971	1972	1973 (31 March)
Domestic liabilities								
Deposits	922.9	1,013.8	1,260.5	1,571.1	1,782.5	2,158.9	2,425.2	2,545.5
Due to Bank of Tanzania	90.2	53.3	81.9	57.0	71.0	163.0	137.0	—
Due to other banks	113.7	13.8	12.6	105.1	12.7	0.7	0.2	1.0
Others	103.0	125.2	111.3	132.8	199.1	187.8	257.3	241.0
Total domestic liabilities	1,229.8	1,206.1	1,466.3	1,866.0	2,065.3	2,510.4	2,819.7	2,787.5
Foreign liabilities								
Due to foreign banks	54.5	13.6	11.4	11.9	43.5	84.7	37.9	35.0
Due to others	7.8	30.3	30.6	26.5	27.0	44.0	63.9	69.5
Total foreign liabilities	62.3	43.9	42.0	38.4	70.5	128.7	101.8	104.5
Capital and reserves	35.2	47.8	49.8	53.0	83.8	121.6	140.9	140.9
Total liabilities	1,327.3	1,297.8	1,558.1	1,957.4	2,219.6	2,760.7	3,062.5	3,032.9

Source: Bank of Tanzania, *Economic Bulletin*, March 1973, Table 11.

From the series of bank liabilities in Table 46 four main points emerge: the altogether marginal amount of foreign liabilities, the steady growth of deposits (which more than doubled in seven years), the increase in amounts due to the Bank of Tanzania and the dwindling of those due to other banks.

The confrontation of commercial bank deposits and lending in Table 47 is extremely interesting. Overall, deposits have risen much more than loans thanks to the growing monetization of the economy and the spread of credit institutions into rural areas. But while the growth of deposits testifies to the banks' success in attracting household and business savings, the divergence of the two rates of increase demonstrates their failure to expand credit to the same extent. Functionally speaking, the banks probably were not efficient enough and there must also have been technical obstacles, but one suspects also a structural deficiency in the form of still insufficiently dense coverage.

Be that as it may, the divergent growth rates of deposits and lending naturally caused the loan/deposit ratio to decline. The end-year figures are down from 89.7 per cent in 1966 to 63.1 per cent in 1972, from a distinctly high to a distinctly low level. The seasonal fluctuations in the ratio do not always show up as clearly as one would expect; in principle, it should go up in the early months of the year, as crop loans are repaid after an accumulation of deposits in December, but the pattern is often blurred by the weather causing harvests, and hence marketing, to be either early or late.

In the boom of 1966 both deposits and loans rose sharply, but the political uncertainties of the following year brought a setback, which was most marked during the first six months. But except for a certain amount of capital flight, deposits declined more for seasonal than for psychological reasons, and in any case

TABLE 47

COMMERCIAL BANKS: DEPOSITS AND LENDING, 1966 TO 1973
(end-month figures in million shillings)

Year and month	Deposits		Lending		Loan/deposit ratio per cent
	amount	annual increase per cent	amount	annual increase per cent	
1966 - December	927.3		832.2		89.7
1967 - July	884.0		735.0		84.2
September	930.8		858.4		92.2
December	1,033.1	+ 11.4	848.9	+ 2.0	82.2
1968 - March	1,035.5		719.4		69.5
June	1,069.9		739.2		69.1
September	1,229.6		1,031.9		83.9
December	1,288.5	+ 24.7	941.4	+ 10.9	73.1
1969 - March	1,260.1		867.6		68.9
June	1,371.3		927.4		67.5
September	1,445.1		1,075.0		74.4
December	1,595.6	+ 23.8	1,126.6	+ 19.6	70.6
1970 - March	1,503.4		973.0		64.7
June	1,568.1		1,074.0		68.5
September	1,664.0		1,222.6		73.5
December	1,809.4	+ 13.4	1,372.4	+ 21.8	75.8
1971 - March	1,826.9		1,328.3		72.7
June	1,945.8		1,378.7		70.9
September	1,987.5		1,348.7		67.9
December	2,202.9	+ 21.7	1,541.1	+ 12.3	70.0
1972 - March	2,226.5		1,371.3		61.6
June	2,218.3		1,295.5		58.4
September	2,317.8		1,437.2		62.0
December	2,489.1	+ 12.9	1,571.5	+ 1.9	63.1
1973 - March	2,615.0	—	1,466.8	—	56.0

Sources: Compiled from Bank of Tanzania, *Economic and Operations Report*, various years, and *Economic Bulletin*, March 1973, Tables 11 and 13.

much less than new lending which, in addition to a seasonal contraction, was held back by the interruption of foreign loans at the time of nationalization and by the build-up of large unsold stocks.

For three years thereafter both deposits and loans rose steadily, and especially the National Co-operative Bank expanded its credits with the help of funds from the National Bank of Commerce. Deposits still increased in 1971, but bank lending began to feel the effects of the previous year's credit restrictions, even though these did not apply to crop and marketing loans. In the early months of 1972 lending declined and deposits grew at their slowest rate since 1966, while the loan/deposit ratio dropped to the record low of 58.4 per cent. Both deposits and lending picked up again towards the end of the year and the loan/deposit ratio started climbing, but only to fall to a new low of 56 per cent in March 1973, for seasonal reasons.

An analysis of commercial bank deposits by maturities (Table 48) shows those on demand to predominate and to have almost doubled from the end of 1966 to the end of 1972. Second in volume are time deposits, which over the same period rose almost six times, so that their share in the total was lifted from 16.5 to 38.6 per cent. Some of this increase was at the expense of savings deposits which, though rising steadily, saw their relative share drop from 15.1 to 11.1 per cent.

Seasonal influences affect different types of deposits in different measure. Demand deposits tend to be at their lowest in March-June and rise most towards the end of the year; time and savings deposits are less affected, but do tend to rise most during the first quarter of the year, owing to transfers from demand deposits.

TABLE 48

COMMERCIAL BANK DEPOSITS BY MATURITIES, 1966 TO 1973
(end-month figures in million shillings)

Year and month	Demand deposits	Time deposits	Savings deposits	Others
1966 - December	631.7	153.1	140.3	2.3
1967 - July	606.1	139.9	131.7	6.3
September	641.5	148.3	136.5	4.5
December	730.6	156.1	141.3	5.1
1968 - March	608.0	278.3	146.8	2.4
June	618.4	293.2	152.4	5.9
September	760.3	305.2	157.2	6.9
December	768.8	356.7	159.7	3.3
1969 - March	718.4	372.2	162.1	7.4
June	746.2	455.9	163.9	8.3
September	828.3	433.5	174.6	8.7
December	931.8	479.8	177.3	6.7
1970 - March	753.6	561.6	183.0	5.1
June	822.3	551.9	189.5	4.5
September	980.4	615.9	205.2	8.0
December	980.4	615.9	205.2	8.0
1971 - March	947.4	660.2	209.1	10.2
June	1,077.7	656.0	199.4	12.7
September	1,088.4	675.3	208.6	15.2
December	1,192.1	779.4	215.7	15.6
1972 - March	1,118.1	863.5	227.6	17.3
June	1,128.6	828.0	244.2	17.5
September	1,143.8	895.7	256.3	21.9
December	1,257.6	941.0	269.7	20.8
1973 - March	1,283.6	1,006.3	292.9	32.3

Sources: Bank of Tanzania, *Economic and Operations Report*, various years, and *Economic Bulletin*, March 1973, Table 15.

As regards deposit holders (Table 49), private depositors predominate, but the rate of increase has been highest in recent years for deposits from the central government and public enterprises.

TABLE 49

COMMERCIAL BANK DEPOSITS BY HOLDERS, 1966 TO 1973
(end-year figures in million shillings)

Year	Central government	Local government	Public enterprises	East African Community	Other domestic	Foreign
1966	58.3	59.6	79.1	35.4	688.0	6.9
1967	143.9	49.1	72.9	32.4	715.4	19.4
1968	98.1	79.2	196.1	113.3	773.8	28.0
1969	102.3	89.8	320.0	107.2	951.8	24.5
1970	282.6	98.6	297.4	108.4	995.4	27.0
1971	441.6	79.3	397.0	133.5	1,107.5	44.0
1972	491.0	45.6	412.0	161.2	1,315.4	63.9
1973 (31 March)	564.3	33.0	435.7	128.7	1,383.8	69.5

Source: Bank of Tanzania, *Economic Bulletin*, March 1973, Table 15.

Turning now to commercial bank lending, let us first look briefly at lending techniques (Table 50). The figures are not very detailed, but they are interesting in so far as they show a decided predominance of overdrafts on current account. Domestic bill discounts have been declining, and so have foreign loans and bills.

The sectoral distribution of commercial bank credit (Table 51) is a matter of far greater interest, however. The production and marketing of agricultural produce between them get the lion's share, followed by trade and manufacturing industry. In distributive terms, the share of credits for the marketing of agricultural produce, for industry and for trade in the total has been growing in recent years, and that of credits for export and for agricultural production as such has been falling. The marked increase in credits to other financial institutions is due to the National Bank of Commerce financing such new institutions as the Tanzania Investment Bank and the Tanzania Rural Development Bank.

TABLE 50

COMMERCIAL BANK LENDING BY TECHNICAL CATEGORIES, 1966 TO 1973
(end-year figures in million shillings)

Year	Domestic lending				Foreign loans and bills
	overdrafts	commercial bills	other loans	total	
1966	712.7	45.7	38.9	797.3	34.9
1967	608.1	70.3	139.7	818.1	30.8
1968	618.8	71.9	207.9	898.6	42.8
1969	652.0	59.5	381.1	1,092.6	34.0
1970	1,157.4	53.6	136.1	1,347.1	25.3
1971	1,344.9	27.3	132.3	1,504.5	36.5
1972	1,366.0	47.0	135.9	1,548.9	22.6
1973 (31 March)	1,270.0	48.2	135.4	1,453.6	13.1

Source: Bank of Tanzania, *Economic Bulletin*, March 1973, Table 13.

As regards the seasonal pattern of commercial bank credit, the highest total figures regularly occur in September and December. Both the amplitude and the timing and duration of fluctuations are clearly influenced by agricultural production, though the atypical figures of 1971 reflect a combination of seasonal influences and the Central Bank's restrictive policies. But loans to each separate sector of the economy display their own specific pattern, and this is reflected in the changing proportions of total credit going to different sectors. Marketing credits follow a course very similar to total credits, both highly seasonal; credits for agricultural production are highest at the beginning of the year and lowest towards the end; export credits follow the same course but with a slight lag; credits to industry and to trade are only indirectly affected by seasonal influences, and tend to rise towards the end of the year, when banks have more loanable funds to invest in such sectors.

TABLE 51

COMMERCIAL BANK LENDING BY RECIPIENT SECTORS, 1967 TO 1973

(end-month figures in million shillings)

Year and month	Agric. produc- tion	Mining and manu- factur- ing	Building and construc- tion	Trans- porta- tion	Tour- ism	Market- ing of agric. produce	Export of agric. produce	Trade	Public admin- istra- tion	Spec- ified financial institu- tions	Others
1967 - March	91.1	110.0	18.4	9.2	—	118.7	121.8	141.5	4.7	277.5	40.2
June	101.5	123.9	17.7	8.2	—	81.1	85.8	164.1	5.2	268.9	48.4
September	100.5	128.1	19.5	11.8	—	173.2	136.8	185.2	5.1	261.1	51.4
December	102.1	114.8	25.2	10.4	—	190.9	148.4	178.4	5.6	226.3	55.8
1968 - March	105.5	114.0	30.6	8.8	—	101.5	133.7	176.8	4.7	9.3	52.7
June	106.2	128.1	27.8	13.0	—	110.8	94.1	198.0	4.7	7.9	40.5
September	100.4	138.0	37.0	9.5	—	332.9	113.4	204.1	3.5	12.1	61.7
December	99.5	142.0	41.3	15.6	—	193.0	159.2	226.5	3.3	8.2	64.6
1969 - March	109.6	158.3	42.6	18.8	—	132.4	123.8	176.8	4.7	8.0	52.7
June	101.2	182.7	33.2	17.8	—	206.9	102.1	198.0	4.7	12.7	40.5
September	97.5	177.9	36.7	16.5	—	278.8	143.7	204.1	3.5	17.0	61.7
December	109.6	196.1	40.8	18.5	—	270.7	141.2	226.5	3.3	21.3	64.6
1970 - March	109.6	226.4	40.5	33.2	13.6	158.7	120.2	266.0	8.5	22.6	63.9
June	106.8	256.9	35.3	35.1	16.6	116.0	81.4	333.3	2.9	23.4	50.5
September	123.6	228.2	36.4	32.7	18.8	220.8	102.7	342.2	3.1	28.4	60.5
December	171.6	214.1	35.6	45.3	24.8	280.4	138.8	356.3	2.8	31.7	45.7
1971 - March	131.7	189.8	35.1	46.3	15.2	263.5	94.5	336.7	2.8	134.1	53.5
June	106.1	207.6	29.6	44.6	13.1	329.0	77.5	392.2	2.9	111.8	44.5
September	93.7	189.7	31.4	45.2	6.8	298.8	76.4	392.9	2.3	103.0	54.5
December	81.3	223.0	27.9	40.3	8.8	397.6	107.2	492.5	2.4	74.7	48.9
1972 - March	104.4	212.0	28.4	43.4	8.6	362.6	76.1	382.3	4.8	77.7	50.7
June	103.6	236.2	22.7	37.8	10.0	332.0	52.2	355.5	1.9	68.9	58.7
September	103.2	248.6	28.1	45.1	11.1	430.0	92.3	322.0	3.2	73.8	52.6
December	96.2	255.5	31.1	41.6	13.7	531.5	115.0	326.6	1.9	68.2	67.7
1973 - March	96.9	247.3	33.4	36.7	11.5	452.3	89.2	359.6	1.7	69.1	56.1

Sources: Bank of Tanzania, *Economic and Operations Report*, various years, and *Economic Bulletin*, March 1973, Table 14.

TABLE 52

COMMERCIAL BANK LIQUIDITY RATIOS, 1966 TO 1973
(end-month figures in million shillings, ratios per cent)

Year and month	Cash	Deposits with Bank of Tanzania	Cash/ deposit ratio	Treasury Bills	Liquid foreign assets	Total liquid assets	Liquid assets/deposit ratio
1966 - December	32.2	48.6	8.75	6.0	85.0	171.8	18.60
1967 - December	27.5	3.1	3.01	30.0	138.8	199.4	19.70
1968 - March	20.6	17.7	3.15	36.9	222.0	297.2	29.15
June	31.0	43.6	7.09	37.0	147.1	258.7	24.60
September	30.8	19.1	4.15	20.0	132.3	202.2	16.85
December	39.8	49.2	7.06	104.0	114.2	307.2	24.37
1969 - March	35.5	16.4	4.22	78.0	160.4	290.3	23.61
June	34.2	46.8	6.00	73.1	193.8	347.9	25.80
September	37.7	1.6	2.78	43.0	223.0	305.3	21.60
December	45.3	35.7	5.15	41.0	260.5	382.5	24.34
1970 - March	40.7	34.7	3.38	19.8	360.6	430.5	29.12
June	37.4	33.3	4.58	19.9	382.8	473.4	30.68
September	41.2	1.3	2.59	—	385.7	428.2	26.12
December	42.6	2.7	2.54	—	357.3	402.6	22.58
1971 - March	34.4	1.1	1.94	—	386.2	421.7	23.08
June	45.4	5.9	2.64	—	416.9	468.2	24.06
September	47.4	2.5	1.82	—	463.5	513.4	25.83
December	62.8	2.0	1.70	15.0	575.2	655.0	29.73
1972 - March	47.5	1.8	2.21	99.0	598.7	747.0	33.55
June	48.7	4.5	2.40	99.0	604.9	757.1	34.13
September	60.1	—	2.59	99.0	613.3	772.4	33.32
December	78.4	3.7	3.30	99.0	670.8	851.9	34.22
1973 - March	57.9	4.0	2.36	99.0	741.1	902.0	34.49

Sources: Compiled from Bank of Tanzania, *Economic and Operations Report*, various years, and *Economic Bulletin*, March 1973, Table 10.

Table 52, finally, gives figures on bank liquidity. Neither the cash/deposit, nor the liquid assets/deposit ratio is ever particularly high. This has to do with the peculiarities of the Tanzanian banking system. Highly concentrated as the few banks are, they have the benefit of economies of scale in their cash reserve holdings, and they also know that they can always turn to the Bank of Tanzania for coverage even of their peak seasonal requirements. However, in 1971 the liquid assets/deposit ratio suddenly went up and has remained high ever since; this is, of course, the counterpart of the contemporaneous low loan/deposit ratio and a direct result of the Central Bank's credit restrictions.

Seasonally, the liquid assets/deposit ratio is the mirror image of the loan/deposit ratio. Bank liquidity tends to grow in the early part of the year and to decline in the last quarter, and the fluctuations widen in response to additional, non-seasonal influences like those emanating from the Treasury or abroad.

3. THE NATIONAL BANK OF COMMERCE

The National Bank of Commerce (NBC) is Tanzania's leading bank and has the monopoly of ordinary banking business, except in Zanzibar. The operational scope of the NBC, as described in Article 4 of the National Bank of Commerce Act¹, can be summarized as follows:

- (a) acceptance of deposits and lending in all possible technical forms, buying, selling, holding and issuing on commission shares and bonds, every kind of banking services, etc.;

¹ Act No. 1 of 1967, (subsequently amended by Act No. 21 of 1967), *An Act to establish the National Bank of Commerce and to vest in that Bank the Assets and Liabilities of Banks hitherto carrying on Banking Business in the United Republic.*

- (b) undertaking the office of executor, administrator, auditor, etc., keeping registers of securities for the government or any company, public enterprise or public authority, etc.;
- (c) taking any steps calculated to uphold its own credit and to obtain and justify public confidence.

The authorized capital originally was 100 million shillings, of which one quarter was paid up at once. The government immediately took up 60 shares, worth 6 million shillings, and in counterpart vested its net interest in the assets of the Tanzania Bank of Commerce in the NBC; another 190 shares, worth 19 million shillings, were issued to the government against payment in Tanzanian currency soon after. In 1970 the NBC's capital was raised to 175 million, of which 50 million are paid up.

The Board of Directors consists of a chairman, who is managing director and is appointed by the President of the Republic, and not less than five nor more than nine other members appointed by the Minister of Finance. The Board in turn appoints the General Manager. All of them are chosen from amongst persons with experience and competence in industrial, commercial or financial matters.

In the interests of aligning the bank's activities with government policy, the Minister of Finance may, after consultation with the Governor of the Bank of Tanzania, give to the NBC Board directions of a general character in relation to matters which affect the national interest.

At its inception, the new National Bank of Commerce had to deal urgently with four sets of rather difficult problems, concerning liquidity, branch rationalization, operating efficiency, and the definition of a new lending policy. It is worth looking in some detail at the Bank's solutions of each of these problems,

because they did much to fashion its whole future, and in some cases were original and innovating¹.

Liquidity problems were bound to arise from the loss of the close connections with London maintained by the now nationalized expatriate banks. New sources of funds had to be found quickly, to meet the habitual seasonal peak requirements. With no foreign sources to turn to, the NBC had only two possibilities: either to get funds from the Central Bank, or to lend less. The second solution would have had deflationary effects most detrimental in a country which was just trying to set its economic development in motion. What the experts recommended² and what was in fact done was to make use of the refinancing facilities of the Bank of Tanzania, which had promised to stand by in case of need. The idea was that additional liquidity creation of a seasonal nature would not generate inflationary pressures, since the extra cash could soon be mopped up when loans were repaid.

The second of the NBC's immediate problems was an organizational one, namely, how to rationalize the branch network with a view to enhancing operational efficiency and serving up-country areas. Before nationalization, bank branches had sprung up somewhat haphazardly in an entirely uncontrolled manner, and the result was irrational and, from a general point of view, uneconomic. The new NBC in 1967 inherited a banking network scarce in rural areas and crowded in the towns. The urban

¹ K.E. Svendsen, *Problems of Decision-making in the Financial Structure of Tanzania - The NBC as One Case*, University College, Economic Research Bureau Paper 67.11, Dar es Salaam, 1967. Professor Svendsen was a member of the first Board of Directors of the NBC.

² M.J.H. Yaffey, *Bank Liquidity after Nationalization*, University College, Economic Research Bureau (Restricted) Papers 67.1, Dar es Salaam, 1967.

branches of the former banks were formally unified, but *de facto* retained a measure of independence in so far as it was too difficult for the NBC at once to standardize their different systems and procedures for accounting¹.

In reorganizing its network, the NBC closed down many urban branches and opened new rural ones, including mobile units. In so doing, it followed not merely the criterion of short-run profitability, but opened branches even where it expected them to be unviable, provided this was felt to be in the public interest. As the bank saw it, it had to transform itself from an "ill assorted collection of separate banks struggling to continue normal banking operations into an efficient unified organization with a strong and competent Head Office and with managers of proved ability at the branch level²."

By the end of June 1968 the NBC had closed down 14 branches out of the 60 it inherited. Later, more were closed and new branches and agencies opened according to a five-year plan adopted by the NBC.

In 1971, the takeover of the National Co-operative Bank created new network rationalization problems, and so did the construction of the rail link between Tanzania and Zambia, because of course new offices were needed in the areas traversed by the railway. The bank's network grew from 88 in 1970 to 102 in 1971 and to 122 the following year, when another 60 projects or so were under consideration. At present, the NBC seems to be inclined to go a bit more slowly with opening new permanent branches and to favour mobile units instead.

¹ National Bank of Commerce, *Annual Report and Accounts for the Year Ended 30th June, 1968*.

² *Ibid.*, p. 8.

Along with network expansion went operational decentralization. Local officials were appointed to promote banking activities, and special consultative Zonal Committees set up; these consist of bank managers, public officials, representatives of co-operatives, members of the chambers of commerce, etc. In this context NBC branches and agencies give financial backing and render technical assistance to District Development Corporations throughout the country.

While it is generally recognized in Tanzania that the NBC has made good progress since 1967 in organizing its network, much remains to be done to rationalize work in the towns and to bring banking services to all inhabitants everywhere.

This depends to a considerable extent on the solution of another problem, namely, improved internal organization and working efficiency. Upon nationalization, the NBC lost the services of many senior foreign staff members in key posts, and those that remained found themselves faced with difficult problems of unification and adjustment. Almost immediately the bank started an in-service training scheme for indigenous staff, and some of them took the correspondence course and qualification organized by the Institute of Bankers in London. Later, plans were made to set up a National Institute of Banking and Insurance to provide professional training on the spot, but eventually the scope of the proposed institute was broadened and when it was founded, in March 1972, it accordingly was given the name of Institute of Finance Management¹.

Thanks to these schemes the NBC made very reasonable progress with Tanzanianization of its personnel. Non-citizen staff

¹ National Bank of Commerce, *Annual Report and Accounts for the Year Ended June, 1972*, p. 34-35.

strength dropped from 332 at the end of June 1968 to only 205 four years later, at which time they accounted for 9 per cent of total staff.

Efficiency certainly has improved since 1967, but once more one must conclude that much remains to be done before the NBC can maximize its contribution to the country's economic development. It is still not the flexible and efficient, and entirely non-bureaucratic, institution it should be if it is to attract deposits from and distribute loans to ever-growing circles of the population¹.

The fourth and last of the NBC's immediate major problems was the definition of a new lending policy. The fundamental question was whether the bank should automatically satisfy all requests for credit without further scrutiny, or whether it should have discretion to satisfy itself as to the production and financial details of projects, to assess the consistency of physical and financial targets and, beyond that, the economic and financial situation of the borrower². This was obviously a matter of principle and one of far-reaching importance. To adopt the first approach would have meant a policy choice in favour of a credit structure of the most orthodox socialist type, while the second approach implied introducing into a tendentially socialist economic system an element which has more in common with the principles of a market economy.

¹ One measure of imperfection is the ratio of total deposits (1,812 million shillings in June 1972) to total staff at the same date (2,883). This works out at the extremely low figure of little over 600,000 shillings per staff member. (On the significance of the deposits/staff ratio see T. Bianchi, *Costi ricavi e prezzi nelle banche di deposito*, Milan 1967, p. 184).

² John Loxley, *The Monetary System of Tanzania since 1967*, *op cit.*, p. 5-6.

In practice, the solution adopted was an intermediate one. The NBC critically examines credit requests, but while it has been claiming for itself wider margins of discretion, it exercises this discretion in such a way that it has in effect become an integral part of the country's financial planning machinery. A system modelled, say, on the Soviet Union would certainly not have been feasible, given the deficiencies of planning and especially the absence of any detailed plans. The socialist orientation in Tanzania is evident, rather, in certain principles of loan policy and in particular standards of financial analysis.

It was felt that no radical change was called for with regard to credits to the private sector, but that the NBC should be entitled to refuse any requests which did not appear to be sufficiently soundly based. This attitude has come in for frequent criticism, but it does not seem to have led to any undesirable credit restrictions¹. In any event, the NBC has always been more liberal than the expatriate banks used to be, especially with respect to loan security.

Actually, there was some discussion at the time as to whether the NBC should lend to the private sector at all, or whether it should finance only public and parastatal enterprises as well as co-operatives. This would have meant barring private firms from access to bank credit, and thus putting obstacles in the way of private enterprise regarded as running counter to the declared national aim of socialism². Again a middle way was chosen. Stress was laid on the NBC's obligation to give every possible

¹ John Loxley, *The Domestic Finance of Development Projects in Tanzania*, University College, Economic Research Bureau Paper 71.8, Dar es Salaam, 1971, p. 34.

² Amon J. Nsekela, "NBC's Lending for Socialist Development", in: *NBC's Role in Tanzania Socialist Construction*, Dar es Salaam, 1971, p. 13; John Loxley, *The Monetary System of Tanzania since 1967*, *op. cit.*, p. 11.

assistance to the public sector and co-operatives, but credit to the private sector was not ruled out. It was realized that a drastic cut in finance for private enterprise would have disrupted the economy and necessitated the nationalization of more and more firms, while the public sector was still short of entrepreneurial talent and trained manpower with which to run the entire economy. Moreover, bankruptcy or closure of private firms might have been very damaging to public firms on either side of them in the chain of production.

However, loans to private enterprise are subject to quite demanding conditions. A borrower must demonstrate that his business is viable and soundly managed, and is not overburdened by indebtedness or excessive stocks; in addition the bank requires security in the form of real or financial assets and personal guarantees. In any case lending is restricted to persons of "sound and reliable character"¹.

The NBC is less particular in its public-sector lending, but even then its credit is not automatic, as some would have had it be. This argument was rejected, and the view prevailed that in principle the loan criteria must be the same for public as for private borrowers, that is, the project must be feasible and the borrowing firms sound, because this is the only way in which the NBC can safeguard the interests of depositors and, more generally, those of the whole community, from which the bank's financial resources derive. Nevertheless, there is a big difference. In its public-sector lending, the NBC combines financial with advisory assistance, acts as management consultant and has increasingly assumed control functions on behalf of the government. As Amon J. Nsekela, the Chairman and Managing Director of the

¹ Amon J. Nsekela, *ibid.*, p. 14-17.

National Bank of Commerce put it, "So the bank has the responsibility to act as a financial watchdog over parastatals on behalf of the Government¹." In other words, it is incumbent upon the NBC to make sure that the behaviour of state and parastatal enterprises is in line with the principles of government policy and that they maximize efficiency so as to avoid the waste of financial resources, a waste that a developing country can ill afford.

The 1971/72 Finance and Credit Plan assigned to the NBC control over the use of the country's financial resources². Because it is supposed to make sure that loans are in fact used for the purposes for which they were granted, the bank is represented on the boards of directors of many public firms. The NBC in addition has the task of helping to rationalize the banking system; this is where its takeover of the National Co-operative Bank comes in, as well as its contribution to the establishment of the Tanzania Investment Bank, the Tanzania Rural Development Bank and the Karadha Company Ltd., a hire purchase subsidiary of the NBC.

The NBC's controls will be gaining more effectiveness with improvements in planning machinery, more especially the introduction of detailed financial and physical plans, which definitely seems to be the direction in which things are at least tentatively moving. But so long as the NBC cannot fully act as comptroller of state and parastatal enterprises and indeed government departments, its controls are bound to be less analytical and thorough than they should ideally be, and can be effective only with respect to foreign expenditure.

¹ Amon J. Nsekela, *ibid.*, p. 17.

² United Republic of Tanzania, *The Annual Plan for 1971/72*, *op. cit.*

One important difference in the NBC's loan policies *vis-à-vis* the public and the private sector, respectively, is the meaning it attributes to loan security in the two cases. In lending to the private sector, the bank requires security in order to safeguard capital which belongs to the nation; in public-sector lending, security is a mere means of establishing priority over possible private creditors ¹.

Yet other principles govern the bank's lending to co-operatives. Usually the loans concerned take the form of short-term crop finance, and in this case the bank asks for a collective guarantee by the co-operative unions which channel the loans through primary societies to the ultimate beneficiaries. The amount of loans to co-operative unions is based on crop estimates, checked whenever possible on the spot by a member of NBC staff. In any case there is a fixed ceiling for such loans. The credit is secured by a letter of hypothecation over the crop, sometimes also by a crop bill, and in all cases supported by an irrevocable letter of undertaking by a Marketing Board, to the effect that crop proceeds due to unions will be paid direct to the bank ².

The assets and deposits of the National Bank of Commerce, and its place in Tanzania's commercial banking system, are illustrated in Tables 53 to 55, for the years 1967 to 1972.

The increase in deposits is seen to have been rather slower than for commercial banks as a whole, as shown in Tables 47 and 48. For this the National Co-operative Bank was responsible, and indeed after its takeover by the NBC, the latter's deposits rose by 47 per cent from 1970 to 1971, and its share in total commercial bank deposits climbed to 82.1 per cent. The NBC

¹ Amon J. Nsekela, *ibid.*, p. 19.

² *Ibid.*, p. 22-23.

TABLE 53

NATIONAL BANK OF COMMERCE: DEPOSITS, 1967 TO 1972
(end-June figures in million shillings)

Year	Demand deposits	Time deposits	Savings deposits	Total
1967	513.6	120.7	128.4	762.7
1968	502.7	207.8	149.0	895.5
1969	565.5	314.4	159.2	1,039.1
1970	626.4	290.6	182.5	1,099.5
1971	1,093.7	379.1	199.4	1,672.2
1972	1,107.3	466.4	238.9	1,812.6

Source: National Bank of Commerce, *Annual Report and Accounts*, various years.

TABLE 54

NATIONAL BANK OF COMMERCE: ASSETS, 1967 TO 1972
(end-June figures in million shillings)

Assets	1967	1968	1969	1970	1971 ⁽¹⁾	1972 ⁽¹⁾
Cash	26.6	27.8	20.7	30.3	48.4	48.9
Bills, loans and overdrafts	613.0	619.2	690.4	930.2	1,353.2	1,258.8
Treasury Bills	30.0	30.0	73.1	—	263.9	427.6
Other investments	9.6	19.7	82.2	151.2	—	—
Loans to National Co-operative Bank	—	—	51.0	—	—	—
Net foreign assets	66.3	47.4	31.2	21.3	30.0	12.5
Deposits with Bank of Tanzania	1.5	40.1	42.9	2.7

⁽¹⁾ For 1971 and 1972, including deposits with the Bank of Tanzania.

Source: National Bank of Commerce, *Annual Report and Accounts*, various years.

has the bulk of the country's demand deposits, especially since 1971, and very nearly all savings deposits; time deposits, as we shall see presently, are more prominent in the People's Bank of Zanzibar.

The most interesting point evidenced by Table 54 is the faster pace of new lending, especially in 1970 and 1971.

TABLE 55

NATIONAL BANK OF COMMERCE: SHARE IN COMMERCIAL BANK DEPOSITS, LOANS AND FOREIGN ASSETS, 1967 TO 1972
(per cent)

Year	Total deposits	Demand deposits	Time deposits	Savings deposits	Loans	Foreign assets
1967	86.3	84.7	86.3	97.5	83.4	...
1968	83.7	81.3	70.9	97.8	83.8	31.6
1969	75.6	75.8	69.0	97.1	74.4	20.8
1970	70.1	76.2	52.7	96.3	86.6	8.3
1971	82.1	94.5	57.8	100.0	98.2	9.6
1972	76.3	91.0	51.4	97.8	98.9	2.1

Sources: Compiled from data in: National Bank of Commerce, *Annual Report and Accounts*, various years, and Bank of Tanzania, *Economic and Operations Report*, various years.

Accordingly, the loan/deposit ratio is higher for the NBC alone than for the commercial banks as a whole, and indeed the NBC also has a higher share in total loans than in total deposits. The explanation once more lies with the People's Bank of Zanzibar, which has a very low loan/deposit ratio and very high liquidity.

A striking feature revealed by Table 55 is the very low proportion of the commercial banks' foreign assets held by the NBC; the bulk of them is in the hands of the People's Bank of Zanzibar.

In connection with the growth of the NBC's lending, it is worth looking more closely at its medium- and long-term business. From its inception, the bank sought to remedy the shortcomings of the expatriate banks and to initiate a policy of active support for economic development.

As early as November 1967 an amount of 10 million shillings was earmarked for medium-term development loans, and this was doubled a year later. But as of the end of June 1968 no more than about 4.5 million were outstanding in loans for more than

the short term; these were distributed among seven individual projects, while another seven applications, involving a total amount of 8 million shillings, were under consideration.

In 1969, the bank radically revised its policy and launched a medium- and long-term lending programme for which it set up a new department. Medium-term credits were to run for at most 10 years, and long-term credits for 13 years, with a period of grace of 3 years in both cases. Interest rates ranged from 7 to 9 per cent, special low rates being charged for priority projects under the Second Five-Year Plan. The purpose of this new scheme was to supply medium- and long-term finance funds at reasonable cost, to promote economic development and to gain more control over public-sector spending and credit. This scheme was more successful than its predecessor, and by the end of June 1970 the NBC had a total amount of 89.5 million shillings outstanding to 38 projects under this heading.

However, the NBC realized that it did not have the financial resources to expand its medium- and long-term lending beyond a certain limit, while at the same time firms were getting into the habit of borrowing on such terms. This was the origin of the decision to set up a specialized institute for investment finance, the Tanzania Investment Bank. This was duly created in 1970, and absorbed the NBC's Development Credit Department¹.

In 1969 the NBC also launched a scheme of financial and management assistance for small-scale and cottage industries, in collaboration with the National Small Industries Corporation².

¹ National Bank of Commerce, *Annual Report and Accounts for the Year Ended 30th June, 1970*, p. 21.

² The NBC supplied not only credit, but organized training courses for artisans on such subjects as book-keeping and accounts, sales and marketing, and the principles of co-operation; some lectures, incidentally, were devoted to the merits of saving.

In the NBC's investment portfolio government stock, Treasury Bills and Treasury Notes account for the lion's share¹. The rest, accounted for as "commercial stocks", represents the NBC's contribution to the creation of an efficient financial structure, as in the case of the Tanzania Investment Bank (TIB), the Tanzania Finance Company (TAFCO) and the hire purchase firm Karadha Company, or else, as in the case of the Kilombero Sugar Company, financial aid to an ailing firm transferred into the parastatal sector.

To conclude this brief review of the activities of the National Bank of Commerce, a few words may usefully be said on interest rates.

Before nationalization, the lending and borrowing rates of banks were determined on the basis of the so-called East African Summary Banking Arrangements. Although some of the smaller banks at times departed from them, this was an exception rather than the rule. But when the National Bank of Commerce was set up, it did not subscribe to these rules. In its very first year, it raised its rates on 12-month fixed deposits from 4½ to 5 per cent, those on short-term deposits of 500,000 or more from 3⅛ to 4½ per cent, and those on other short-term deposits from

¹ The composition of the investment portfolio was as follows (end-June figures) in million shillings:

	1967	1968	1969	1970	1971	1972
Public securities	39.3	49.5	153.2	149.1	246.8	410.5
Commercial stocks:						
— Tanzania Investment Bank	—	—	—	—	15.0	15.0
— Karadha Co. Ltd.	—	—	0.1	0.1	0.3	0.3
— Tanzania Finance Company	—	0.2	0.2	0.2	—	—
— Kilombero Sugar Co.	20.0	20.0	20.0	—	—	—
Total	59.3	69.7	173.5	149.4	262.1	425.8

Source: National Bank of Commerce, *Annual Report and Accounts for the Year Ended 30th June, 1971* (p. 27) and 1972 (p. 28).

3 to 3½ per cent. Its rates on advances were set within the range of 7 to 10 per cent, subject to lower rates being charged in special circumstances. For example, since the middle of 1970 co-operatives and parastatals have been enjoying specially low rates, and no more than 6 per cent is being charged for credits to the most depressed zones (Dodoma, Mbeya, Morogoro, Mtwara and Tabora). The highest rates (10 per cent) are charged for unsecured personal loans, and loans to borrowers in the Dar es Salaam zone carry a minimum of 8 per cent.

4. THE PEOPLE'S BANK OF ZANZIBAR

The People's Bank of Zanzibar was founded in 1966 and, together with the National Bank of Commerce, now makes up the entire commercial banking system of Tanzania. Its operations are confined to the territory of Zanzibar and the island of Pemba, where it has had a branch at Wete since 1968. It is the banker of the Zanzibar executive and lends to local public organizations and enterprises.

Transactions between the bank's customers are effected through entries in its books, which means that little cash needs to be transferred, and the bank can control, as it is meant to, that the payments circuits are in conformity with the government's economic plan.

There are few precise figures about the People's Bank of Zanzibar. Its deposits have been rising steadily, from little over 100 million shillings in 1968 through 300 million in 1970 and 360 million in 1971, to 610 million in 1972. Time deposits are much the largest item, then follow demand deposits (some 100 million in 1972), and savings deposits are negligible.

The bank lends very little — some 20 million shillings in 1970 and 40 million in 1972 — and then mostly for commercial purposes, especially to the Zanzibar State Trading Corporation. It does, however, have sizeable foreign assets. Its loan/deposit ratio is always very low, and seldom exceeds 30 per cent.

The high liquidity of the People's Bank of Zanzibar appears to be due in part to its operating a clearing for various state and parastatal offices and agencies, and in part to the limited local investment opportunities and the bank's scant connection with the mainland¹.

5. HIRE PURCHASE CREDIT: THE KARADHA COMPANY LTD.

Before 1966 hire purchase credit was available from a few companies either subsidiary to or at least closely connected with the expatriate banks; the leading firms were the National Industrial Credit Corporation and the Lombank Tanganyika Ltd. In addition, some industrial and trading firms allowed their customers hire purchase facilities, and refinanced themselves with commercial banks. Competition was fairly keen and hence interest rates were low, but not infrequently firms got into financial difficulties, especially in the early sixties.

The Tanzania Hire Purchase Act of November 1966 (Act No. 22 of 1966) was the first legislation of the kind in the history of East Africa². It is to some extent modelled on the British Hire Purchase Act of 1938, and was designed to give

¹ For the information given in the text see 1964-1967: *We have Completed Three Years. Tanzania is Forging Ahead. The Fruits of the Revolution in the Islands*, Zanzibar, 1967, and subsequent issues up to 1971.

² S. Picciotto and W.C. Whitford, "The Impact of the Tanzania Hire Purchase Act 1966", *Eastern Africa Land Review*, No. 1. 1969, p. 18 ff.

more protection to buyers in their dealings with sellers, hire purchase credit institutes and the expatriate banks ¹.

The first thing that happened was that expatriate hire purchase companies closed down, perhaps with a view to discouraging other East African countries from passing similar legislation.

After the bank nationalization in 1967 the National Bank of Commerce itself handled hire purchase credit for a while; in so doing it kept a close watch on the balance of payments ², and domestically gave priority to commercial vehicles and to plant and machinery, though it also lent within certain limits for the purchase of private motorcars by civil servants and executives.

The NBC proposed a hire purchase scheme to the Bank of Tanzania, and agreed with the latter on rates of interest to be charged, to wit, 11 per cent plus a 2½ per cent commitment fee in the case of commercial vehicles, machinery and equipment, and 10 or 11 per cent for private cars, depending on the quality of personal guarantees.

Subsequently, in January 1969, the NBC set up a hire purchase subsidiary, the Karadha Company Limited, with authorized capital of 500,000 shillings, of which 100,000 were paid up at once. It is wholly owned by the NBC and uses its network. The success of the new company was immediate: in its first eighteen months 1,618 credit applications were submitted to it, of which it accepted 871, involving more than 26 million shillings.

However, the company's activities were the subject of some controversy, for it was felt that to finance the purchase of private cars was contrary to the country's socialist principles. On the

¹ MacNeil, "The Tanzania Hire Purchase Act 1966", *Eastern Africa Land Review*, No. 2, 1966, p. 84 ff.

² The bulk of consumer credit was for imports.

other hand, the private sector was still very important in the Tanzanian economy and the public transport system was notoriously deficient; while, therefore, the case against private car ownership was admitted in principle, it was argued that it would be wrong to apply restrictions to those who could not do their work efficiently without being able to get about quickly¹. Eventually the practice was approved, but subject to certain conditions; every effort was to be made to save hard currencies, no credit was to be given for the purchase of luxury cars, and in no case were such credits to be granted without proof of absolute necessity and of the character and moral integrity of the would-be purchaser².

But all these conditions did not prevent a rapid expansion of credits to private individuals. In November 1970, therefore, the TANU National Executive decided, as part of a general set of restrictive measures, that the Karadha Company should in future grant credit exclusively for the purchase of commercial and industrial vehicles, as well as agricultural machinery³. At the same time limits were set to the NBC's own direct financing of consumer credit.

¹ John Loxley, *The Monetary System of Tanzania since 1967*, *op. cit.*, p. 12-13; "Excerpts from an Address to the Dar es Salaam Rotary Club" by E.I.M. Mtei, Governor of the Bank of Tanzania, in: Bank of Tanzania, *Economic and Operations Report*, June 1969, p. 42-44.

² John Loxley, *The Domestic Finance of Development Projects in Tanzania*, *op. cit.*, p. 36-37.

³ Bank of Tanzania, *Economic and Operations Report*, June 1971, p. 25.

Chapter II

AGRICULTURAL CREDIT

1. THE STRUCTURE OF TANZANIAN AGRICULTURE

Historically, the development of agriculture was rather different in Tanzania, first under German and then under British colonization, from what happened in Kenya¹. In Kenya, large estates and plantations employed the excess labour of the enormous subsistence sector; in Tanganyika there were also large estates, but indigenous agriculture was developed at the same time, especially as regards export crops. Even so, the large estates, while occupying only 1 per cent of cultivated land, produced 50 per cent of exported commodities.

The effects of this historical pattern still linger on and are actually creating a number of problems, such as the need to enlarge and rationalize the subsistence sector, to even out geographical imbalances and to improve what is left of the former colonial farming system.

Nothing much changed at first in agricultural policy with the advent of independence. As before, new money went mostly into the development of cash crops, and very little into traditional farming.

¹ See J. Iliffe, *Agricultural Change in Modern Tanganyika: an Outline History*, Universities of Eastern Africa Social Science Conference Papers, Dar es Salaam, 1970.

The post-independence three-year plan introduced what came to be known as the "transformation approach", which placed the main stress on the development of new systems of production and social organization, while the "improvement approach", important but secondary, was to achieve a gradual and progressive improvement in traditional farm methods¹.

In the meantime some spontaneous changes occurred in traditional farming during the early sixties. Output rose quite considerably as farmers were taking more land into cultivation. This did not lead to a change in production techniques, but accentuated existing social and territorial disparities.

The Arusha Declaration in 1967 marked an entirely new approach to agricultural policy. Henceforth, rural development was to proceed on different lines, the main points of which may be summarized as follows²:

- (a) social and technical transformation of agriculture, rather than its marginal improvement;
- (b) application of the new policy throughout the country, and not only to new projects;
- (c) support for the spontaneous formation of collective, *ujamaa*, villages;
- (d) far-reaching independence of production units, especially *ujamaa* villages;
- (e) priority for projects with high labour and low capital intensity.

¹ L.R. Cliffe, "Planning Rural Development", in: *Towards Socialist Planning*, *op. cit.*, p. 97-99.

² See *The Development of Ujamaa Villages*, Presidential Circular No. 1, 1969; Julius K. Nyerere, "After the Arusha Declaration", and "Socialism and Rural Development", in: J.K. Nyerere, *Freedom and Socialism*, Dar es Salaam, 1968.

2. AGRICULTURAL DEVELOPMENT UNDER THE SECOND FIVE-YEAR PLAN

This new approach was immediately put into practice by the Second Five-Year Plan¹. To give effect to the *ujamaa* principle, increased scope, both in quantitative and in qualitative terms, is assigned to collective villages and co-operatives, and top priority is given to low-cost, small-scale projects that can be carried out by local communities without more than a minimum of technical and financial assistance. Subject to regional differences, high priority crops are listed as rice, wheat, tea, flue-cured tobacco, cotton, oilseeds, cashew nuts, some vegetables and fruit, seed beans and soya beans; those to be discouraged because of poor market prospects are sisal, coffee, pyrethrum and fire-cured tobacco.

The Plan places much stress on infrastructures for rural areas, with broad responsibilities and powers vested in local communities, districts and regions.

The present structure of Tanzanian agriculture, understood in a wide sense to include the marketing of agricultural commodities, is made up of *ujamaa* villages, co-operatives, state farms, marketing boards, the State Trading Corporation and the District Development Corporations. It is worth looking at each of them in some detail, for together they provide the setting in which agricultural credit institutes operate.

(a) *Ujamaa villages*

Since the second five-year plan, the bulk of the rural development effort has been concentrated on assistance programmes

¹ United Republic of Tanzania, *Tanzania Second Five-Year Plan for Economic and Social Development*, Dar es Salaam, 1969, p. 26 ff.

for *ujamaa* villages. At the beginning of 1972 there were 4,400 of them, comprising about 11 per cent of the total population of mainland Tanzania. The scheme made most progress in the more backward areas with little farming, and was least successful among the traditionally nomad tribes.

Ujamaa villages differ greatly as to size of population, degree of collective organization, and stage of development. There may be as few as 50 or as many as 2,000 people living in such a village. The villagers may be carrying on all their production in common, or they may simply have set aside one piece of common land, *shambas*, on which each has to do part-time work in addition to his farming on his own account. In some cases, setting up *ujamaa* villages has meant resettling of families on a sizeable scale, in others collective production was chosen as an improvement on an existing situation.

Ujamaa villages are classified in three groups, belonging to three different "stages". The first, "formative", stage is one of education and persuasion on the part of the government and the party. Planning teams make studies and recommendations. This is the moment when major financial help is needed for the creation of infrastructures from which no immediate returns can be expected, but the necessary funds are supplied not by credit institute, but by government departments directly. By the time an *ujamaa* village reaches stage II, its inhabitants have learned to live and work together; it becomes an economically viable enterprise, is registered as an agricultural association and as such has access to credit from banks and, above all, from special credit institutes. In stage III, finally, the village structure is fully consolidated, its production extends beyond farming to collateral

activities and it is registered as a multipurpose co-operative society; at this stage any type of institute may extend credit to it¹.

(b) *Co-operative societies*

The co-operative movement plays a very important part especially in the marketing of agricultural produce. At the beginning of 1971 there were 1,639 registered co-operative societies, most of them concerned with the processing and marketing of coffee, cotton, dairy products and, to a lesser extent, cottonseed oil; some had branched out into the textile industry.

The government is now trying to encourage agricultural production co-operatives as well, since few of the big farms are organized on co-operative lines.

There is a close link between the co-operative movement and *ujamaa* villages, inasmuch as the former promotes the establishment of the latter, gives them technical assistance especially with book-keeping and accounts, and eventually often develops them into fully-fledged co-operative societies registered as such.

(c) *State farms*

State farms have been set up for large-scale production of agricultural commodities offering scope for mechanization. There are 13 of them at present; four of them for wheat and one for rice, three for dairy products, two for pig-raising and three for animal husbandry in general. Six new ones are to be set up, of which three for oilseeds and one each for the production of wine, palmoil and coconuts.

¹ Of the 4,400 *ujamaa* villages in existence at the beginning of 1972, more than 4,000 were classified as being in stage I, 261 as stage II, and barely 100 as stage III.

The government's original purpose in establishing state farms was to increase food production rapidly and to demonstrate new and better farming methods to the farmers in the surrounding areas. However, in practice the performance of most of the state farms has been unsatisfactory, and few of them have attained commercial viability.

(d) *Marketing boards*

The primary function of Tanzania's marketing boards is to facilitate and develop trade in agricultural commodities by acting as intermediaries between producers and buyers, but most of them have diversified their activities to include also storage and distribution, processing, as well as crop regulation.

There are at present nine marketing boards, namely, the National Agricultural Products Board, the Tanzania Sisal Board, the Tanzania Tobacco Board, the Tanzania Pyrethrum Board, the Tanzania Coffee Board, the National Dairy Board, the National Sugar Board, the Lint and Seed Marketing Board and the Tanzania Tea Authority.

(e) *The State Trading Corporation*

The State Trading Corporation (STC) likewise handles agricultural commodities. It was set up in 1967, after the Arusha Declaration, with the intention of creating a state monopoly of all import and wholesale trade in the country.

(f) *The District Development Corporations*

District Development Corporations (DDC) were first set up at the end of 1969 with a view to rationalizing and enhancing the efficiency of the rural development efforts of local authorities.

Their share capital is owned almost exclusively by district and municipal councils, and government offices provide technical assistance so as to avoid a repetition of some rather disastrous experiences in the past.

There are now (1972) 24 registered District Development Corporations, of which only one has a shareholder other than local authorities; this is the Kilimanjaro Development Corporation, some of whose equity is in the hands of the Kilimanjaro Co-operative Union. Authorized capital ranges from 200,000 to 4 million shillings, and their purposes vary widely according to their location. They may be concerned with marketing and distribution, with services, food processing or small-scale industry. DDC projects, once duly approved by the government, are often financed by the National Bank of Commerce, the Tanzania Rural Development Bank or the Tanzania Investment Bank.

3. THE PLACE OF AGRICULTURAL CREDIT IN THE ECONOMY

Given the importance of agriculture in the Tanzanian economy and the priority accorded to its development by the government and economic planners, agricultural credit clearly occupies a crucial place¹.

¹ For a general discussion of the problems of agricultural credit in African countries, see Giordano Dell'Amore, *Agricultural Credit in African Countries*, paper contributed to the Fifth World Congress on Agricultural Credit held by the International Confederation of Agricultural Credit (ICAC) in Milan, 1973, and published under the same title by the Cassa di Risparmio delle Provincie Lombarde as Volume 8 in its series *The Credit Markets of Africa*, Milan 1974. See also Roberto Ruozzi, *I finanziamenti bancari alle aziende agricole*, Milan 1966 and by the same author, "Savings Banks and Agricultural Credit", in *The Mobilization of Savings in African Countries*, published by the Cassa di Risparmio delle Provincie Lombarde as volume 3 in its series *The Credit Markets of Africa*, Milan 1972.

The types of credit needed may be classified under five headings, as follows¹:

- (a) consumer credit, to help farmers cover their primary needs such as food, clothes and shelter, to the extent that they cannot be met from current subsistence activities;
- (b) working credits for the purchase of seeds, fertilizers, pesticides and other farm inputs during the planting and growing seasons;
- (c) crop or marketing finance, to provide funds when the crops are harvested and before their sale;
- (d) development finance;
- (e) commercial finance, to promote and develop processing industries, transport services and trade.

It is worth looking in some detail at what has been done in the past in this all-important matter of credit to the rural economy. The history of agricultural credit in Tanzania is one of many and interesting, albeit tentative, schemes and experiments with often original arrangements, which indeed are of interest in a wider context than the Tanzanian economy itself.

4. FROM THE LOAN FUNDS TO THE NATIONAL DEVELOPMENT CREDIT AGENCY

(a) *The Loan Funds*

The government of Tanganyika first provided farm loans on a large scale during the second world war, in an effort to promote farm production and alleviate food shortages. After the war, in 1947, the Local Development Loan Fund was established and some

¹ See H.H. Binhammer, *Institutional Arrangements for Supplying Credit and Finance to the Rural Sector of the Economy in Tanzania*, University College, Economic Research Bureau Paper 68.17, Dar es Salaam, 1968.

years later, in 1955, the African Productivity Loan Fund, both with a view to providing credit facilities for raising individual farm productivity and for more general improvement projects, with special reference to bridging the gap between the indigenous farm population and commercial sources of credit¹. Some local authorities and the co-operative movement, too, began lending to African farmers after the war.

The original capital of the Local Development Loan Fund was 1 million shillings, supplied by the Agricultural Development Reserve. This was raised to two million shillings in 1953, when the Fund was reorganized as a revolving fund, lending to local authorities, co-operative societies and other local development agencies, as well as to individual African and Arab farmers². Initially, all loans were made to the native authorities, which then channelled part of them to individual farmers. This arrangement was obviously meant to offer the Fund more security than individual farmers could do, especially since it was thought that more pressure could thus be exerted on defaulting individual borrowers. However, the local authorities were reluctant to assume direct liability for repayment, and after 1952 the Fund made direct loans to farmers, subject to local authorities' guaranteeing 50 per cent of the sums involved; in 1953, the system was again changed, with public guarantees required only for loans exceeding 10,000 shillings.

The unit amounts of loans usually ranged from 2,000 to 10,000 shillings, and their duration was three years.

¹ Major restrictions were placed on credit to the indigenous population by the 1930 Credit to Natives Ordinance (see East African Royal Commission, *Report 1953-55*, London, 1955).

² Local Development and African Productivity Loan Funds, *Report and Accounts for 1958*, Dar es Salaam, 1959.

In 1955 a grant of 2 million shillings was obtained from the United States via USAID, and with this money a second revolving fund, the African Productivity Loan Fund, was set up. Its main purpose was to finance the purchase of machinery for farming and the milling industry. Both Funds were administered by the African Loan Funds Committee, which regarded it as one of its primary tasks to reach indigenous borrowers who would not easily have had access to normal sources of credit. To this end it applied very liberal standards to risk evaluation. In practice, it required only two assurances, namely, that the project was economically sound and offered the borrower lasting benefits, and that the borrower had sufficient experience, competence and enterprise to make good use of the loan¹.

Although the Committee had authority to approve unsecured loans in exceptional cases, it rarely did so, on the theory that a borrower's ability to furnish security was an indication of his competence. In addition to its credit activities, the Committee also had educational functions in respect of actual and potential borrowers².

All in all, the working of these two Loan Funds was not very satisfactory, the main shortcoming being that they did not really reach the small African farmers³. A World Bank Mission to Tanganyika in 1960 passed rather scathing judgment on the

¹ *The Report on the African Loan Funds together with the 1955 and 1956 Accounts for the Local Development and African Productivity Loan Funds*, Dar es Salaam, 1958, p. 5.

² Borrowers were to be educated "into understanding the advantages and disadvantages of credit and into appreciating some of the obligations and difficulties of a credit financed economy" (Local Development Loan Fund, *Report and Accounts for 1960*, Dar es Salaam, 1962, p. 3).

³ J. Vasthoff, *Small Farm Credit and Development - Some Experiences in East Africa with Special Reference to Kenya*, Munich, Weltforum, 1968, p. 104.

Funds¹ and recommended decentralization by locating a trained rural development expert as Loan Fund Officer in each major agricultural area.

In 1960 a new system was introduced in order to speed up loans to individuals. This was the system of so-called bulk loans, under which loans up to 60,000 shillings were made to local authorities, which in turn relent them to individual farmers in amounts of up to 2,000 shillings, for projects such as the purchase of tractors, fishing equipment, milling equipment, etc. Local authorities had to pay interest at 2½ per cent, and were free to charge more for their own loans.

Throughout the lifetime of the two Funds effective demand for credit fell short of their resources. At the end of 1959, for example, although some four million shillings were available to the Funds, loans outstanding amounted to only 1.4 million (31.1 per cent)². The explanation lies no doubt in shortage of staff at the central and area committees, in the complexity and slowness of loan procedures, and in unduly high requirements of loan security. Of course, the very principle of a revolving fund implies that money lent must gradually come back, unless a loan were renewed; this is probably why the Funds often applied commercial standards to their lending rather than trying to promote rural development.

¹ "At present, the African Loan Funds are virtually run by one man in Dar es Salaam under the general direction of the African Loan Funds Committee, an interdepartmental body augmented by several unofficial members. Preliminary vetting of loan applications—in fact, often their preparation—and the supervision of loans is left to local administrative, agricultural, veterinary, and other officers. To these officers, often hard pressed with other work, the applications, said to flood into District Offices, are frequently a nuisance, taking valuable time needed for other work" (International Bank for Reconstruction and Development, *The Economic Development of Tanganyika*, Dar es Salaam, 1960, p. 68).

² H.H. Binhammer, *ibid.*, p. 2.

Nevertheless, a fairly high proportion of loans was repaid either late or not at all. As of 30 June 1963, loans outstanding from the Agricultural Productivity Loan Fund amounted to 1,431,840 shillings, of which 453,480 were overdue¹.

(b) *The Land Bank of Tanganyika*

The Land Bank of Tanganyika began operating in 1948 with an initial capital of 4 million shillings, increased to 6 million two years later. The capital was subscribed by the Legislative Council; the chairman of the Board was a government official, and five directors were appointed to represent commercial interests.

The Land Bank made long-term loans for fifteen to thirty years and in amounts up to 70 per cent of mortgaged land, though in no case exceeding 300,000 shillings; these loans were for the purchase of land, for discharging existing debts, for clearing land and erecting buildings. It also provided cultivation and crop finance, and made short-term loans up to five years for the purchase of agricultural equipment and machinery, and for cultivation, harvesting, processing and marketing. Loans were extended to individuals, co-operative societies and native authorities. Complete figures for the Tanzania Land Bank's lending activities from 1949 to 1960 are shown in Table 56.

At first, when its capital funds proved inadequate, the Land Bank relied on overdrafts from commercial banks. In 1955 it began accepting deposits from the public so as to lessen its dependence on overdrafts, the cost of which was somewhat unpredictable because of frequent changes in the rates charged

¹ Republic of Tanganyika, *The Appropriation Accounts, Revenue Statements, Accounts of the Funds and Other Public Accounts for the Year 1962/63*, Dar es Salaam, 1963, p. XIII.

TABLE 56

LAND BANK OF TANGANYIKA: LOANS, 1949 TO 1960
(thousand shillings)

Year	Loans outstanding on 31 December	Loans granted during the year		Repayments during year
		long-term	short-term	
1949	1,780	1,240	580	40
1950	4,340	2,800	800	520
1951	5,840	1,200	1,080	940
1952	5,340	1,020	620	2,140
1953	8,800	3,780	1,220	1,520
1954	10,460	2,740	1,020	2,100
1955	10,700	1,420	1,260	2,440
1956	11,560	2,040	1,800	3,000
1957	14,340	2,780	3,100	3,150
1958	18,280	4,480	5,160	5,680
1959	21,980	5,600	4,000	5,880
1960	24,740	6,180	4,360	7,640

Source: *Tanganyika Statistical Abstracts*, 1961 and 1966.

by the banks. But deposits were by no means enough to make bank borrowing unnecessary, and the cost of deposits, too, kept fluctuating because rates had to be adjusted to market rates, including those charged by commercial banks¹.

In the course of 1960, when political uncertainties led to large-scale flight of capital from East Africa, the Land Bank lost some 6.4 million shillings of deposits, and its collapse was prevented only by loans from the Colonial Development and Welfare Fund and from the Government of Tanganyika.

Although the Land Bank had most of the same shortcomings as the Loan Funds, it was much more active and its total lending

¹ H.H. Binhammer, *ibid.*, p. 3.

far more impressive. Of a total of some 60 million shillings of loans granted from 1947 to 1960, 32 per cent were used to buy land and discharge debts, 28 per cent for annual cultivation and crop marketing, and 40 per cent for long-term agricultural development.

The main criticism that can be levelled at the Land Bank is that it failed to meet the needs of African small farmers. The loans security it required could not be offered by most smallholders, and loan application procedures were too complicated and cumbersome. Furthermore, the Land Bank can be criticized for the large proportion of its funds lent to transfer land ownership, and thus not directly available for rural development.

(c) *The Agricultural Credit Agency*

The Land Bank of Tanganyika was replaced in 1961 by the Agricultural Credit Agency (ACA)¹. Unlike its predecessors, the Agricultural Credit Agency was founded to serve as the government's instrument for agricultural development. The Ministry of Agriculture was empowered to provide up to 700,000 shillings to it in any one year.

The Agricultural Credit Agency was beset with difficulties from the outset and was never really successful. Initially, it took over the assets and liabilities of the Land Bank of Tanganyika and of the two Loan Funds². Although a large part of the liabilities it inherited were in the form of irredeemable loans from the government, such large amounts of deposits were withdrawn during the ACA's first year that even additional government

¹ *Act Establishing the Agricultural Credit Agency*, No. 65 of 1961.

² The ACA took over the administration of the Local Development Loan Fund, but the African Productivity Loan Fund was henceforth administered by the Ministry of Commerce and Industry.

grants did not prevent the Agency from having to turn to the commercial banks for overdrafts.

"The purpose of the ACA was to grant loans for farmers, fishermen, co-operative societies, local government authorities, farming companies and farming associations . . . for the express purpose of increasing agricultural productivity in the economic interest of the country, improving farm efficiency, improving the quality of produce and raising the standards of living of the farmers and fishermen of Tanganyika¹." In an effort to give smallholders access to credit, provision was made for lending to so-called Agricultural Associations, groups of at least twenty adult farmers and fishermen, who could apply jointly for loans to assist co-operative development.

The ACA was authorized to extend short-, medium- and long-term credit up to 25 years. The minimum loan amount was 100 shillings, the maximum 200,000 shillings for individuals and 500,000 for co-operative societies.

There were two types of loans, district loans and executive loans. District loans consisted of small loans up to 4,000 shillings to individuals, and were handled at district level by newly established District Loan Committees, each with a revolving loan fund at its disposal. Executive loans, those exceeding 4,000 shillings, were administered directly by the ACA head office, where they had to be approved by an Executive Loans Committee.

In some respects the Agricultural Credit Agency worked rather more satisfactorily than its predecessors, in so far as it did away with the former complexities of loan applications and did actually reach the African farmers. But the cost of doing this was high. The

¹ *Report of the Governing Board of the Agricultural Credit Agency for the Year Ending 31st December, 1962*, p. 17.

ACA lacked the trained staff it would have needed for proper project assessment and for technical assistance to borrowers; as a result it often financed projects which were economically unfeasible and moreover of doubtful usefulness for economic development, and the default rate on loans was very high. As a remedy, the ACA changed its practices and during its last two years, before the whole system was reorganized once more, channelled most of its loans through the co-operative movement¹.

(d) *The National Co-operative and Development Bank*

The entire system of agricultural credit was reorganized in 1964 on the advice of a team of experts (the Tyson Report). To replace the Agricultural Credit Agency, three new institutions were set up: the National Co-operative and Development Bank (NCDB), the National Co-operative Bank (NCB) and the National Development Credit Agency (NDCA). Building on the experience of the past fifteen years, it was decided that the co-operative movement should serve as the mechanism of agricultural credit distribution. It was hoped thereby to eliminate the shortcomings and the high costs of the previous system.

The NCDB became the holding company for the other two new institutions, the NCB and the NDCA. Its share capital was subscribed by the co-operative movement, and at the end of 1967 amounted to 3.4 million shillings. In addition the NCDB got funds from its two subsidiaries, which shared its expenses; these took the form of contributions and dividends, and also loans from the NCB.

The main function of the NCDB was to co-ordinate the activities of its two subsidiaries, but actually the only step in

¹ H.H. Binhammer, *ibid.*, p. 4; J. Vashoff, *op. cit.*, p. 104-106.

that direction was the establishment of a joint management committee¹.

(e) *The National Co-operative Bank*

From 1964 until 1970, when it was taken over by the National Bank of Commerce, the National Co-operative Bank was the banker of the co-operative movement. At its foundation in 1964 it took over the Co-operative Bank of Tanganyika, which had been set up two years earlier for providing credit to agriculture on reasonable terms, and thus filling a gap left wide open by the expatriate commercial banks².

The sources of the NCB's funds were its own capital (6.6 million shillings at the end of March 1969), deposits (51 million at the same date), and overdrafts from commercial banks; at peak periods³ it also drew on central bank refinancing facilities.

The NCB had powers to engage in any type of credit operation, but in practice limited itself, until 1968, to providing crop finance. Thereafter it spread its business more widely in an effort to earn more on its funds, which had in the meantime grown appreciably thanks to deposits from the marketing boards in

¹ Most of the Committee's members were representatives of shareholding co-operatives, but the government retained overriding influence via the chairman, who was appointed by the Ministry of Agriculture, and three other representatives of government departments, with veto power on behalf of their respective ministries (H.H. Binhammer, *ibid.*, p. 5).

² In the early days of the credit system in Tanganyika, crop finance was provided by exporters to wholesalers, and by the latter to small dealers and farmers; exporters in their turn were financed by the banking system via the expatriate banks (See I. Livingstone, "The Marketing of Crops in Uganda and Tanganyika", in: R.G. Stewart and H.V. Ord, *African Primary Products and International Trade*, Edinburgh, 1965, p. 125-147).

³ The peak period was normally from August to November; in February and March the bank often had more funds than it could lend out, and either deposited its excess cash with other banks or invested in Treasury Bills.

step with the expansion of their activities. But at this point it was felt that the NCB was in effect duplicating the short-term lending of the National Bank of Commerce and it was decided to merge them. As a result the survivor, the National Bank of Commerce, had at the beginning of 1971 a monopoly of short-term agricultural credit throughout the country.

(f) *The National Development Credit Agency*

In the words of the law establishing the National Development Credit Agency¹, the NDCA was to provide credit for agriculture, the marketing and processing of agricultural produce, storage and transport facilities, and for the development of small-scale industries and co-operative distribution services.

The Agency worked on the principle that the way to reduce costs, to eliminate the high proportion of defaults which had bedevilled its predecessors, and to make farm credit widely available, was to lend almost exclusively via the co-operative movement rather than to individual farmers. Two steps were taken to this end:

- (i) at district level, the Ministry of Agriculture's field officers were to supervise the business of the NDCA, and
- (ii) all credits were to be disbursed and repaid through co-operatives.

The use of the co-operative movement as a channel had a number of advantages², in that it did much to reduce defaults, simplified risk evaluation and enabled the credit worthiness of

¹ *The National Co-operative and Development Bank Act, 1964, Art. 4.*

² See J. Vasthoff, *op cit.*, p. 107; J.F. Chant, *Agricultural Credit in Tanzania*, University College, Economic Research Bureau Paper 68.4, Dar es Salaam, 1968, p. 7-8; M.P. Collinson, *Problems and Possible Reforms in the Administration of Agricultural Credit in Tanzania*, paper prepared for the Conference on Agricultural Sectoral Planning in East Africa, Dar es Salaam, 3 to 6 April 1967, p. 16.

each borrower to be assessed more accurately¹. But it had also disadvantages, the chief of which was that it did not eliminate, but merely transferred to the co-operative movement a large part of the costs and risks otherwise at the charge of agricultural credit institutes.

When the NDCA took over the functions of the Agricultural Credit Agency, it therefore continued its predecessor's practice of expanding credit to the co-operative movement and reducing private loans, as the ACA had been doing for the last two years. However, by the end of 1967 the NDCA had not yet managed to discontinue all individual loans through the District Loan Committees, not least because many co-operatives proved unable to administer credit allocation efficiently.

Upon its foundation, the National Development Credit Agency took over the liabilities of the Agricultural Credit Agency, the Co-operative Revolving Loan Fund and the African Productivity Loan Fund², which were considered as capital contributions by the government. But because the assets held against these liabilities were already in doubt at the moment of the takeover, the NDCA was subsequently authorized to write off 11.9 million shillings of assets, with the government cancelling a corresponding amount of liabilities to it.

The NDCA was also supposed to promote and mobilize savings for direct employment in agricultural development. But it

¹ As Collinson points out (*op. cit.*, p. 16): "[Co-operatives] usually enjoy a monopoly in the marketing of a particular crop in their area of jurisdiction; they hold, in their records of deliveries, a history of performance of each individual farmer. This is a basis for the assessment of repayment capacity, the criterion accepted as security for small farm lending."

² 21 million shillings of irredeemable government loans and grants to the ACA, and 5 million loans to the two other funds together (H.H. Binhammer, *ibid.*, p. 7).

achieved little or nothing along these lines, witness the small proportion of deposits from individuals as against those from government bodies and parastatal institutions. Interest was paid on deposits at the same rate as was offered by commercial banks. During the financial year ending in March 1968 the NDCA's deposits dropped by 3.8 million shillings, and then by another 9.5 million during the following year. To offset this reduction in loanable funds, the government provided the Agency with another 10 million shillings.

However, the lesson drawn from the events of these years was that short-term private deposits were no appropriate source of funds for a development agency concerned with medium- and long-term agricultural credit. Like its predecessors, the NDCA was forced to rely increasingly on funds from commercial banks and from the government. On 31 March 1969, its bank debts amounted to 13 million shillings, of which 9 million were guaranteed by the government¹.

On the lending side, a threefold distinction can be made between:

- (i) loans under the Tractor Purchase Scheme,
- (ii) loans financed by the World Bank via the International Development Association (IDA),
- (iii) loans financed from the bank's own funds.

¹ A sizeable part of these funds went to paying for tractors under the so-called Tractor Purchase Scheme. 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 loss.

The first were far eclipsed in volume by the other two, and are of no particular interest here. Much the largest part of NDCA loans was financed by the Treasury from IDA funds. Between the middle of 1965 and the end of 1969 some 35 million shillings was so made available. The IDA loan was for 50 years, with an initial ten-year period of pre-amortization, and it was free of interest to the government except for an annual service charge of 0.75 per cent to cover administrative costs. The government lent the money at $3\frac{1}{4}$ per cent to the NDCA, which relented it at between $5\frac{1}{2}$ and 7 per cent mostly to co-operative unions, and these usually added 1 more per cent to their credit charge to farmers, to cover administrative costs.

By the end of the 1966/67 financial year, the NDCA had drawn 12.6 million shilling of IDA funds, of which 8.8 million remained to be reimbursed. By the end of March 1969 (Table 57), the proportion of reimbursement had risen spectacularly from 30.1 to 66 per cent.

Since funds repaid by beneficiaries under this scheme did not have to be relented under the same heading but could be used for other projects at the NDCA's discretion, repayments provided the Agency with a sort of revolving fund. As Table 57 shows, the bulk of the loans went to cotton, tea, tobacco, coffee and pyrethrum growers, mostly in the form of short-term credits.

Overall, the IDA programme certainly was a 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 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 resources.

TABLE 57

NATIONAL DEVELOPMENT CREDIT AGENCY: USE OF IDA LOAN AS OF
31 MARCH 1969
(thousand shillings)

Purpose of loans	Total allocations by IDA	Amounts reimbursed	Undrawn funds
Fertilizers, insecticides and sprays for cotton	10,000	6,413	3,587
Coffee sprays	5,000	5,016	— 16
Farm equipment	2,500	1,846	654
Tobacco, tea, castor and pyrethrum processing, plant and machinery	4,607	2,456	2,151
Coffee spraying	2,857	1,505	1,352
Tea stumps and fertilizers	5,286	4,479	807
Salaries	4,286	1,703	2,583
Unallocated	1,179	—	1,179
Total	35,715	23,418	12,297

Source: The National Co-operative and Development Bank Group, *Annual Report and Accounts for the 12 months ended 31st March 1969*, p. 8.

Credit under this latter heading expanded very considerably, as regards both the number of loans and the total amount involved. In 1968/69 the NDCA received 194 loan applications for altogether 35.6 million shillings, and approved 75 of them, for 19.4 million. In the previous year, it had approved 118 out of 159 applications, or 8.3 out of a total of 17.1 million shillings requested. The lion's share of the loans went to co-operative (Table 58); in 1969 loans to individuals amounted to no more than 15 per cent of the total.

Loan applications were made by primary co-operative societies through their unions, and were usually accompanied by a technical report on the project prepared by the District Agricultural Officer and a report by the Co-operative Officer outlining how the funds were to be administered. Before the NDCA itself made its decision

TABLE 58

NATIONAL DEVELOPMENT CREDIT AGENCY: LOANS FINANCED FROM OWN RESOURCES, 31 MARCH 1969

Type of loan	Number of loans	Amount (thousand shillings)
A. Loans to co-operatives		
1. Agricultural type loans	27	15,338
of which for: annual crops	15	10,638
permanent crops	3	1,121
building of godowns and produce stores	3	1,120
machinery	4	579
development of ghee factory	1	80
purchase of tea factory	1	1,800
2. Commercial	3	96
of which for: printing machine	1	25
truck and accessories	1	60
milling machine	1	11
B. Loans to individuals		
1. Agricultural type loans	38	2,982
of which for: annual crops	16	770
land purchase	17	2,090
erection of farm buildings	2	65
machinery	2	45
poultry	1	12
2. Commercial	4	22
of which for: milling machines	3	14
hairdressing equipment	1	9
C. Loans to others	3	954
of which to: Tanganyika Tobacco Board	2	940
Farming Company	1	14
Total	75	19,392

Source: The National Co-operative and Development Bank Group, *Annual Report and Accounts for the 12 Months Ended 31st March 1969*.

on the loan application, it made its own appraisal of the economic viability of the project, of the financial position of the applicant society and of the latter's ability to administer loan funds.

All in all, the National Development Credit Agency undoubtedly represented major progress in comparison with its predecessors. It distributed credit more widely and at lower administrative cost, and managed to reduce the proportion of defaults. But it still had its shortcomings. It lent too little for purposes other than those closely connected with crop growing itself, and it lent too much on the short and the medium term. In other words, the NDCA seems to have failed in making credit available to the rural economy in its entirety, and therefore failed also in setting in motion an effective mechanism of rural development.

5. AGRICULTURAL CREDIT TODAY; THE TANZANIA RURAL DEVELOPMENT BANK

The creation of the Tanzania Rural Development Bank in 1971 was meant to meet three requirements¹:

- (a) to supply credit to farmers for the purchase of pesticides, fertilizers, machinery, etc., via the co-operative movement, so that appraisal of individual credit worthiness and the requirement of individual security could give way to a more general and simpler assessment of the co-operatives' repayment capacity;
- (b) to grant individual, and in this case direct, credits for projects on a certain scale;

¹ See John Loxley, *The Domestic Finance of Development Projects in Tanzania*, University College, Economic Research Bureau Paper 71.8, Dar es Salaam, 1971, p. 31-33.

- (c) to shift the main concern of loan policy from individual credit worthiness to considerations of general economic development, so that budget funds could be appropriated on a generous scale without the ambiguities inherent in the previous system¹.

The Tanzania Rural Development Bank Act (No. 7 of 1971) was passed by the National Assembly on 27 January 1971, and the bank opened its doors for business in May.

Article 4 of the law defines the bank's objects as follows:

- (a) to make available long and medium term finance for rural development;
- (b) to provide technical assistance and advice for the purpose of promoting rural development;
- (c) to administer such special funds as may be placed at the disposal of the bank;
- (d) to finance the purchase of agricultural inputs.

The government made it clear that it wished the Tanzania Rural Development Bank (TRDB) to spread management education on a wide scale throughout the rural world, to work closely with the National Bank of Commerce and, when necessary, to use its network, to build up competent personnel able to do extension work especially in relation to *ujamaa* villages, and finally to finance also agriculturally based rural industry with a view to overall rural development².

The bank is controlled by a Board of Directors, including the Chairman and Managing Director appointed by the President

¹ On this point see M.P. Collinson, "Agricultural Credit in Tanzania", in: G.K. Helleiner, *Agricultural Planning in East Africa*, Nairobi, East African Publishing House, 1968, p. 138-156.

² Tanzania Rural Development Bank, *A Manual of Operational Policies and Procedures*, Dar es Salaam, 1972, p. 1.

of the United Republic; the eight other members are appointed by the Minister of Finance and chosen from persons with knowledge and experience of economic and financial matters.

The law (Art. 10) distinguishes between ordinary and special operations of the TRDB. The former comprise the provision of finance, advice and guarantees.

Whenever the TRDB considers it appropriate, it may require that any of its loans be guaranteed by the government or a public agency (Art. 13,2). It may provide venture capital out of its own resources up to 10 per cent of its paid-up capital plus reserves and surplus, but may not normally acquire a majority holding (Art. 11, 2 and 3). Generally speaking, the bank is to maintain reasonable diversification in its investments, and to seek to revolve its funds by selling equity investments whenever this can be done on satisfactory terms (Art. 12).

Ordinary operations are financed by the bank's ordinary capital resources, which consist of 100 million shillings authorized capital stock, about 125 million of funds from international sources (the International Development Association and the Swedish International Development Agency), loan repayments and other miscellaneous funds.

Special operations is the term used for the administration of special funds which the bank is entitled to accept for specified purposes¹. For example, the TRDB took over the residual IDA loan originally granted to the National Development Credit Agency, due to terminate at the end of 1971.

The TRDB regards it as its main responsibility, especially in its regional offices, to offer technical assistance to prospective customers in identifying investment opportunities. To this end it

¹ TRDB, *ibid.*, p. 6.

maintains constant personal contacts with rural communities, policy leaders and local technical specialists. Bank staff are expected to make regular visits to *ujamaa* villages, and participate in official meetings of co-operatives, District Development Corporations, and Regional and District Development and Planning Committees.

The next stage, project preparation, involves detailed technical investigations and feasibility studies, often in collaboration with technical staff from the Ministry of Agriculture, and also financial analyses of the would-be borrower's economic and financial situation, his managerial ability and repayment capacity. After that, the bank makes its final decision and, if a project is approved, it is ready for implementation.

In line with the principles set out in Art. 12 of the law, the TRDB has adopted an investment policy which may be summarized as follows:

- (a) the bank seeks to encourage project promotion in the public sector, including co-operatives, District Development Corporations and *ujamaa* villages;
- (b) projects financed should be technically, economically and financially sound, be consistent with the national economic development priorities, and, if they cost more than 2 million shillings, must enjoy high priority in the government's plans and remain subject to the government's full agreement;
- (c) whenever possible, loans are to be backed by adequate collateral, real or in the form of specified securities;
- (d) maturities are determined in the light of the productive capacity and/or the estimated life of the assets to be financed — medium-term loans being due for repayment within at most five years, and long-term loans within at most fifteen years;

- (e) loan amounts depend on the cost of the project, the needs of the borrower, the collateral offered and the borrower's repayment capacity, subject to the bank's not normally financing more than 75 per cent of any one project nor, in the interests of diversification, normally investing more than 25 per cent of its own net worth in any one enterprise;
- (f) except in very special circumstances, projects are not to be refinanced;
- (g) the bank's total debt outstanding must not exceed three times the total of its share capital plus reserves, IDA loans and long-term low-interest loans for special purposes not being counted as "debt" in this context.

The processing of loan applications involves four stages. First, a proposal has to be submitted to one of the bank's regional representatives; the latter prepares an appraisal report; this report together with the original loan proposal is submitted to the regional advisory committee and then passed on, with the latter's recommendations, to the General Manager; finally, the General Manager submits the proposal to the Loans Committee for final decision.

The year 1971/72 was a formative one for the TRDB. In the course of it the bank set up 12 regional offices, one each in the regions of Arusha, Iringa, Kilimanjaro, Mara, Mbeya, Morogoro, Mwanza, Ruvuma, Shinyanga, Tabora, Tanga and West Lake. It is of course too soon to pass judgment on the new bank's activities, but it certainly is playing a major part in financing development in rural areas.

During the first 14 months of operation, from May 1971 to June 1972, its gross lending amounted to 54.5 million shillings.

These were financed mainly from the 30 million shillings of the bank's paid-up capital and IDA loans of 31.5 million. The TRDB

also used an overdraft facility from the National Bank of Commerce, reaching a peak of 17 million in January-February 1972 when short-term finance was needed during the tea and tobacco buying season. Additional resources derived from bills of exchange for 7.3 million shillings (for transactions effected with the Nyanza Co-operative Union), from short-term deposits by parastatals and co-operatives (6.3 million) and a 5 million loan from the National Bank of Commerce.

At the end of the 1971/72 financial year, the TRDB's total loan assets, including interest due, were 106 million shillings; of these, about 7.3 million corresponded to loans recently allocated but not yet disbursed, and an estimated 12 million shillings were considered as bad debts — mostly old loans by the NDCA.

Out of the TRDB's gross lending of 54.5 million shillings during the year, 7.6 million were IDA loans for IDA projects. The bulk of the loans went to finance tobacco (short-term advances amounting to 36.7 per cent of total lending), transport (19.1 per cent), storage (11.5 per cent) and coffee (long-term loans, 10.3 per cent). For the rest, 5.2 per cent were taken up by short- and medium-term loans to coffee growers, 5 per cent were used for cotton, 4.6 per cent for tea, 2.3 per cent for tractors and farm machinery, and 1.5 per cent for wheat. Almost half of total lending was for the short term.

As regards geographical distribution, six regions received 86.4 per cent of total lending: Tabora 26.4 per cent (nearly all for tobacco), Mwanza 18.6 per cent (vehicles and cotton), Coast 11.2 per cent (vehicles), West Lake 10.2 per cent (coffee and tea), Iringa 11.1 per cent (tobacco and trucks), and Mbeya 8.9 per cent (tobacco, coffee, tea and equipment). Four regions — Mtwara, Lindi, Singida and Shinyanga — received no loans at all, for lack of suitable projects to finance.

Among borrowers, co-operatives are far in the lead with 68.1 per cent of the total, or 37 million shillings, of which 11.7 million were used for tobacco, 7.3 million for coffee, and 7.6 million for storage and transport. The co-operative movement also served as a channel for 7.6 million shillings of IDA loans, mostly for coffee, cotton and tea development programmes. Large-scale transport concerns received 11.7 per cent of total lending, and *ujamaa* villages 11.5 per cent, mostly for crop development (wheat and tobacco) and equipment (mainly tractors). Finally, 3.2 per cent went to District Development Corporations and 5.5 per cent — much less than in previous years — to individual borrowers.

These figures take the story up to the middle of 1972, when the TRDB clearly was still in its formative stage, though all set to step up its lending very considerably, especially to *ujamaa* villages. But it is much too soon to pass judgment, especially with regard to the success of the bank's longer-term loans. There is talk at present of introducing a soft loan scheme, under which foreign aid and government contributions would be used to finance some of the more risky long-term development loans.

Probably the Tanzania Rural Development Bank's biggest problem is the stubborn mentality of some farmers, who resist the introduction of any sort of new farming methods and refuse to take advantage of the services put at their disposal by the Ministry of Agriculture and the co-operatives. But it undoubtedly also has problems nearer home, with deficiencies in its own management and in co-operative organization.

In conclusion, it may be of interest to look at what the Annual Plan for 1972/73¹ expected to happen about rural credit in that year and beyond. TRDB gross lending was to expand more than three times, from 54.5 to 165 million shillings, and another

¹ *Op. cit.*, p. 53.

690 million of short-term credits was scheduled to come from the National Bank of Commerce, the bulk of all this money going to parastatals, co-operatives, *ujamaa* villages and District Development Corporations.

Of the TRDB's total lending, 77 million shillings was to be for the long term, 46 million for the short and 42 for the medium term. Dramatic further increases for TRDB lending were planned for the following two years, the figures being set at 398 million for 1973/74 and more than 426 million for 1974/75.

As regards the sources of these funds, the TRDB was to receive 35.7 million shillings in 1972/73 and 14 million in 1973/74 from the development budget, 35 and 60 million, respectively, from the National Bank of Commerce in overdraft facilities, and large amounts from foreign sources.

The network was to be expanded so that by the end of 1972/73 the bank would have a branch in every region.

6. OTHER SOURCES OF AGRICULTURAL CREDIT

(a) *Co-operative societies and unions*

Indirectly, co-operative unions and their member societies are the most important financial intermediaries in the rural economy of Tanzania.

The earliest legislation on co-operatives dates from 1932. At first, the growth of the co-operative movement was very slow. It gathered speed only after independence, when the government explicitly declared its intention of using the co-operative movement as the principal instrument of rural development¹. At the end of

¹ See Paul Bomani, *The Co-operative Movement in Tanganyika*, Dar es Salaam, 1961; United Republic of Tanzania, *Wages, Incomes, Rural Development, Investment and Price Policy*, Government Paper No. 4, Dar es Salaam, 1967.

1969 there were 1,737 registered societies, of which 29 were unions. Of the four main categories of co-operatives — marketing, consumer or distributive, credit and saving, and transport — the first were much the most numerous and accounted 80 per cent of the total.

The marketing co-operatives supply farmers with seasonal crop finance. They buy up the produce with funds from the co-operative unions, and store it until it is transported to the appropriate marketing board.

The unions organize transport of produce to marketing boards, insure it and supply the primary societies with funds borrowed from the banking system.

Although most of the money lent by co-operatives at various levels comes from bank advances and overdrafts¹, they do have some resources of their own, which they draw from capital subscriptions by their members, from levies and agency fees, and from members' deposits.

The Co-operative Union of Tanganyika was founded in 1961 and is the national organization of the co-operative movement. Among other duties, it manages a revolving loan fund for its members.

Because co-operatives are so important in the distribution of credit to agriculture, no judgment can be passed on the overall efficiency of the agricultural credit system without taking their working fully into account. They have come in for their share of criticism from time to time, both in general and with particular reference to credit.

¹ Especially in the past, from the National Development Credit Agency, and now from the Tanzania Rural Development Bank and the National Bank of Commerce.

An expert report in 1966¹ said they lacked management capacity and adequate technical knowledge and were too political. This is still true today, notwithstanding the best efforts of the Ministry of Agriculture, Food and Co-operatives².

The root cause of many of the co-operative movement's difficulties probably lies in its structure. The small size of many co-operatives impairs their efficiency, because costs are so high as to swallow almost the whole of their income, and scarce financial resources are wastefully dispersed.

There is no doubt that the efficiency of agricultural credit could be greatly enhanced by a reorganization of co-operative societies, increasing both their size and their scope. The *ujamaa* villages are certainly a step in the right direction.

But it is not at all clear that the agricultural credit system would really be all that much better if credits were not channelled

¹ United Republic of Tanzania, *Report of the Presidential Special Commission of Enquiry into the Co-operative Movement and Marketing Boards*, Dar es Salaam, 1966; *Proposal of the Tanzania Government on the Recommendations of the Presidential Special Commission of Enquiry into the Co-operative Movement and Marketing Boards*, Government Paper No. 3, Dar es Salaam, 1966.

² Other more specific criticisms are mentioned in a study by a team from Michigan State University. They say that political pressure often plays a part in lending, that the credit worthiness of borrowers is often not carefully assessed, that the intervention of co-operatives does not eliminate defaults but merely shifts the burden from banks to co-operatives, and that there is no efficient system of technical and financial assistance to farmers. Other studies say much the same, and again, much of it is still true today, though admittedly considerable progress has been made in recent years, especially since the creation of the Tanzania Rural Development Bank. See Michigan State University, Department of Agricultural Economics, *A Study of Agricultural Marketing in Tanzania*, Part VII, Dar es Salaam, 1969; C.K. Laurent, *Cotton Marketing in Tanzania*, and *A Background Appraisal of Marketing of Selected Agricultural Products in Mtwara Region*, both published by the Ministry of Agriculture, Food and Co-operatives, Dar es Salaam, 1969; I. Hjartsjo, *A Study of Six Co-operative Societies in Mara Region*, Ministry of Agriculture, Food and Co-operatives, Musoma (Tanzania), 1969.

through co-operatives. The past seems to suggest the contrary, and so does the experience of other countries. The right approach seems to be, rather, to improve the organization of co-operatives, with special reference to technical and financial assistance and to educational functions, and to co-ordinate their activities with those of credit institutes in the rural world¹ in the broader context of general economic and financial planning.

In any event, co-operative societies act as financial intermediaries not only by distributing crop and marketing loans to their members, but also by accepting deposits from them and giving them loans for consumption purposes. Neither activity is recommendable. The societies have utterly failed to promote household saving, and their consumer-type loans have encouraged non-essential consumption. There is a widespread view in Tanzania to the effect that both these functions should be assumed, or at least closely controlled, by the National Bank of Commerce through its expanding rural network.

(b) *Savings and credit societies*

Savings and credit societies in Tanzania date from the early sixties, and are thus a rather recent innovation. They were at first actively sponsored by catholic missionaries familiar with the credit union philosophy. After independence, the government recognized the potential role of such societies in economic development, provided for their establishment in its first five-year plan² and set a target of 400 of them by 1969.

¹ Arnaldo Mauri, *La promozione del risparmio nei paesi in via di sviluppo*, op. cit., p. 26.

² United Republic of Tanzania, *Policy Statement to the Budget Session of the National Assembly*, 26 June 1964.

Many savings and credit societies were organized among people with a "common bond", such as employees of the same company, inhabitants of the same village, members of the same church, etc. In 1967, 23 per cent of all existing societies were based on the common bond of occupation, and 65 per cent on that of the same community.

The main aims of savings and credit societies are to encourage thrift and educate their members to this end, and to provide low-cost credits to members for provident and productive purposes ¹.

At the end of 1970, there were 270 registered savings and credit societies in Tanzania, with a total membership of more than 50,000 and combined deposits of 6.5 million shillings; loans granted by them up to that date amounted to 21 million shillings ².

But the role actually played by the savings and credit societies in Tanzania goes well beyond financial aspects. They have done much to educate the people and to imbue them with a spirit of mutual aid.

The societies are affiliated with the Savings and Credit Union League of Tanganyika, which was set up in 1964 to carry out educational, organizational and promotional activities, with the aid of credit unions in other countries and of CUNA International.

There are some who argue that savings and credit societies should be integrated with marketing co-operatives, in order to give

¹ E.g. for the purchase of bicycles, furniture and tools, for house-building, for the payment of school fees, medical bills or taxes, for the purchase of land, etc. Some societies provide life insurance for their members, through the National Insurance Corporation.

² The figure for loans is so much higher than that for deposits because it refers not to loans outstanding at the end of the year, but to the cumulative flow of credits over the whole period.

them an additional source of finance¹. The very contrary seems to be indicated. Marketing co-operatives cannot be expected to perform the functions of promoting thrift and financial management among their members, whereas the development of the savings and credit society movement seems to offer the best chance for encouraging and mobilizing rural savings. This, surely, is the lesson of past experience.

(c) *Marketing boards*

Some of Tanzania's marketing boards can likewise be counted as sources of agricultural credit. They are the National Agricultural Products Board (NAPB), the Tanzania Tobacco Board (TTB), and, most of all, the Lint and Seed Marketing Board (LSMB).

The last-named is the only one which has a history of providing loans on any significant scale. Its loanable resources derive from trading surpluses, revenue from fees, licences, rents, interest from loans and investments, and bank overdrafts. Its main business, of course, is to stabilize cotton prices; it buys up cotton and cotton seed from the growers, either by private treaty or at auction, and sometimes the stabilization fund accumulates large amounts — as it did in the second half of the fifties, when it grew to 107 million shillings. The Board used some of this money for mortgage and other long-term loans, and also lent for the short term to new co-operative societies of cotton growers, to provide them with working capital. In 1962 the Board introduced a pilot scheme of agricultural credit, under which it lends to co-operatives at 5½ per cent, and these in turn give credit to their member at 7½ per cent. In addition to providing crop finance,

¹ As reported by H.H. Binhammer, *Institutional Arrangements for Supplying Credit and Finance to the Rural Sector of the Economy in Tanzania*, *op. cit.*, p. 19.

the LSMB invested sizeable funds in building its own warehouses and provided grants for a variety of purposes, like research, road improvement in cotton-growing areas, seed stores for co-operatives, etc. Often it provides free seed to co-operatives, or finances the purchase of selected seed.

(d) *Direct government finance for rural development*

A number of government departments, local authorities and parastatal agencies participate directly in financing agriculture and rural development in Tanzania. They provide funds in various forms, including loans.

The central government itself operates via the Regional Development Fund and the Community Development Trust Fund¹.

The Regional Development Fund (RDF) is administered by the Prime Minister's Office (formerly the Ministry of Regional Administration and Rural Development) and the Regions themselves, and its purpose is to help the people in rural areas by financing local projects. Most of the money has gone to *ujamaa* villages, for infrastructures and farm improvement. From its inception in 1967 the RDF was always funded internally, and only since 1971/72 has it been supplemented by foreign donors. It started with 20 million shillings a year, and was raised to 30 million in 1971/72, when each Region received about 2 shillings per inhabitant, leaving some 6 million to be allocated at the government's discretion.

The Community Development Trust Fund is much smaller. In 1970/71 it provided a total of 764,270 shillings for financing small-scale rural development projects.

¹ See United Republic of Tanzania, *The Economic Survey 1971/72*, *op. cit.*, p. 64; R.G. Penner, *Financing Local Government in Tanzania*, Nairobi, East African Publishing House, 1970, p. 43.

Some government departments directly finance or provide credit for projects in education, health and transport.

At the level of local government the District Development Corporations are the spearhead of rural development. Contrary to original intentions, which were to give the DDCs wide scope including commercial activities, they are now mainly production-oriented, and any surpluses they earn are channelled back to development projects within their district.

Parastatal agencies concerned, among other things, with finance and credit for agriculture include the Tanganyika Agricultural Corporation (subsequently taken over by the National Development Corporation), the Tanzania Sisal Corporation and the National Agricultural and Food Corporation, which has taken over the NDC's agricultural projects; of minor importance are the Workers' Development Corporation and the Tanganyika Development Finance Company.

The *ujamaa* villages themselves, or rather the co-operatives springing up in their midst, are eventually expected to make their contribution both to the collection of rural savings and to the redistribution of credit for projects of common interest.

Chapter III

DEVELOPMENT FINANCE FOR INDUSTRY

1. TANZANIA'S INDUSTRY AND INDUSTRIAL DEVELOPMENT UNDER THE SECOND FIVE-YEAR PLAN

When Tanzania acceded to independence, it was virtually without industry. During the years 1960 to 1962 manufacturing industry accounted for no more than 3.4 per cent of gross domestic product, and in 1963, it employed only 22,000 people. Most industrial products had to be imported, and Tanzania was industrially underdeveloped even in comparison with the other countries of East Africa ¹.

Since then, growth has been faster in industry than in any other sector of the economy. The official GDP estimates indicate industrial growth of 10 per cent annually from 1960-62 to 1967. Even so, by the end of the first five-year plan industrial output accounted for no more than 8 per cent of GDP, while industrial employment had risen to 33,000 ².

¹ See K.E. Svendsen, "Industrialization Issues in Tanzania", in: Tanzania Investment Bank, *Rasilimali - Tanzania Investment Outlook*, [1972], p. 26; J.F. Rweyemamu, "Planning, Socialism and Industrialisation: the Economic Challenge", in: *Towards Socialist Planning*, *op. cit.*, p. 30-32.

² United Republic of Tanzania, *Tanzania Second Five-Year Plan for Economic and Social Development*, *op. cit.*, p. 59-60.

The Second Five-Year Plan states that as part of long term strategy the development of basic intermediate and capital goods industries should receive increasing priority; but it also recognizes that in the short run, in a still small market and at the existing state of technological know-how, this policy can have but little impact¹. For the immediate future, therefore, the Plan concentrates on import substitution of consumer goods and on processing industries.

In any event, the Arusha Declaration, it will be recalled, placed the main stress on agricultural development, and explicitly warned against overestimating the role of industry.

The Second Plan's industrial programme provides for 385 projects, at a total investment cost of 1,934 million shillings. Of these projects, 43 per cent, involving 84 per cent of planned investment, are allocated to the parastatal sector, 21 per cent (4 per cent of investment) to the co-operative sector, and the remaining 36 (12) per cent to the private sector. Priority industries are those concerned with food, tobacco, textiles and leather, wood, paper, and fertilizers.

Structurally speaking, the firms in Tanzanian industry are of three main kinds²: parastatal — either wholly in public ownership or with a controlling, over 50 per cent, government holding; companies with a less than 50 per cent government holding; others.

The first are much the most important. The leading companies of this type are the National Development Corporation (NDC), the

¹ *Ibid.*, p. 59-81; J.F. Rweyemamu, *ibid.*, p. 37 ff.

² Godfrey M. Chamungwana, "The Parastatal System in Tanzania", in: Tanzania Investment Bank, *Rasilimali - Tanzania Investment Outlook*, [1972], p. 12-17.

National Small Industries Corporation (NSIC), the Tanzania Wood Industries Corporation (TWICO) and the Tanzania Electricity Supply Corporation (TANESCO). These, in their turn, control a number of other firms, in varying degrees.

Companies with a less than 50 per cent government holding are found in branches which, though important from the point of view of economic development and employment, are not in strategic sectors. In these cases it is felt that public control can be dispensed with, so long as the government retains enough power to play an active and stimulating part.

In addition there is a wide range of industrial activities freely open to private enterprise, both Tanzanian and foreign. It is here that the co-operative movement is assuming increasing importance, and also local authorities, chiefly through the District Development Corporations.

Outstanding among all these companies of various types is the National Development Corporation (NDC).

When Tanzania became independent, its development strategy was designed to create an economy with mixed public and private enterprise, in which the public sector was to be mainly responsible for infrastructures, and private capital, both indigenous and foreign, for directly productive investment. In this setting, firms under public control were to fill the gaps left by private enterprise.

By the time the First Five-Year Plan was adopted, in 1964, it had become plain that government would have "to extend its activities beyond those sectors traditionally reserved for public intervention, and to enter directly into the actual production of goods and services", with the aim of promoting and developing projects of vital importance for the Tanzanian economy¹.

¹ National Development Corporation, *Constitution and Functions*, 1966.

These were the reasons which led to the foundation of the National Development Corporation, separate from the central government administration, to promote and finance, either alone or in partnership with private capital, productive projects having a significant bearing on the economic development of Tanzania².

Following the nationalization of many industries in the wake of the Arusha Declaration, the NDC equity portfolio increased very considerably. Although there is, officially, still a place for private enterprise in Tanzania, there is no doubt that the public sector is steadily gaining in importance and that it is here that Tanzania's hopes of industrial development reside.

Against this background, let us now examine the chief institutions providing industrial development finance in Tanzania.

2. THE TANGANYIKA DEVELOPMENT FINANCE COMPANY

The Tanganyika Development Finance Company Limited (TDFL) is one of the earliest ventures of government contributions to industrial development finance. It was established in December 1962 under the joint sponsorship of the Tanganyika government, Britain's Commonwealth Development Corporation and the Federal Republic of Germany², each of which contributed 10 million shillings. In its founders' intentions, the TDFL was to act rather like a development bank, with the chance of obtaining foreign funds as well.

At the end of 1971, the company's authorized capital was 60 million shillings, of which 40 million were issued and fully paid. Its authorized resources had been increased during the year by another 20 million of shareholders' income notes, of which 4

¹ *Ibid.*

² TDFL, *Annual Report and Accounts 1971*.

million had been issued and paid by the end of 1971. The capital is held in equal proportions by the National Development Corporation, the Commonwealth Development Corporation, the *Deutsche Gesellschaft für Wirtschaftliche Zusammenarbeit (Entwicklungsgesellschaft) mbH.*, and the Dutch *Financierings Maatschappij voor Ontwikkelingslanden, N.V.*, which joined the original sponsors at the end of 1965. Each shareholder has two members on the Board of Directors.

The TDLF is primarily concerned with the development of industrial activities, and, secondarily, also with agriculture and natural resources. In all cases it concentrates on financing projects which promise to raise employment and to attract or save foreign exchange. In addition to providing finance funds, the TDLF makes preliminary feasibility studies for projects, and subsequently provides management services for their implementation. It lends without discrimination both to the public and the private sector, solely in the light of its appraisal of the project and the would-be borrower's managerial capacity.

Technically, the TDFL can invest in the form of medium-term or long-term loans, or in risk capital, in which case it prefers not to take a majority holding. For choice, however, it provides loans, to be repaid in instalments, sometimes after an initial period of grace. A loan may subsequently be converted into a shareholding in case there are difficulties with reimbursement¹, but not *vice versa*. The interest rate on loans varies between 7½ and 10 per cent, but some loans to the government and to the National Institute of Productivity were made at only 7 per cent.

On 31 December 1971 the company reported 42 continuing projects involving total long-term commitments of 55.58 million

¹ This was done, e.g., in the case of the project to build the Bahari Beach Hotel; returns were so low at first that loan repayments could not start at once.

shillings, of which some 40 million had actually been invested to date. By the same date, these investments and investment commitments of the TDFL had sparked off total investment in Tanzania of about 226 million shillings, of which some 98 million were financed from foreign sources.

Table 59 shows how the TDFL's own investments and investment commitments have grown since 1962, how much total investment it has sparked off, and how much foreign capital has gone into this total over the years. One interesting point is that the proportion of foreign capital is now much lower than it used to be in the years before the Arusha Declaration. Concurrently, induced domestic investment in TDFL projects has been going up.

As much as 61 per cent of the TDFL investment and commitments are in manufacturing and processing industries (Table 60), and commercial projects, especially hotels, have been getting a growing share of the total in recent years. The complete schedule of long-term investments and commitments as of 31 December 1971 is given in Table 61.

The TDFL's loanable funds consist in the first place of its equity capital, supplemented by loan reimbursements as they come in. For the future, the company intends to rely increasingly less on further contributions from its shareholders, and correspondingly more on loan repayments and income from existing investments. But there is no intention at present to sell equity assets, because it is felt that this cannot be done satisfactorily on the securities market such as it is at present and likely to remain in the foreseeable future. As a result, the TDFL is to some extent losing its character as a development bank and turning itself into a holding company, with all the risks that this entails¹.

¹ See Arnaldo Mauri, *Il mercato del credito nei paesi sottosviluppati*, op. cit., p. 74 ff.

TABLE 59

TANGANYIKA DEVELOPMENT FINANCE COMPANY: INVESTMENT
FINANCED AND INDUCED, 1962 TO 1971
(end-year cumulative figures in million shillings)

Years	Actual TDFL invest- ments ⁽¹⁾	TDFL investments plus investment commit- ments ⁽¹⁾	Foreign capital in TDFL projects
1962-1965	7.2	22.9	70.0
1966	21.5	28.6	75.7
1967	21.4	27.1	65.7
1968	22.5	27.0	49.0
1969	28.0	39.0	64.0
1970	33.0	44.9	90.6
1971	40.0	55.6	98.0

(¹) Loans and risk capital.

Source: TDFL, *Annual Report and Accounts*, various years.

TABLE 60

TANGANYIKA DEVELOPMENT FINANCE COMPANY: INVESTMENTS AND
COMMITMENTS BY RECIPIENT SECTORS, 31 DECEMBER 1971
(per cent)

Sector	Proportion of total
Agriculture	6.6
Mining	2.2
Printing and stationery	2.7
Wood industries	9.4
Food, beverages and alcohol	13.7
Textiles and knitwear	16.2
General industries	19.2
Property	9.7
Commercial hotels and tourism	19.8
Air transport	0.7
Total (= 55.6 million shillings)	100.0

Source: TDFL, *Annual Report and Accounts*, 1971, p. 14.

TABLE 61

TANGANYIKA DEVELOPMENT FINANCE COMPANY: SCHEDULE OF
LONG-TERM INVESTMENTS AND COMMITMENTS, 31 DECEMBER 1971
(shillings)

Companies	Investment to date	Commitment to date
Tanzania Litho Ltd.	1,066,495	
Tanganyika Enamelware Factory Ltd.	146,780	1,100,000
Mwananchi Development Corporation Ltd.	292,930	
E.A. Motor Assemblies Ltd.	220,000	
Mwananchi Ocean Products Ltd. (written down to nominal value)	100	
Mount Carmel Rubber Factory Ltd.	300,000	
New Arusha Hotels Ltd.	2,126,455	
National Milling Corporation	2,265,448	
Co-operative Union of Tanganyika Ltd.	2,400,728	
Kibo Match Corporation Ltd.	750,000	
Kilimanjaro Textiles Corporation Ltd.	5,427,000	2,900,000
Louvent Manufacturing Company Ltd.		300,000
Tim-Air Charters (T) Ltd.	200,000	200,000
Kibo Paper Industries Ltd.	1,736,000	
Imara Plywood Ltd.	900,000	
Tanganyika Magnesite Mines Ltd.	1,188,268	175,000
Simba Plastics Ltd.	348,253	350,000
Vacu-Lug Traction Tyres (T) Ltd.	320,000	
Tanzania Government: National Institute of Productivity Headquarters	712,500	
Bahari Beach Hotel Ltd.	4,285,800	
Perma-Sharp (Tanzania) Ltd.	1,330,000	275,000
Mafia Coconuts Ltd.	2,075,000	
Tanzania Crown Corks Ltd.	296,945	500,000
Coastal Dairy Industries Ltd.	2,000,000	
Omboni Plastics Ltd.	875,000	
Tanganyika Wattle Company Ltd.	1,606,398	
Pattex Knitwear Manufacturing Company Ltd.	650,000	
Tanzania Distilleries Ltd.	933,340	
Jewel Ltd. (Staff Flats Management Co.)	900	

Companies	Investment to date	Commitment to date
Ruaha Bottling Company Ltd.		1,150,000
Serengeti Safari Lodges Ltd.		3,600,000
Wire Industries Ltd.		800,000
Tanzania Stationery Manufacturers Ltd.	450,000	
Vitafoam (Tanzania) Ltd.	350,000	
Mwanzabrew Ltd.	930,000	
Tangwood Ltd.	500,000	
Daikin Airconditioning (E.A.) Ltd.	400,000	
Kilimanjaro Native Co-operative Union Ltd.	1,000,000	
Arusha Region Co-operative Union Ltd.	1,000,000	
Sikh Sawmills Ltd.	3,000,000	
African Cashewnuts Processors (T) Ltd.	350,000	
Tanzania Cables Ltd.	700,000	
Jamhuri Park Hotel	1,100,000	
Total	40,004,380	15,580,000

Source: TDFL, *Annual Report and Accounts*, 1971, p. 20-27.

In its first three years, the TDFL earned no profits, but from 1965 on its economic situation improved considerably and it distributed a dividend of 3 per cent both in 1970 and 1971.

The company's position in the Tanzanian economy is somewhat odd, in that it is essentially a private enterprise. As such, it offers investment opportunities to capitalists reluctant to put their money into development projects alongside the government and parastatal organizations. Since 1967 the company's investments have been covered by the Foreign Investment Protection Act.

From this point of view, the company's activities are regarded with some misgivings in some circles, who feel they are rather too ambiguous for comfort, both as concerns the company's operational strategy and its relations with foreign capital groups.

3. THE TANZANIA INVESTMENT BANK

For five years after independence, as we have seen, credit supply and the banking system were dominated by foreign interests, and there was no major structural change. As in the colonial era, medium- and long-term credit, especially, suffered the twin handicaps of shortage of disposable funds and of all lenders having their headquarters either in Nairobi or in Europe.

The first local sources of such funds were the Tanganyika Development Finance Company, even though only one quarter of its capital was indigenous, and the National Development Corporation, which was essentially a holding company for which credit was really a side-line.

The foundation of the National Bank of Commerce after the Arusha Declaration led to major changes, too, in the system of other than short-term credit.

The patently growing need for medium- and long-term funds to finance development projects in the public and the private sector alike soon led the NBC to launch an appropriate lending programme and, at the beginning of 1970, to set up a Development Credit Department¹. By the middle of the year, this had commitments of some 130 million shillings in nearly 40 development projects. Nevertheless, it was felt that the country should have a specialized institute for financing long-term productive development lending, and also to act as a channel for foreign loan funds².

It is for this reason that, in the course of the government's reorganization of the financial sector since 1969, two specialized

¹ See above, Part Three, Chapter 1, 3.

² H.W.J. Ehrlich, "The Role of TIB in the Financial Sector", in: Tanzania Investment Bank, *Rasilimali - Tanzania Investment Outlook*, [1972], p. 20,

new banks were eventually created: the Tanzania Rural Development Bank, for long-term lending to agriculture, and the Tanzania Investment Bank (TIB).

Thus the TIB was set up in November 1970, by the Tanzania Investment Bank Act. It was to concern itself mainly with financing the public sector of industry, which had been reorganized in the years following the Arusha Declaration, by providing loan funds to public corporations needing to supplement their capital resources¹.

In the words of the Tanzania Investment Bank Act (Article 4), the scope of the TIB's activities may be outlined as follows:

- (a) to make available long- and medium-term finance for economic development;
- (b) to provide technical assistance and advice for the purpose of promoting industrial development;
- (c) to administer such special funds as may be placed at the bank's disposal;
- (d) to undertake such other activities as may further the foregoing objects.

"Economic development" as defined by the law (Art. 2) in this context, is not confined to industry in the narrow sense, but includes also large-scale corporate agriculture, the processing of agricultural products, construction, transport, mining and tourism².

The Tanzania Investment Bank opened its doors for business on 16 November 1970, with an authorized share capital of 100

¹ C. Kahangi, "TIB as a Tool for Accelerating Economic Growth", in: Tanzania Investment Bank, *Rasilimali - Tanzania Investment Outlook*, January 1973, p. 20.

² TIB, *Report for the Period from November 16, 1970 until June 30, 1971*, p. 2.

million shillings, of which 50 million were immediately paid up by its three shareholders, namely, the Government of Tanzania (60 per cent), the National Bank of Commerce (30 per cent) and the National Insurance Corporation (10 per cent). In addition to investing its own resources, the TIB acts as a catalyst in mobilizing foreign investment funds. For Tanzania, this has the advantage that it remains free to employ foreign resources as it thinks fit, and for foreign lenders, whether governments or other institutions, there is the convenience that they do not have to deal with numerous individual companies, but with one single, relatively safe investment bank¹.

The TIB conceives its role as more than simply to approve or disapprove financing proposals; rather, it means to serve as a source of technical advice in the establishment of new projects and to do its best to mobilize financial resources additional to its own². In its follow-up activities, the bank tries to create a relation of partnership with borrowing firms, with a view to improving management techniques and exercising a supervisory function regarding the effective use of loaned funds.

¹ See C. Kahangi, *ibid.*, p. 20. In his budget speech in June 1971, the Finance Minister said the following in this connection. "As the Tanzania Investment Bank develops its professional competence, the external sources will find it much easier and quicker to agree to disbursements under the agreed credit arrangements. We cannot possibly go on indefinitely becoming engaged with external sources in detailed appraisal of each developing enterprise in our country. This should become the responsibility of a specialized national institution, such as the TIB." (United Republic of Tanzania, *Speech by the Minister for Finance Introducing the Estimates of Public Revenue and Expenditure for 1971/72 to the National Assembly on 17th June 1971*, p. 8).

² G.F. Mbowe, "Credit Evaluation by the Tanzania Investment Bank", in: Tanzania Investment Bank, *Rasilimali - Tanzania Investment Outlook*, January 1973, p. 16.

The TIB's Board of Directors consists of a chairman appointed by the President of the Republic, and of six other members, of whom three are appointed by the government, two by the National Bank of Commerce and one by the National Insurance Corporation. The General Manager is appointed by the Finance Minister for a five-year term of office.

The bank is organized in four departments: Operations, Finance, Economic Research, and Secretariat and Administration¹. The Operations Department is in charge of pre-appraisals and appraisals, and also handles the follow-up and control of project progress. The Finance Department has the responsibility of planning the bank's financial resources allocation. The Economic Research Department conducts general and specific economic research, market surveys and statistical work, and all administrative and secretarial responsibilities are vested in the combined Secretariat and Administration Department.

The TIB's operations are classified as being either "ordinary", financed from the bank's ordinary capital resources, or "special", financed by special funds under the bank's administration, which are normally of foreign origin.

Under the law (Art. 11), the TIB may, and does, provide medium- and long-term loans and also risk capital, but the latter only subject to strict rules. Equity investments out of ordinary funds may not exceed 10 per cent of the bank's paid-up capital plus reserves and surplus, and the bank is not to acquire a controlling holding, except where necessary to safeguard its own investment. Its investment portfolio is to be reasonably diversified, and the turnover of funds is to be speeded up by the sale of equity holdings as soon as this is possible on satisfactory terms.

¹ TIB, *General Information on TIB and Guide to Loan Applicants*, 1971, p. 3; H.W.J. Ehrlich, *op. cit.*, p. 21.

In its lending, the TIB normally considers only applications for 100,000 shillings or more, and finances no single project to an extent of more than 60 per cent of its total cost¹.

The criteria and procedures of TIB credit evaluation are of considerable interest². Projects are appraised from six points of view: economic, commercial, technical, managerial, organizational and financial.

From the economic viewpoint, the bank ascertains that the project fits into the priorities of the Development Plan, that it is likely to make a contribution to overall industrial development and to generate induced effects. For commercial appraisal, the TIB relies on market research analysis, enquires into the applicant firm's competitiveness at home and abroad and into its sales and procurement capacity, and considers also the project's implications for foreign trade. Appraisal of technical aspects involves a thorough examination of the choice of technology, designs, scale of operations, location, etc., for which the TIB, still short of industrial engineers, collaborates closely with the Industrial Studies and Development Centre and with the National Institute of Productivity. In assessing managerial capacity and efficiency, the TIB looks, among other things, at the qualifications and experience of senior staff and at the firm's training programmes. Closely connected with this is investigation of organizational aspects, including pre-production and post-production arrangements, a matter in which the bank often provides useful advice. Finally, the TIB tries to assess the applicant firm's financial strength, on the basis of its balance sheets, profit and loss accounts, and other documents; the purpose is to discover the management's ability to generate enough cash for loan repayment plus a surplus to run its business.

¹ TIB, *ibid.*, p. 5.

² G.F. Mbowe, *ibid.*, p. 16-18.

Generally the bank finances only such projects as meet its standards under all the above aspects, and also requires loans to be guaranteed so as to avoid any waste of scarce resources — its own and the country's.

Comparing the activities and position of the Tanzania Investment Bank with those of the Tanganyika Development Finance Company discussed in the previous section, the outstanding difference is that the TIB is more pronouncedly a Tanzanian national institution geared to national development purposes, and as such more flexible and adaptable than the TDFL, which is essentially a project promoter. This difference is reflected in the two institutions' operational principles, and especially in the preference of the TIB for financing the public and semi-public sector and in its reluctance to provide more than the absolutely indispensable minimum of venture capital.

During its first two years, the TIB initially concerned itself with the management of the loan portfolio inherited from the National Bank of Commerce (Table 62). Loans to processing and manufacturing industries took first place in it, both as regards numbers and amounts involved; there followed, in decreasing order, loans to tourism and to transport. Between June 1971 and June 1972 the NBC loan portfolio was reduced by more than 10 million shillings, owing to repayment of six loans and the retransfer of two more to the NBC as the borrowing companies were taken over by the government and a District Council.

Loans granted by the TIB itself up to the end of June 1972 are shown in Table 63, by economic sectors, and Table 64 gives a complete list of projects financed. Again industry got the lion's share on both counts, number of projects and amount of TIB finance. Most of the projects, it will be noted, are orientated

TABLE 62

TANZANIA INVESTMENT BANK: AMOUNTS OUTSTANDING ON LOAN PORTFOLIO ACQUIRED FROM THE NATIONAL BANK OF COMMERCE, 1971 AND 1972

(end-June figures in shillings)

Sector	1971		1972	
	No. of loans	Amount	No. of loans	Amount
Agriculture	2	1,850,000	2	1,500,000
Processing and manufacturing industries	26	59,526,644	21	47,829,566
Construction	1	73,340	—	—
Transport (only shipping)	2	10,954,026	2	10,669,651
Tourism	3	21,425,000	3	21,350,000
Others	2	165,262	—	—
Total portfolio	36	93,994,272	28	81,349,217

Source: TIB, *Annual Report*, June 1971 and 1972.

TABLE 63

TANZANIA INVESTMENT BANK: LOANS ⁽¹⁾ GRANTED AND TOTAL PROJECT INVESTMENTS, 30 JUNE 1972

(thousand shillings)

Sector	Number of loans	Amount	Total investment in fixed assets
Agriculture	6	10,400	22,200
Tourism	1	3,000	4,500
Transport	2	8,015	32,425
Mining	2	4,500	25,420
Industry	9	17,370	95,474
Total	20	43,285	180,019

(¹) Including equity participation.

Source: TIB, *Annual Report*, June 1972, p. 23.

TABLE 64

TANZANIA INVESTMENT BANK: PROJECTS FINANCED, 1970 TO 1972
(thousand shillings)

Companies	TIB loans	TIB equity participa- tion	Total investment in fixed assets
<i>16 November 1970 to 30 June 1971</i>			
Nyanza Salt Mines Ltd.	3,000	—	(¹)
Tanzania Navy Beans Ltd.	200	—	200
National Printing Co. Ltd.	1,130	—	2,380
Kilimanjaro Blanket Co. Ltd.	600	—	1,100
General Tyre East Africa Ltd.	2,590	—	3,500
Total 1970/71	7,520	—	7,180
<i>1 July 1971 to 30 June 1972</i>			
Lime Products Development Ltd.	400	—	400
Tanzania Navy Beans Ltd.	1,200	200	2,000
Mwananchi Ocean Products Ltd.	1,400	—	2,400
National Cold Chain Operations	7,000	—	17,200
Tanzania Shoe Company Ltd.	650	—	650
National Engineering Company Ltd.	2,000	1,000	6,500
Mtibwa Sugar Estates Ltd.	7,000	—	76,700
National Milling Corporation	2,000	—	3,650
Peoples Products Ltd.	400	—	994
Nyanza Salt Mines Ltd.	1,500	—	25,420
New Arusha Hotels Ltd.	3,000	—	4,500
Dar es Salaam Motor Transport Co.	7,500	—	23,510
Tanzania Coastal Shipping Line Ltd.	515	—	8,915
Total 1971/72	34,565	1,200	172,839
Total as per 30 June 1972	42,085	1,200	180,019

(¹) Total investment included in the 1971/72 section of the Table.

Source: TIB, *Annual Report*, June 1972, p. 14 and 15-19.

predominantly towards the domestic market. The largest single industrial loan, 7 million shillings, is that to Mtibwa Sugar Estates Ltd., and its purpose is to expand sugar production capacity from 7,000 to 45,000 tons per year.

Second in order of TIB finance received is agriculture, and here the majority of projects are export-orientated. Third comes transport with two projects, one of which is of great importance and received the biggest single loan from TIB. This is the project of the Dar es Salaam Motor Transport Company, to increase its urban bus fleet by 105 units; the other project is in coastal shipping. Both, therefore, concern exclusively the domestic market.

From the point of view of location, nine out of twenty of the projects financed by the TIB are in the Dar es Salaam Coastal zones, which reflects the area's rapid development in recent years. Second in order of the number of loans received is the Arusha/Kilimanjaro zone, with five loans.

The employment impact of the bank's lending was to create about 2,900 new jobs in TIB-financed projects, some 2,000 of them in the Morogoro zone¹.

The decentralization plans put into effect in Tanzania from July 1972², are bound to have an important bearing on the TIB's activities, in that they will, among other things, lead to wider geographical distribution of projects financed.

The bulk of TIB finance has gone to firms wholly or partly in public ownership (Table 65), in line with government policy to the effect that the public sector should be responsible for most of the development effort and should be financed accordingly. This pattern also accords with the TIB's role in rationalizing the parastatal sector.

The recent shift in government policy towards regional decentralization may well lead the TIB in the future to lend more

¹ "An Analysis of TIB Operations", in: Tanzania Investment Bank, *Rasilimali - Tanzania Investment Outlook*, January 1973, p. 30.

² See above, final paragraphs of the Introduction.

TABLE 65

TANZANIA INVESTMENT BANK: LOANS ⁽¹⁾ GRANTED, BY OWNERSHIP OF BORROWING FIRM, 30 JUNE 1972
(*thousand shillings*)

Ownership of firm	No. of loans	Amount
Wholly public	8	20,195
Wholly private	3	4,000
More than 51 per cent public	5	9,490
More than 51 per cent private	—	—
50 : 50 per cent public and private	2	8,400
Total	18	42,085

(¹) Excluding equity participation.

Source: TIB, *Annual Report*, June 1972, p. 24.

to small-scale industries and rural projects, while the role of private enterprise is bound to remain strictly circumscribed.

As regards the sources of finance for the projects in which the TIB took part with loans or equity investment, Table 66 shows that local resources, at more than 130 million shillings, far exceed foreign ones, at just under 50 million. TIB's own contribution amounts to 33 per cent of total local resources, the second-largest item in which is 24 million from the East African Development Bank.

The TIB draws its loanable funds essentially from its own capital, but is successfully trying to attract also foreign capital. In the course of 1971/72 it was visited by appraisal missions from the Canadian International Development Agency (CIDA), the World Bank, the Swedish International Development Agency (SIDA), the *Kreditanstalt für Wiederaufbau* and the African Development Bank. CIDA extended a loan of 2 million Canadian dollars to

TABLE 66

TANZANIA INVESTMENT BANK: OVERALL SOURCES OF FINANCE OF
TIB-FINANCED PROJECTS, 30 JUNE 1972
(thousand shillings)

Sector	No. of projects	Local resources					Foreign resources		
		Own contri- bution	TIB loans	TIB equity	Others	Total	Suppl. credit	Others	Total
Agriculture	4	11,800	10,200	200	—	22,200	—	—	—
Tourism	1	892	3,000	—	608	4,500	—	—	—
Transport	2	16,010	8,015	—	300	24,325	—	8,100	8,100
Mining	1	6,720	4,500	—	14,200	25,420	—	—	—
Industry	8	22,984	16,370	1,000	13,440	53,794	41,680	—	41,680
Total	16	58,406	42,085	1,200	28,548	130,239	41,680	8,100	49,780

Source: TIB, *Annual Report*, June 1972, p. 25.

Tanzania on very soft terms late in 1972, for lending through TIB, and SIDA agreed to refinance two TIB loans in a combined amount of 7.65 million shillings.

When the Tanzania Investment Bank was founded in 1970, it was meant to become a tool for accelerating economic growth. To what extent has it succeeded so far, and what are the chief difficulties with which it has to contend? These questions are discussed by the bank's General Manager, C. Kahangi, in the TIB's publication *Rasilimali — Tanzania Investment Outlook*, January 1973¹.

The TIB operates in a difficult general setting, which impedes the chances both of accelerated industrial growth and of the bank's expansion, but which it can do little to alter. There is no organized capital market, the market for industrial products is small, the

¹ C. Kahangi, *op. cit.*, p. 19-20.

country has neither enough well-trained technicians nor competent management, and investment opportunities are few and far between.

In its first two years, the TIB succeeded in committing loan funds not far short of the volume of lending by the Tanganyika Development Finance Company, yet in absolute terms the figures are still small. Worse than that, the 18 projects in which the bank did invest, represented only 55 per cent of the proposals submitted to it. The reason lay not in lack of funds, but in lack of projects sufficiently well prepared to justify financial support. The bank feels, therefore, that it has to step in at the stage of project preparation, to provide management expertise and technical services to potential borrowers in order to help them identify and prepare projects for financing. The TIB's own economic prospects indeed depend on its ability to expand and diversify its lending, for underutilization of resources is bound to be costly.

Perhaps the biggest problem facing the TIB is its own staff problem. Skilled men experienced in development lending are hard to find and hard to train, yet without them the bank cannot act as a developer as it feels it should.

4. THE NATIONAL DEVELOPMENT CORPORATION: HOLDING COMPANY AND INDUSTRIAL BANK

Mention has been made in Section 1. of this Chapter of the extremely important position in the Tanzanian economy of the National Development Corporation (NDC), essentially as a holding company for firms in a wide range of activities¹.

¹ Which should be considered a holding company and not a development bank, as some authors assert. (See H. Harlander, D. Metzger, *Development Banking in Africa*, Institut für Wirtschaftsforschung, Munich 1971).

The NDC was originally set up in 1962, following recommendations by experts from the World Bank and USAID¹. It was then called the Tanganyika Development Corporation, and had a capital of 10 million shillings. The new corporation took over the government's holdings in Williamson Diamonds, Tanganyika Packers and Nyanza Salt Mines. In 1964 the corporation was reconstituted and renamed, and it started operations as National Development Corporation on 1 January 1965. In the following year the government instructed the NDC to take a holding of not less than 50 per cent in any new company it helped to establish, and after the Arusha Declaration the NDC became one of the chief instruments of putting the new principles into effect.

The NDC started with a capital of 23.9 million shillings provided by the government, and in addition took over the assets of the Tanganyika Agricultural Corporation, worth 10.9 million. Further resources are available to it in loans and grants from the government and from other, national and international, institutions, as well as its own investment income. The large amount of public funds allocated to the NDC is justified by the latter's paramount role in the policy of enlarging the public sector of the economy after the Arusha Declaration, and hence in no way contradicts the intention that the Corporation should retain financial autonomy.

The Public Corporations Act of 1969 led to some rationalization. Originally the government had encouraged the NDC to take over almost indiscriminately any private enterprises in strategic sectors; now this policy changed. Tourism and agricultural

¹ International Bank for Reconstruction and Development, *The Economic Development of Tanganyika*, Dar es Salaam, 1960; A.D. Little Inc., *Tanganyika Industrial Development. A Preliminary Study of Bases for the Expansion of Industrial Processing Activity*, 1961.

TABLE 67

NATIONAL DEVELOPMENT CORPORATION: DISTRIBUTION OF INVESTMENTS, BY RECIPIENT SECTORS, 31 DECEMBER 1970

Sector	Number of projects	Investments (million shillings)	Composition of investments (per cent)
Food, beverages, tobacco	9	171	12
Textiles and leather	6	253	17
Wood	6	50	3
Printing and paper	5	406	28
Chemicals	5	225	16
Minerals	9	91	6
Other industries	6	11	1
Commerce and finance companies	4	109	8
Mining	3	137	9
Total	53	1,453	100

Source: National Development Corporation, *Sixth Annual Report*, 1970.

processing were hived off into two new corporations, the National Agricultural and Food Corporation (NAFCO) and the Tanzania Tourist Corporation (TTC), leaving the NBC with interests only in mining, non-agricultural processing and manufacturing.

The sectoral distribution of NDC investments at the end of December 1970 is shown in Table 67. Total investments, it will be seen, stood on this date at over 1,450 million shillings. No wonder that one of the Corporation's chief problems has been how to raise funds for operations on such a scale. In its early years outside finance was supplemented by earnings from a few highly profitable subsidiaries, especially Williamson Diamonds Ltd., which offset losses and scant profits among other, not yet viable, subsidiaries. But now the bulk of NDC companies are in branches from which no profits can be expected as yet, and for some years

to come the Corporation will clearly need all the money it can get from budget allocations and from domestic as well as foreign loans.

Although the NDC is really a state holding company in industry, it has also, especially until 1971, acted as a source of credit to members of its group. Many of them had recurrent liquidity problems due to undercapitalization, and in an effort to solve these the NDC set up a sort of internal bank, where subsidiaries could obtain credit and also deposit temporary excess cash. In effect the Corporation thus acted as a bank providing short-term credit to industry. It paid 4½ per cent on deposits and charged 6 per cent on credit. Since both rates were considerably better than those obtainable from the National Bank of Commerce, the business flourished, and in 1967 earned the Corporation about 1 million shillings — almost the equivalent of a year's total salary bill at NDC head office (excluding subsidiaries)¹. This system came in for some criticism² on the ground that it enabled NDC companies to bypass the credit controls of the National Bank of Commerce and gave them easy access to credit even when they were not nearly as creditworthy as a bank would normally require a borrower to be. The practice, it was felt, might assume such proportions as to create problems for monetary policy, and in any case constituted unfair competition *vis-à-vis* the National Bank of Commerce.

Since then, much stricter rules were introduced in connection with the new annual Finance and Credit Plan since 1971. Inter-company lending is now subject to prior authorization³.

¹ A.J.M. Van der Laar, *Perspective on the Parastatals - NDC*, University College, Economic Research Bureau (Restricted) Paper 68.5, Dar es Salaam, 1968.

² John Loxley, *The Monetary System of Tanzania since 1967*, *op. cit.*, p. 6-7.

³ United Republic of Tanzania, *The Annual Plan for 1971/72*, p. 17.

5. THE TANZANIA FINANCE COMPANY

The Tanzania Finance Company Limited (TAFCO) was set up in 1963 as a private company providing hire purchase finance for capital goods. In 1965 it became plain that with its 41,400 shillings of paid-up capital, the company was simply not viable, and it was taken over by the National Development Corporation.

The latter at first decided to leave TAFCO unchanged, but in 1966 reorganized it completely. TAFCO was now to raise money for the NDC by selling its own shares to the public and use the proceeds to buy shares of subsidiary or associated companies from NDC, the holding company. The main idea was to attract private savings to equity investment, to raise funds for the NDC and hive off some of the latter's equity assets. TAFCO's own capital was in 1966 raised to 40 million shillings, consisting of 20 million in ordinary A shares, 10 million in B shares and 10 million in preference shares.

The NDC retained a controlling holding by taking all the A and 30 per cent of the B shares; 1,000 of the latter (100,000 shillings) were later transferred to Industrial Promotion Services. The preference shares were taken up by the National Provident Fund (4 million), the National Bank of Commerce (1 million), the National Insurance Corporation (1 million) and the Bank of Tanzania (3 million).

In 1967 TAFCO called up two tenths of the capital subscribed, at which point the Bank of Tanzania withdrew because it felt that TAFCO was not succeeding in mobilizing private savings as it had set out to do, and in any case its activities somehow appeared to be in contradiction with the principles of the Arusha Declaration. In 1968, twelve finance companies subscribed 110,000 shillings of B shares. By the end of 1969 TAFCO had issued only 32.1 million shillings worth of shares.

TABLE 68

NATIONAL DEVELOPMENT CORPORATION: SHARE PORTFOLIO
TRANSFERRED TO THE TANZANIA FINANCE COMPANY

Shares	Shareholding per cent	Total amount (shillings)
Tanzania Breweries Ltd.	11	3,600,000
Tanganyika Packers Ltd.	51	13,763,181
Six Enterprises Ltd.	20	200,000
Nyanza Salt Mines Ltd.	81	2,440,000
Tanganyika Meerschaum Co. Ltd.	56	1,284,640
Tanita Company Ltd.	40	1,200,000
Tanzania Publishing House Ltd.	50	250,000
plus net current assets	—	262,179
Total		23,000,000

Source: National Development Corporation, *Annual Report*.

The NDC settled its share subscription by making over part of its own shareholdings to TAFCO (Table 68). But it was not a very interesting portfolio, with little diversification and containing several ailing companies. Small wonder that TAFCO's first-year profits were less than brilliant.

Eventually it was felt to be rather improper that the NDC, TAFCO's main shareholder, should also be the main beneficiary of its activities, and so TAFCO passed directly under Treasury control.

The TAFCO experiment must be judged a failure. No sooner had TAFCO been set up as an investment company, in 1966, than the political climate in Tanzania changed with the Arusha Declaration of January 1967. With it changed the company's entire prospects. Originally, it had been hoped that private firms and individuals would be eager buyers of TAFCO shares, but then, under the Arusha Declaration's leadership code, TANU and

government leaders were precluded from owning shares. That left only the public sector and parastatal agencies as possible investors. A proposal to revitalize the company as a unit trust¹ came to nothing, because that too, was judged to be contrary to the country's socialist principles².

Today, the Tanzania Finance Company is a shadow deprived of *raison d'être* and meaningful activities, but no official decision to discontinue it seems to have been taken as yet.

6. THE EAST AFRICAN DEVELOPMENT BANK

The Charter of the East African Development Bank (EADB) is an integral part of the Treaty for East African Co-operation, which was signed in June 1967 at Kampala. The bank actually started operating on 1 July 1968.

The Charter defines the bank's objectives as follows³:

- (a) to provide financial and technical assistance to promote the industrial development of the partner states;
- (b) to reduce industrial imbalances among the partner states;
- (c) to encourage industrial complementarity among the partner states;
- (d) to supplement the activities of national development agencies by joint financing operations and by using these agencies as a channel for financing specific projects;

¹ H.H. Binhammer, *Financing Industrial Development in Tanzania*, University College, Economic Research Bureau Paper 69.4, Dar es Salaam, 1969, p. 20-22.

² John Loxley, *The Monetary System of Tanzania since 1967*, *op. cit.*, p. 24; *idem*, "Structural Change in the Monetary System of Tanzania", in: L.R. Cliffe and T.S. Saul, *Socialism in Tanzania, Vol. 2 - Policies*, Dar es Salaam, 1973, p. 110.

³ *Treaty for East African Co-operation, Annex VI - The Charter of the East African Development Bank*, Article 1.

- (e) to co-operate with other institutions and organizations, public or private, national or international, which are interested in the industrial development of the partner states;
- (f) to undertake such other activities and provide such other services as may advance the bank's objectives.

The Charter specifies that the word "industry" is meant as manufacturing, assembling and processing industries, including processing of agricultural, forestry and fishery products, but excluding building, transport, and tourist industries.

Subject to financing only economically sound and technically feasible projects, priority is to be given to projects in the industrially less developed countries and regions. For the first ten years, the Charter lays down a distribution key, assigning to Tanzania and Uganda 38.75 per cent each of the bank's total financing, and to Kenya 22.5 per cent.

The Charter requires the majority of the EADB's shares to be held by the partner states; other shareholders may be "bodies corporate, enterprises or institutions", subject to approval by member states and the bank's board of directors. At the end of 1970 the National and Grindlays Bank, the Commercial Bank of Africa, the Standard Bank, Barclays Bank D.C.O., the African Development Bank and a Yugoslav consortium were shareholders of the EADB.

The bank's authorized capital stock consists of 400 million shillings. Half of it is paid up. Member states have subscribed 120 million shillings, half in local currency and half in convertible foreign currencies. Other resources come from loans contracted both in East Africa and abroad, from loan repayments and from investment income. The EADB may, in addition, accept for administration special funds made available by foreign institutions concerned with development aid.

The Director-General of the bank is appointed by the Presidents of the three East African states, each of which also appoints one member and one alternate member of the Board of Directors; up to two other directors and alternates may be elected by the other shareholders.

In prescribing the bank's operating principles, the Charter (Art. 13) requires that it shall be guided by sound banking principles and satisfy itself as to the soundness of projects and borrowers. The bank may make direct loans for financing specific projects in partner states, or it may channel loan funds through existing institutions, invest in equity capital or guarantee loans by others. However, neither total guarantees outstanding nor total equity investments may at any time exceed 10 per cent of the paid-up capital stock plus reserves and surplus, and the bank is not normally to take out controlling holdings in any company.

The Charter further requires the bank to diversify its investments and to revolve its funds by selling off equity holdings whenever this can be done on satisfactory terms.

At the end of 1970 the East African Development Bank had approved investments of altogether 76 million shillings in 17 projects (Table 69), 32.3 million of them in Tanzania. It is estimated that total investment engendered by the EADB amounted to about 545 million. Most of the bank's investments until that date were direct loans.

However, disbursements fell far short of commitments. Only 31.6 million had been authorized for disbursement, and no more than 18.7 million had actually been paid out.

In all, the amounts involved are too small to have made much impact on the Tanzanian economy. The bank's role, no doubt, is also one of the victims of the deterioration of the political climate among the three partner states. The most difficult of

TABLE 69

EAST AFRICAN DEVELOPMENT BANK: APPROVALS FOR FINANCING,
31 DECEMBER 1970
(thousand shillings)

	Amount
By type of financing:	
Straight loans	56,570
Convertible loans	7,820
Equity investment	6,700
Lines of credit	3,780
Guarantees	1,300
Total	76,170
By partner state:	
Uganda	13,500
Kenya	30,420
Tanzania	32,350
Total	76,170

Source: East African Development Bank, *Annual Report*, 1970.

approach among its aims has been to do anything toward making the economies of the three countries complementary in the industrial field, as its Charter requires; often, on the contrary, the projects for which funds were requested were competitive, and the bank has had to finance some of them¹.

The East African Development Bank certainly can make some contribution to industrial development in Tanzania, but it is equally certain that it is not from that quarter that the most spectacular results can be expected.

¹ E.H. Grundmann, "Industrial Development in East Africa. An Appraisal including Possibilities for Future Acceleration", in: Tanzania Investment Bank, *Rasilimali - Tanzania Investment Outlook*, January 1973, p. 24.

7. MINOR SOURCES OF INDUSTRIAL DEVELOPMENT FINANCE

(a) *The Workers' Development Corporation*

The Workers' Development Corporation (WDC) was set up in 1964 by the National Union of Tanganyika Workers (NUTA), under the name of Tanganyika Workers' Investment Corporation. Its initial capital of 1 million shillings was later raised to 3 million, but the bulk of its funds came from contractual savings by workers. From 1964 to 1966, for example, more than 16 million shillings came in through such schemes.

It is indeed the basic aim of the WDC to mobilize working class savings and to channel them towards development and social projects. Its main concerns are with creating new jobs, promoting social and cultural progress and raising the workers' standard of living, and it is also interested in the transfer of private enterprises into collective ownership.

By the end of 1970 the WDC had invested more than 5 million shillings in industry, agriculture and building, mostly in small and medium-sized firms and in labour-intensive projects.

In comparison with other institutions, the WDC operates on a small scale. It is forever hampered by shortage of funds and of managerial talent. Nevertheless it is an interesting venture, in so far as it tries to mobilize the workers' savings for investment in small enterprises or projects of social interest.

In 1971 the corporation suffered a big setback through a complete break with the three largest and most profitable firms among its borrowers, National Engineering Ltd., Dawa ya Mubu Ltd. and Tanzania Bottlers Co. Ltd.

(b) *The Mwananchi Development Corporation*

The Mwananchi Development Corporation (MDC) was founded in August 1962 by the Tanganyika African Nation Union (TANU)

to act as an investment trust on behalf of the party, on a strictly national basis¹. Its initial capital of 1 million shillings was entirely subscribed by TANU; in 1964 the capital was raised to 1.2 million. By the end of 1964 the corporation had invested 3 million shillings, mostly in property and buildings, many of which were leased to government agencies.

After its initial success, the corporation started to diversify its portfolio by acquiring a stake in several companies. At the end of 1965 these investments amounted to 1.8 million shillings; they had been financed with Treasury loans, commercial bank credits and mortgages. But the pace of expansion was too fast, and a thorough reorganization became necessary. So it was decided in 1966 that all industrial holdings were to be transferred to the National Development Corporation, which affected holdings in four companies. The Corporation was left, however, with its property investments, and now there is talk again of reviving it, possibly assigning it an altogether new role.

(c) Industrial Promotion Services and the Diamond Jubilee Investment Trust

The Diamond Jubilee Trust was set up in 1945 by the Aga Khan, who was also its biggest shareholder. The purpose was to promote development in East Africa by providing medium- and short-term credit for projects in agriculture, industry and building. With the growing need for long-term funds, both risk capital and loans, the Aga Khan in 1963 sponsored the establishment of a group named Industrial Promotion Services (IPS). This started with four companies — Kenya, Tanzania and Uganda each having one of them — and later went further afield into the

¹ The declared object was to establish "an African institution, with African money and an African management".

Congo, Ivory Coast and Pakistan. The idea was to foster industrial development through co-ordination of public and private ventures, and through credit mainly to small and medium-sized enterprises. The group's companies also provided technical advice and carried out market surveys.

IPS (Tanzania) Limited, the local successor to IPS in Tanzania, started with a capital stock of 6 million shillings, in which the National Development Corporation had a symbolical stake of 20,000 shillings. In 1967 there was a first capital increase, and the NDC's holding rose to 2 million; other capital increases followed. At the end of June 1970 paid-up capital was 10.9 million shillings, and the Aga Khan and the NDC had been joined by many private shareholders, largely members of the Ismailite community.

IPS seems to have most of its interests in textiles, followed by pharmaceuticals, soap, and others. Recently the company launched a programme of large-scale investment in the tourist industry, together with the Diamond Jubilee Investment Trust and the Tanzania Tourist Corporation.

Total equity investments amounted to 7.2 million shillings at the end of June 1970, and loans to 7 million. But these figures understate the company's capacity to generate economic development, for it has often been most successful in attracting capital from national and also foreign sources for direct investment in IPS projects. These funds do not figure in the statistics, but it is estimated that in its first seven years IPS was instrumental in generating total investment of more than 100 million shillings.

Diamond Jubilee, which until 1963 operated throughout East Africa, was split up into three separate companies after independence, and since 1967 these have been completely

independent of each other, though they still use the joint administrative services of the Diamond Jubilee Services Ltd.

The Diamond Jubilee Investment Trust (Tanzania) Ltd. is not a development company in the same sense as the National Development Corporation, the Workers' Development Corporation or Industrial Promotion Services; it does not sponsor projects, but simply provides medium-term loans to individuals, mostly Ismailites, and companies. It works in close connection with IPS, and very often extends credits to companies to which IPS has already furnished risk capital or long-term loans.

Occasionally the Diamond Jubilee trust, too, takes out an equity stake, but normally it prefers to lend for three to five years, against real security. Loans outstanding at the end of September 1970 amounted to 39 million shillings.

The trust's resources come from its own capital, from investment income and, mainly, from deposits. Capital was 8 million shillings in 1970, investment income 1.5 million, and deposits amounted to 28.6 million, mostly in the form of savings deposits from the Ismailite community.

Chapter IV

HOUSING CREDIT

1. HOUSING IN TANZANIA AND THE SECOND FIVE-YEAR PLAN

Before independence, housing policy in Tanzania, as elsewhere, did not go beyond the construction of dwellings for officials and foreign employees of the colonial administration. Later the beneficiaries came to include certain restricted indigenous groups, mostly government officials and top executives of large companies.

The rest of the African population remained excluded for a long time, though admittedly the housing problem did not become really acute until rural folk began to migrate in large numbers to the cities. This began to happen in the interwar period, but it was not until after the second world war that the movement assumed such proportions as to engage the attention of government¹.

After independence, housing policy changed radically. In 1962 the National Housing Corporation (NHC) was set up, which is still the leading public company in the field. Unlike its namesake in Kenya, which is mainly concerned with channelling funds to private builders, the NHC in Tanzania is directly involved in residential building programmes, from the drawing board to the purchase of materials and actual construction.

¹ M.A. Bienefeld, *Tanzania Housing Finance and Housing Policy*, University College, Economic Research Bureau Paper 69.19, Dar es Salaam, 1969.

Two other public companies are concerned with construction in Tanzania, to wit, the Mwananchi Engineering and Construction Company (MECCO) and the National Estates and Design Company (NEDCO), formerly National Property Development and Management Corporation (NPDMC).

The government originally acquired a minority holding in the MECCO in 1963, but this was transformed into a majority holding in 1967, when it was thought that the company might assume a leading role in residential building¹. The government signed an agreement with the Overseas Construction Company (OCC), a Dutch firm with a minority stake in the MECCO, under which the OCC undertook to provide technical and management assistance and to help Africanize the company within a short while.

In the meantime, the National Development Corporation had set up the NPDMC, of whose capital it furnished 75 per cent, the rest being provided by a German company, the GBM of Munich. The new company was to concentrate on housing design, and in this case too an agreement with the minority shareholder provided for technical assistance and management expertise.

But both ventures fell short of the hopes placed in them. The foreign shareholders were more interested in profits than in fostering the development of the two companies and in helping to train indigenous personnel, and for this reason the agreements with them were terminated in 1970 and the government took over the shares held by the Dutch and the German companies.

At that time it was also decided to overhaul the structure of the whole housing sector². The activities of the MECCO and

¹ J. Wells, *The Construction Industry in East Africa*, University College, Economic Research Bureau Paper 72.2, Dar es Salaam, 1972, p. 21 ff.

² See D. Burgess, *A Study of the Construction Industry in Tanzania*, Dar es Salaam, 1970.

the NPDMC were reorganized and co-ordinated, the latter changed its name to National Estates and Design Company (NEDCO), and both eventually passed under the authority of the Ministry of Communications and Transport.

In addition to the NHC, MECCO and NEDCO, central and local government authorities are concerned with housing at present, and there are still a few private builders, though their share in total new residential construction is steadily decreasing. In the country, a good many houses are built by the farmers themselves.

The construction industry as a whole was responsible in 1971 for 5.3 per cent of gross domestic product (at current prices), and employed 52.658 persons.

The Second Five-Year Plan's basic approach to the housing problem is that it is up to the state to see to it that the population are provided with low-cost housing, this being regarded as a social service in the true sense¹. However, different policies were adopted for rural and for urban areas.

In rural areas, housing needs are so enormous that they far outstrip disposable public funds, and here the government encourages the local population to build their own houses. In fact, only 5 per cent of total planned housing expenditure under the Second Plan is earmarked for rural areas².

In subsequent years these allocations were raised, but the main effort has been going not so much into new construction as into the improvement of existing houses. Only new *ujamaa*

¹ M.A. Bienefeld, *A Long-term Housing Policy for Tanzania*, University College, Economic Research Bureau Paper 70.9, Dar es Salaam, 1970.

² As the Plan explains (*op. cit.*, p. 187), "in the rural areas, a simple dwelling made of local natural materials without plumbing, electricity or other related facilities may be bearable, but in the crowded conditions of the town the same standards create slums with serious public health hazards and socially demoralizing consequences."

villages actually got any money for construction, and even there the responsibility was largely left with the local communities, with technical assistance and advice from the government's Mobile Field Building Units.

In urban areas, by contrast, the housing problem was seen from the very outset as an extremely urgent one. Rapid population growth in the towns kept pushing up demand for housing, and, given that people cannot so easily build their own houses as they can in the country¹, government had to intervene on a massive scale. Under the Second Five-Year Plan, government intervention has been taking three forms: construction of low-cost housing, promotion of building co-operative societies, and the provision of what is called site and service facilities. The bulk of public sector housing was built by the National Housing Corporation, but despite all its efforts costs were too high so that large groups of the population found the rents prohibitive.

2. THE HISTORY OF HOUSING CREDIT: LOAN SCHEMES AND THE EARLY BUILDING SOCIETIES

(a) *Loan Schemes*

After the second world war the government of Tanganyika launched a housing construction programme, which was largely financed by the United Kingdom through the Colonial Development and Welfare Fund. At first the houses were of very low standard, and cost between 2,000 and 7,000 shillings each. They were meant as immediate help to the many families who were unable to pay the ruling urban rents. At a later stage rather better houses were built, or existing ones were improved. Costs then

¹ In the towns it is much more difficult to find free or cheap labour, materials are not so readily available, and obligatory standards are higher.

ranged from 8,000 to 14,000 shillings, and the homes were let at 7.6 per cent of their cost, which was a good deal less than was common at the time¹.

By 1962, 4,300 houses had so been built at a total cost of just over 20 million shillings. More than 3,000 of them were in the towns, where the colonial administration was anxious to establish a settled class of owner-occupiers.

Generous loans were provided for families thought capable of repaying them, but whom the building societies yet regarded as too high a risk². The interest charge on these loans ranged from 4½ to 6 per cent, and was in any case lower than that asked by the building societies. Repayment was made in equal monthly instalments, including interest, principal and insurance premium, and was spread over at most 20 years.

The Urban Housing Loan Scheme was financed by a revolving fund set up by the government in 1954. Up to the end of 1960, 600 dwellings were completed under this scheme, but eventually its resources dried up and in more recent years it became all but inoperative³.

A new fund was set up in 1960 for the Urban Roof Loan Scheme, under which loans were made to local authorities, who in turn lent to individuals.

Yet another fund had been set up in the middle of the fifties, for the African Urban House Loan Scheme. Its purpose was to provide loans to Africans living in towns, for building new houses or improving existing ones. These loans, too, were

¹ M.A. Bienefeld, *Tanzania Housing Finance and Housing Policy*, *op. cit.*, p. 3.

² *Report on the African Loan Funds*, Dar es Salaam, Government Printer, 1958, p. 3.

³ United Republic of Tanzania, *Report of the Controller and Auditor General*, 1965/66, para. 159, and 1966/67, para. 180-181.

channelled through local authorities, who were supposed to act as agents in loan recovery. This fund was taken over in 1962 by the National Housing Corporation immediately upon the latter's foundation, but after three years the scheme was discontinued and the fund liquidated.

The Urban Roof Loan Scheme was one of the most disappointing ventures in housing credit. Loans were often granted without anyone bothering to find out whether the beneficiaries really had any repayment capacity. And while it was all very well to finance the roof of a house, its walls were often so defective as to make it useless to build or remake the roof¹. In all the fund disbursed 2.4 million shillings' worth of loans, and in 1969 more than 1 million of these were still outstanding.

In 1963/64 the government allocated 5 million shillings to a new revolving fund for rural housing construction under the First Five-Year Plan. This fund was administered by local authorities in rural areas.

In 1964 the government also set up the Revolving House Loan Fund for providing housing credit to a large range of government employees who, until the previous year, had enjoyed official residences and a number of other facilities which were abolished². This fund was started with 12 million shillings, and by the end of August 1968 it had extended loans of 16.3 million shillings and had barely half a million of untouched resources left. It was used very intensively during the first two years, but after the Arusha Declaration loans fell off markedly. There were administrative difficulties, but the main problem was how

¹ H.H. Binhammer, *Financing Housing in Tanzania*, University College, Economic Research Bureau Paper 69.5, Dar es Salaam, 1969, p. 5.

² See Republic of Tanganyika, *Adu Report - Proposal for Implementation*, Government Report No. 3, Dar es Salaam, 1961.

to prevent loans from being used for speculative purposes¹. The fund ceased to operate in 1968, after the establishment of the Permanent Housing Finance Corporation.

(b) *Building societies*

The Ismailite community in Tanganyika had a long tradition of organizing building societies. It had long been usual for groups of twenty or thirty to associate for the joint finance of housebuilding; each member would deposit a fixed sum every month in a bank, and when he had accumulated a certain amount, normally one quarter of the construction costs of the proposed house, the society would try to obtain a mortgage loan for the rest. Once a house was built it would remain the property of the society until all loans were repaid².

Apart from such *ad hoc* groups, the first building society to operate in Tanganyika on a permanent basis was the First Permanent Building Society³, which had been founded in 1949 in Northern Rhodesia and had extended its activities into East Africa in 1956. It financed its mortgage loans with its own capital and with deposits from the public.

While the First Permanent did not actually finance a great deal of housebuilding, its operations were reasonably successful until 1960, when it, too, ran into difficulties because of the general capital flight, and was saved only by an injection of funds from the Commonwealth Development Corporation. The latter soon acquired a controlling holding and the society was reconstituted as a limited liability company under the name of First Permanent

¹ United Republic of Tanzania, *Report of the Controller and Auditor General*, 1965/66, para. 163 and 1966/67, para. 180-181.

² H.H. Binhammer, *ibid.*, p. 5.

³ See above, Part One, Chapter 3, 3(b).

(East Africa) Ltd. On this occasion all its ties with Rhodesia were broken.

Of the other building societies operating in East Africa, none did more than a fraction of its business in Tanganyika.

In 1965 studies were put in hand regarding the expediency of setting up separate building societies in each of the three East African countries. Later that year the establishment of the Housing Finance Company of Kenya Ltd. was announced, and this was followed in 1967 by the creation of the Housing Finance Company of Uganda and the Permanent Housing Finance Company of Tanzania Ltd.

3. THE PERMANENT HOUSING FINANCE COMPANY OF TANZANIA

The Permanent Housing Finance Company of Tanzania Ltd. (PHFCT) began its operations early in 1968 with a capital of 1.2 million shillings, subscribed in equal parts by the government of Tanzania and the Commonwealth Development Corporation.

The bulk of its resources came from deposits by the public. It started with 33.4 million shillings of deposits taken over from its predecessor, the First Permanent, and from then on its deposits grew almost uninterruptedly until the end of its life in December 1972, at an annual average rate of 18.28 per cent (Table 70).

Deposits were of three kinds: on deposit account, on savings account and fixed-term deposits, with interest varying from 4½ to 6 per cent (for other terms and conditions see Table 71). Initially deposits were guaranteed up to 3 million shillings by the government, and up to 100 million by the Commonwealth Development Corporation. In addition, the PHFCT had authority to borrow up to 2 million shillings from the National Bank of Commerce, and was eligible for another 1 million of government loans.

TABLE 70

PERMANENT HOUSING FINANCE COMPANY OF TANZANIA: DEPOSITS AND MORTGAGE LOANS, 1968 TO 1972
(end-month figures in million shillings)

Year and month	Deposits	Mortgage loans outstanding
1968 - March	32.7	20.0
June	33.2	16.7
September	33.8	19.2
December	36.6	19.1
1969 - March	36.6	21.6
June	38.6	22.4
September	40.7	23.7
December	44.2	25.0
1970 - March	45.0	29.4
June	46.1	32.3
September	48.1	35.9
December	51.8	37.0
1971 - March	52.4	41.5
June	48.1	44.2
September	49.5	50.3
December	52.1	56.3
1972 - March	52.1	61.2
June	55.1	63.2
September	58.0	63.5
December	62.6	65.0

Source: Unpublished information obtained from PHFCT management.

However, all these facilities did not begin to be really useful until the second half of 1971, when loans outstanding began to exceed total deposits.

The chief purpose of the PHFCT was to finance the construction of houses for occupation rather than for sale. At first it entertained loan applications only for the construction

TABLE 71

PERMANENT HOUSING FINANCE COMPANY OF TANZANIA: CONDITIONS AND TERMS OF DEPOSITS, 1970

Deposit accounts

1. Interest rate		5½ per cent p.a.
2. Terms of deposit:		
Minimum to open account	500 shillings	
Thereafter minimum deposit	100 shillings	
Minimum balance	500 shillings	
Maximum holding	100,000 shillings	
3. Terms of withdrawal:		
Up to 10,000 shillings	:	by cheque upon 1 month's notice
10,001 to 20,000 shillings	:	by cheque upon 3 months' notice
Over 20,000 shillings	:	by cheque upon 6 months' notice

Savings accounts

1. Interest rate		4½ per cent p.a.
2. Terms of deposit:		
Minimum to open account	100 shillings	
Thereafter minimum deposit	20 shillings	
Minimum balance	100 shillings	
Maximum holding	100,000 shillings	
3. Terms of withdrawal:		
Up to 500 shillings	:	in cash on demand in any one week
Up to 2,000 shillings	:	by cheque upon 7 days' notice
2,001 to 20,000 shillings	:	by cheque upon 1 month's notice
20,001 to 40,000 shillings	:	by cheque upon 2 months' notice
40,001 to 100,000 shillings	:	by cheque upon 3 months' notice
Over 100,000 shillings	:	by cheque upon 6 months' notice

Fixed-term deposits

1. Interest rate		
Deposits for 1 year		5½ per cent p.a.
Deposits for 2 years		6 per cent p.a.
2. Terms of deposit:		
Minimum sum acceptable	10,000 shillings	
Maximum sum acceptable	100,000 shillings	
(Deposits to be in multiples of 2,000 shillings)		

Source: Unpublished information obtained from PHFCT management.

of dwellings in the cost range between 30,000 and 100,000 shillings, and in residential areas of Dar es Salaam, Tanga, Moshi, Arusha, Morogoro and Mwanza.

Technically, the company's loans were granted on mortgage registered as a land charge on the plot on which the house was to be built. The property title (or right of occupancy) was required to run at least 30 years beyond the date of the final repayment instalment¹.

Loans were paid out directly to the builder in instalments corresponding to the state of progress of construction work. Normally loans did not exceed 75 per cent of the cost of the house, up to a maximum of 75,000 shillings, but could be for as much as 95 per cent of building costs if the borrower provided additional collateral, such as deposits, a life policy, sound personal guarantees, etc.

The interest charge was 8½ per cent a year, and was raised to 9½ per cent if the house was sold, subject to permission by the PHFCT. Houses had to be built to certain standards laid down by the government.

The duration of loans varied between 10 and 20 years depending on a number of factors including the age of the beneficiary, his retirement date, the duration of the land title and the age of the building. Normally the length of a loan was so arranged that monthly payments did not exceed 25 per cent of the borrower's income.

The borrower also had to pay the company a fixed valuation fee of 300 shillings for an existing house and of 450 for one yet to be built², as well as the legal costs of mortgage registration.

¹ For 33-year occupancy rights, this period was reduced to 15 years.

² For houses worth more than 100,000 shillings, these fees were 450 and 650 shillings, respectively.

Given that most of the company's loans in effect were in the range between 50,000 and 60,000 shillings, it follows that most of the borrowers must have had monthly incomes of more than 2,000 shillings, which means that housebuilding credit was available only to an infinitesimally small proportion of the population.

To remedy this drawback, the Second Five-Year Plan provided that the PHFCT was to finance the construction of 400 houses per year in the medium cost range, for the benefit of people earning around 500 shillings a month. This clearly was a step forward, even though a monthly income of 500 shillings was enjoyed only by the top 10 per cent of the population, and then almost entirely in urban areas.

In order to meet the Plan's housing targets the bulk of disposable funds was to be allocated to the National Housing Corporation for its residential building programme.

As a result of these provisions many new beneficiaries, mostly public employees, were brought into the range of PHFCT lending. Table 70 clearly shows the effect: loans outstanding increased rapidly, until in the middle of 1971 they overtook deposits.

4. THE TANZANIA HOUSING BANK

The Permanent Housing Finance Company of Tanzania ceased to exist on 31 December 1972, and on 1 January 1973 was replaced by the new Tanzania Housing Bank (THB).

The new bank is trying to make good the worst shortcomings of its predecessor, to wit, its failure to finance enough low-cost houses, the rigidity of the mechanism of loan security, and the concentration of its activities in urban areas.

It has been argued that two main problems had to be dealt with¹. In the first place, planning had to be made more effective in the housing field by giving priority to the construction of cheaper houses; and there was a need for a more broadly based housing finance institute than the PHFCT, both geographically and functionally speaking.

The Tanzania Housing Bank Act was passed in the National Assembly on 16 November 1972. The capital of 100 million shillings is entirely in the hands of the government of Tanzania. Foreign capital is strictly excluded from equity participation. The bank may borrow funds, but may not owe more at any time than three times the sum of issued capital and the general reserve fund.

The objects of the Tanzania Housing Bank, as listed in the law², may be summarized as follows:

- (a) to mobilize local savings and external resources for housing development;
- (b) to accept savings, time and term deposits;
- (c) to promote housing development by making available loan or equity finance, rendering technical and financial assistance to *ujamaa* villages, co-operatives and others in preparing and implementing building programmes and housing development schemes;
- (d) to make loans for the construction of commercial and industrial premises;

¹ See John Loxley, *The Domestic Finance of Development Projects in Tanzania*, *op. cit.*, p. 31; M.A. Bienefeld, *A Long-term Housing Policy for Tanzania*, *op. cit.*

² United Republic of Tanzania, *The Tanzania Housing Bank Act*, 1972 (No. 34 of 1972), Article 4.

- (e) so far as it falls within its competence, to help implement the government's housing policy and to encourage the use of local materials, the construction of types of houses best suited to local conditions, and low building costs, etc.
- (f) to administer such special funds as may be placed at its disposal for specified purposes;
- (g) to perform any similar or related function conferred upon it by the Minister of Finance or as may be necessary for the performance of the foregoing functions.

These are the ordinary operations of the Bank, and they are financed by its ordinary resources, that is, its capital and reserves, deposits and ordinary borrowing, and any other funds received by it barring special funds.

The law, in article 12, also lays down the principles on which the bank is to conduct its operations, as follows:

- (a) the bank is to finance only projects which are economically viable, socially desirable and technically feasible;
- (b) in making loans, the bank is to make sure of adequate provisions for the enforcement of repayment and payment of interest;
- (c) the bank shall determine the type and value of any security or collateral;
- (d) the bank shall satisfy itself as to the borrower's ability to repay the loan without undue hardship;
- (e) the bank shall take measures to ensure that loans are used solely for the purpose for which they were granted;
- (f) the bank may require the borrower to provide all necessary and relevant information and to allow inspection of relevant books and records;
- (g) the bank shall conduct its business in proper liaison with all public departments dealing with housing standards, land and town planning, site servicing and location of buildings.

This text contains several new features which should make of the Tanzania Housing Bank a much more flexible and more broadly effective instrument of the government's housing policy than the Permanent Housing Finance Company ever was.

One final interesting point may be made with reference both to the PHFCT and, even more so, the THB. In their institutional purposes and operational sphere one can detect the typical characteristics of savings banks¹ — even though, for a number of historical reasons, this denomination does not appear in the name of either institution.

5. THE NATIONAL HOUSING CORPORATION AS A SOURCE OF HOUSING CREDIT

Although the National Housing Corporation (NHC), which was set up in 1962² and started operations in 1963, is mainly concerned with carrying out public sector building programmes, including especially low-cost housing, it also furnishes technical assistance through site and service development and, what is of interest in the present context, provides housing loans to local authorities and also loans to individuals for the purchase of land and for housebuilding.

The corporation's resources consist of government funds plus borrowings at home and abroad.

During the First Five-Year Plan the corporation's lending was connected with certain specific schemes. It took part in

¹ See Giordano Dell'Amore, *I sistemi bancari*, *op. cit.*, p. 272 ff; Arnaldo Mauri, "Il contributo delle casse di risparmio alla mobilitazione del risparmio in Africa", *op. cit.*, p. 217 ff.

² United Republic of Tanzania, *The National Housing Corporation Act*, 1962.

roof loan schemes, in the construction of houses for rent or tenant-purchase, and in slum clearance and public health building programmes. Because of the failure of the roof loan schemes the corporation's impact on the rural sector was practically negligible, but it was more successful in building houses for rent or sale. Often the NHC undertook direct responsibility for construction and also in some cases for the production of building materials. Many low- and medium-cost houses were built and their purchase financed, to the benefit of much larger population groups than had access to PHFCT loans. Even so, it has been calculated that at least 80 per cent of salary earners remained excluded from most projects¹ except those under the slum clearance scheme.

Under the Second Five-Year Plan actual house construction takes precedence over housing credit so far as the NHC is concerned. The target is for the NHC to build about 2,000 low-cost houses a year, but this is proving difficult to achieve. The NHC has had to ask for additional funds from the government, since those allocated to it were not enough and borrowing from the PHFCT was too costly. The NHC brought its main efforts to bear on encouraging self-help projects on the part of individuals and groups, providing technical assistance to this end, and on promoting the establishment of building co-operatives.

Now that the Tanzania Housing Bank has been set up, the activities of the National Housing Corporation will no doubt undergo some change. Most probably it will concern itself predominantly with actual construction and less with credit, and in any case arrangements will have to be made for co-ordination and collaboration with the THB, especially in rural areas.

¹ H.H. Binhammer, *Financing Housing in Tanzania*, *op. cit.*, p. 13.

Chapter V

THE MOBILIZATION OF SAVINGS

1. THE IMPORTANCE OF THE MOBILIZATION OF SAVINGS FOR ECONOMIC DEVELOPMENT IN TANZANIA

Throughout the Third World, the chances of speeding up economic development depend on investment in adequate volume and of suitable types. This is tantamount to saying that the most careful attention must be devoted to capital formation. And one of the paramount aspects of capital formation, without any doubt at all, is endogenous accumulation, which, in the last analysis, depends on the propensity to save of households ¹.

Tanzania is no exception. Here, as elsewhere, the fundamental problem is that of the formation and mobilization of savings. Indeed, this is perhaps even more important than elsewhere, given that Tanzania has been trying, especially since the Arusha Declaration, to shake off the ties of dependence upon foreign capital.

Tanzania's policy of self-reliance presupposes the utmost effort to mobilize the country's own human and material

¹ See Giordano Dell'Amore, *Economia del risparmio familiare*, Milan, 1972, p. 24, 26, 75 ff.; Arnaldo Mauri, *La promozione del risparmio nei paesi in via di sviluppo*, Milan, 1968, p. 5 ff.

resources¹. The Second Five-Year Plan², in its turn, restates that the planned investment level will require "an increased channelling of savings to the public and parastatal sector through the various public financial institutions." More recently, the TANU Guidelines of 1971 stressed the importance of educating the people to save and deposit their savings rather than to hoard them.

But while it is easy enough to find statements of this kind in official declarations and publications, it is a good deal less easy to trace just how they are translated into practice through the governments' economic and financial policy. The mobilization of savings is, in fact, one of the weakest points in the financial system of Tanzania, and government intervention in this field has been fragmentary and erratic.

In the absence of any kind of figures or even indications whatsoever, nothing can be said about corporate saving. For public saving, perhaps the most meaningful indicator is the amount transferred from the current budget to the development budget. This increased steadily until 1969 (from 4.2 million shillings in 1965/66 to 83.8 million in 1968/69), thanks to rising tax revenue and containment of public expenditure, then fell off sharply and finally dwindled to 0.6 million in 1971/72. The main reason for this decline was rising current expenditure.

As regards, finally, the all-important matter of household saving, there are, again, no comprehensive statistics. It is safe to state, though, that only a tiny proportion of savings has gone

¹ *The Arusha Declaration and TANU's Policy on Socialism and Self-Reliance*, op. cit., Part Three: The Policy of Self-Reliance.

² *Op. cit.*, p. 216.

into security investment, while the bulk has accrued to credit institutes or others accepting deposits, to providence funds and insurance companies.

Some such institutes have already been discussed or at least mentioned, e.g. the National Bank of Commerce, the Tanzania Housing Bank, the Diamond Jubilee Investment Trust, the Workers' Development Corporation, marketing co-operatives, credit co-operatives and *ujamaa* villages. It remains to look at the activities of the Post Office Savings Bank, provident funds and insurance companies.

Actually, Tanzania is in a somewhat unusual situation as regards institutions which accept the public's savings. There are strikingly many of them, but, contrary to what one might expect, the result is not that the savings of the population are at all thoroughly mobilized; on the contrary this multiplicity leads to useless duplication of effort and waste of resources. The whole system stands in need of rationalization.

2. THE POST OFFICE SAVINGS BANK

There has been a Post Office Savings Bank (POSB) in the territory of Tanganyika since 1925¹. When the post and telegraph systems of the three East African countries were merged in 1933, their Post Office Savings Banks, too, passed under unified administrative control, though each of them kept separate accounts.

Looking at the figures for Tanganyika since 1950 (Table 72), it will be seen that the volume of total deposits rose steadily until 1955, to a peak of just over 52 million shillings, and then

¹ *An Ordinance to Establish a Post Office Savings Bank*, No. 8 of 1925.

TABLE 72

TANGANYIKA POST OFFICE SAVINGS BANK: DEPOSITS, 1950 TO 1972

Year	End-year No. of depositors (thousands) A	In-payments (thousand shillings) B	Withdrawals (thousand shillings) C	Difference (thousand shillings) D=C-B	End-year deposits (thousand shillings) E	Amount per account (shillings) F=E : A
1950	59.5	13,810	10,834	2,976	35,692	600
1951	64.6	16,225	12,937	3,288	39,872	617
1952	69.4	15,594	13,633	1,961	42,913	618
1953	73.8	15,959	14,186	1,773	45,633	618
1954	79.0	16,234	14,737	1,495	48,208	610
1955	86.2	18,949	16,239	2,709	52,107	604
1956	91.8	16,858	19,560	— 2,703	50,604	551
1957	99.6	15,681	20,075	— 4,394	47,358	475
1958	108.5	14,500	18,409	— 3,909	44,507	410
1959	119.2	15,492	17,209	— 1,716	43,823	368
1960	128.1	14,288	26,259	— 11,972	32,721	255
1961	139.8	15,363	18,663	— 3,300	30,131	216
1962	152.2	17,599	17,182	418	31,239	205
1963	165.6	17,670	17,112	558	32,517	196
1964	176.9	17,807	17,138	669	33,932	192
1965	188.4	16,176	17,359	— 1,182	33,509	178
1966	200.7	17,038	16,245	792	35,076	174
1967	225.6	17,478	17,737	— 259	35,612	157
1968	242.5	20,614	19,055	1,559	38,007	157
1969	257.7	22,253	20,014	2,239	41,266	160
1970	273.0	26,459	22,016	4,443	45,648	167
1971	284.0	28,197	26,057	2,140	48,969	172
1972	299.0	32,489	28,368	4,121	53,993	181

Source: East African Post and Telecommunications Corporation, *Report on the Tanganyika Post Office Savings Bank*, various years; Bank of Tanzania, *Economic Bulletin*, March 1973, Table 17.

dropped until 1961. Since the number of depositors kept increasing, the balance per account declined, as indeed it did elsewhere in East Africa for reasons already explained¹.

¹ Part One, Chapter 3, 3(c).

The main purpose of the Tanganyika Post Office Savings Bank was to encourage thrift by providing a ready means for the deposit of savings. But it did other things besides. For example, at the end of 1965 no fewer than 75 of the POSB's 110 offices were in rural areas where bank branches were few and far between; so the post offices stepped into the breach. They took in the people's savings (three quarters of rural offices regularly showed an excess of in-payments over withdrawals), but also their working cash balances, and took care of money transfers from one locality to another.

Deposits are guaranteed by the government, which also has to meet deficiencies and tide over financial difficulties. In effect, government help was needed almost every year until 1963.

The main source of income for the POSB is interest on its investments. In effect, its investment policy led to a constant drain of resources from Tanganyika to Great Britain. Until 1965 reserve assets consisted almost entirely of British and other Commonwealth securities; then, between October 1965 and January 1966, some 17 million shillings' worth of these were sold. This operation entailed a capital loss of 4.8 million shillings, but it did raise interest earnings, since the money was reinvested in local securities which brought in much more. Another loss of some 4.4 million shillings was incurred in 1967, partly because of a fall in the prices of securities held, and partly in consequence of the sterling devaluation.

Until April 1969 the POSB paid $2\frac{1}{2}$ per cent on deposits, thereafter 3 per cent. To cover administrative costs, a charge of 75 cents is levied on each in-payment and withdrawal.

Nairobi was the seat of the joint head office of all the East African Post Office Savings Banks until 1970; since then

administration has been decentralized and the Tanzania POSB now has its head office in Dar es Salaam.

None of the East African Post Office Savings Banks ever did particularly well, and over the years experts suggested a number of ways by which to reduce costs and enhance operational efficiency¹. For instance, a minimum amount might be required for opening an account, and a minimum balance for keeping it open; similarly, a minimum amount might be fixed for withdrawals, or withdrawals might not be permitted at all until the balance reached a certain level.

In the budget speeches for 1966/67 and 1968/69, the Finance Minister foreshadowed changes in the working of the POSB, but nothing was actually done until 10 April 1969, when it was laid down that an account could not be opened with less than 20 shillings and must at all times have at least 20 shillings to its credit, and that not less than 10 shillings could be withdrawn at a time.

The Post Office Savings Bank occupies only a marginal position in Tanzania's credit system, especially as regards the total volume of deposits². Nor is this likely to change in the future, except for the worse. The expansion of the network of the National Bank of Commerce and the growth of other financial institutions present the POSB with more competition than it can possibly cope with. Since its head office has been in Dar es Salaam, the POSB has been following a somewhat more aggressive

¹ See, e.g., G. Clayton and A.R. Roe, *Capital Mobilization and Economic Development in Tanzania*, Report to the Government of Tanzania, 1966; R. von Kirchheim, *The Post-Office Savings Bank of Kenya and the National Savings Movement*, Report to the Government of Kenya, 1965.

² POSB deposits accounted for 3.4 per cent of total bank deposits and for 25 per cent of savings deposits in Tanzania in 1967, and for 2.2 and 20 per cent, respectively, in 1972.

policy, but even so it seems unlikely that deposits can increase enough to give the Post Office Savings Bank anything like a significant position among the country's financial institutions.

Yet it might well assume a useful function if the system for the mobilization of savings were reorganized on more rational lines¹. There are too many institutions in the field, and so the effort is fragmented. It would perhaps be better to make one single institution responsible for the savings deposits which now accrue to the National Bank of Commerce, the Diamond Jubilee Trust and the Post Office Savings Bank; this institution should use the post office network, which is much denser than that of the NBC, and it should establish contacts with the co-operative societies and with the *ujamaa* villages, which could act as very useful intermediaries.

However, it would not seem advisable for such a new institution to take over also the savings deposits of the Tanzania Housing Bank. The latter is too new for any thought of reorganization, and in any case already works on savings bank principles, even though only in the limited field of housing.

A rationalization scheme like that suggested above would not seem to be in contradiction with Tanzania's socialist principles. Official pronouncements and economic development plans alike have more than once stressed the importance of mobilizing household savings, and moreover nearly all countries with a collectivist economy have savings banks, even if they are not entirely comparable with those of capitalist countries.

One important point is that such a new institution, if it should be set up, must not place all the savings which accrue

¹ See Arnaldo Mauri, *La promozione del risparmio nei Paesi in via di sviluppo*, op. cit., p. 23 ff.

to it in government securities. It should, instead, fill a gap in the lending pattern of the present credit system by financing small and medium-sized firms, preferably in the same communities in which the savings originated. Instead of financing the central government, at least part of the funds might well be channelled to local authorities and, especially, to District Development Corporations. This would fit in very well with the current decentralization of economic policy in Tanzania.

3. THE NATIONAL PROVIDENT FUND AND OTHER SOCIAL SECURITY INSTITUTES

Some private firms have social security funds in Tanzania, and so have local authorities, and the central government has one for its employees, the Government Employees Provident Fund. The only one of importance, however, is the National Provident Fund, and indeed few figures are available for the others. Local authority funds had assets of just under 100 million shillings at the end of 1972, three quarters of them invested in public securities and the rest deposited at banks. For the Government Employees Fund the latest figures available are those of 1967, when it had some 27 million shillings, nearly all in public securities. Nothing is known about private funds.

Far and away the most important social security institution is the National Provident Fund (NPF). This went into operation on 1 March 1965, and since 1968 membership has been compulsory for all employers with more than three employees. Contributions are paid both by employers and by employees and are capitalized at the end of each year at the rate of 3½ per cent (until 1969 at 2½ per cent). Benefits are payable on retirement, in case of sickness or disablement, or on cessation of employment due to marriage or emigration.

TABLE 73

NATIONAL PROVIDENT FUND: MEMBERSHIP, ANNUAL RECEIPTS AND PAYMENTS, 1965 TO 1972
(end-June figures)

Year	Number of employ-ers	Number of mem-bers	Receipts (million shillings)			Payments (million shillings)			
			Contri-butions	Invest-ment income	Total	Invest-ment	Adminis-tration	Benefit pay-ments	Total
1965	1.1	134.0	1.0	—	1.0	—	0.5	—	0.5
1966	2.1	236.4	35.6	0.7	36.3	33.8	2.1	0.2	36.1
1967	2.4	308.7	49.0	3.4	52.4	48.3	3.0	0.7	52.0
1968	4.0	363.7	48.6	7.4	56.0	51.0	2.2	2.4	55.6
1969	5.8	411.0	49.5	10.2	59.7	50.3	2.7	6.6	59.6
1970	6.7	471.1	61.3	14.3	75.6	60.3	3.2	9.0	75.5
1971	7.5	538.3	66.5	15.7	82.2	65.6	4.3	13.9	83.8
1972	8.2	603.7	73.0	20.0	93.0	72.0	5.0	16.0	93.0

Sources: United Republic of Tanzania, *The Economic Survey and Annual Plan 1970-71* and *The Economic Survey 1971-72*, p. 36.

In its first two years the NPF incurred sizeable losses, but these were later more than offset by profits. As can be seen from Table 73, the Fund has made steady progress since 1965 as regards membership, receipts and investments. The latter amounted to 360 million shillings at the end of March 1972, and were placed in government and parastatal securities.

4. THE NATIONAL INSURANCE CORPORATION

Until 1967, 29 insurance companies were writing life policies in Tanzania, and 75 were engaged in other insurance business. Only one of them, the National Insurance Corporation (NIC), was under national control¹. At its establishment, in 1963, the

¹ M. Selsjord, *Credit Market Statistics Manual for Tanzania*, Nairobi, East African Statistical Department, 1967, Appendix 3.

government had subscribed 51 per cent of the capital, the rest being provided by a number of insurance and reinsurance companies.

In 1967 the government bought in all the minority shares and the NIC became the country's sole insurance company¹. Other insurance companies were allowed to continue collecting premiums on existing policies, but the government assumed the right to determine a minimum proportion of their funds to be invested in local assets.

The rationale behind the nationalization of the insurance system was to channel the bulk of the funds accruing to it towards investment within the country, according to the government's own priority scale, and thus to stem the drain of resources under the previous system².

The National Insurance Corporation is important not only because of the insurance services it renders to the population, but also from the point of view of the mobilization of household savings. This applies especially to life assurance and to policies on which premiums are paid in instalments and benefits deferred.

The amount of investable funds depends not only on premium receipts, but on reinsurance policy. Following nationalization, the NIC at first reinsured on a large scale with foreign companies, which was very costly in terms of foreign exchange. Later, as the NIC revised its practices in the light of experience, reinsurance premium outflows diminished, and there was even talk of setting up a reinsurance institute on an African basis.

Even though the activities of the NIC cannot yet be regarded as fully satisfactory, it certainly has made spectacular progress,

¹ United Republic of Tanzania, *Insurance (Vesting of Interests and Regulation) Act*, No. 4 of 1967.

² See Part One, Chapter 3, 3(a).

not least in reducing its management expenses from 45 per cent of premium receipts in 1967 to 26.7 per cent in 1970. It has also greatly improved the quality of its personnel, has done much to make good the previous total absence of actuarial tables, and has even begun to earn modest profits¹.

On the side of investment policy, one interesting feature is that the NIC holds very low cash balances. It can do that without detriment to sound insurance principles because, as a wholly public company, it can at any moment borrow from the banks if it needs to make good a temporary cash shortfall, and hence has more latitude in its investments than private companies have.

The investment portfolio of the NIC consists largely of government paper; the rest of its funds are invested in properties, in mortgage loans for building flats and commercial premises, in shares and debentures of first-class companies, in short-term deposits and in loans against life policies. Life policy holders can, after three years of the contract have elapsed, obtain loans of normally not more than 90 per cent of the surrender value.

These loans are very popular, because this is one of the easiest ways of obtaining credit without the collateral of real security. Their amount has risen rapidly in recent years, so much so that the Bank of Tanzania felt it should have control over this source of credit. Accordingly, it included the National Insurance Corporation in the schedule of financial institutions which, under Article 50 of the Bank of Tanzania Act, it brought within the scope of official credit control².

As of 30 September 1971, the number of NIC life policies in force was 16,290, compared with 12,941 a year earlier. The

¹ See John Loxley, "Structural Change in the Monetary System of Tanzania", *op. cit.*, p. 197-198.

² See Part One, Chapter 1, 3(a).

Corporation's network consisted of 13 branches and over 200 agencies. Net premium income increased from 58.3 million shillings in 1969/70 to 64.9 million in 1970/71, and net claims settled during that year amounted to 30.3 million. The Corporation's investment in government stocks and securities, building projects, mortgages and loans to policyholders was 103.5 million shillings at the end of 1970/71, more than 31 million at the end of the previous financial year.

CONCLUSIONS

We have followed the development of the banking and credit system of Tanzania from colonial days to independence, and thereafter through the period of reorganization in search of new solutions conducive to economic and social development. The system has undergone profound changes in the last ten years or so, and it may be useful to conclude our survey with an attempt at an overall assessment of the significance of these changes, of the system as it now is and of the problems for which a solution has yet to be found.

When Tanganyika acceded to independence in December 1961, the credit system it inherited had a number of serious shortcomings and was in no way suitable for setting a development process in motion. Nor did it lend itself to use as an instrument of the government's policy of social progress.

The colonial credit system of Tanganyika was in many ways an advanced one compared with other countries, but it was really just an offshoot and an extension of the British credit system. This circumstance had often led to financial resources being drained away from Tanganyika to other countries of East Africa and, above all, to London. There had been several channels for this outflow of funds, from the mechanism of reserve investment by the East African Currency Board to the direct drain via the expatriate banks, at least until 1950, and via the

Post Office Savings Bank, insurance companies and building societies. Around 1960, large-scale capital flight was triggered off by the approach of political independence. Even when there was no outflow, but an inflow of financial resources, as there was thanks to commercial bank policy after 1950, this very inflow was still a form of financial dependence upon abroad and often entailed high economic costs. Taking the financial and credit system as a whole, it is certain that it caused more money to leave the country than to come in.

The working of the system within the country was not above reproach either. There was, to begin with, the deflationary trend of the East African Currency Board's policy; the banks had few offices in rural areas and hardly any contact with the African population; and the expatriate banks had so restricted a sphere of operation that in effect they served almost exclusively the expatriate community. To be sure, the system had its advantages, especially its renowned soundness and stability, and also a more advanced financial infrastructure than many other countries could boast of; but these advantages were paid for with a low rate of economic growth.

The structural changes in the credit system which were initiated after 1961 were slow at first, but gathered speed after 1966. It is no exaggeration to say that no other sector of the Tanzanian economy underwent such rapid and radical changes as the credit system.

It all began in 1961 with a first excursion into agricultural credit by the establishment of the Agricultural Credit Agency. Then came the turn of industrial development finance, in 1962, with the foundation of the Tanganyika Development Finance Company and the Tanganyika Development Corporation, the latter reconstituted in 1964 and renamed National Development

Corporation. In the meantime the National Housing Corporation had started operations in 1963, with building credit as one of its functions. In the following year, 1964, the entire system of agricultural credit was reorganized with the creation of three new institutions, the National Co-operative and Development Bank, the National Co-operative Bank and the National Development Credit Agency. All these successive innovations had a well-defined purpose, which was to reorganize the credit system with a view to removing the existing obstacles to economic development. A new emphasis was placed on the supply of credit to the strategic sectors of agriculture and industry, but no attempt was made at that time to overhaul the basic structure of the inherited credit system.

The years 1966 and 1967 brought a change of attitude in this respect and ushered in a new period in Tanzania's banking and credit policy. The government was now intent upon gaining full monetary and financial independence, and at the same time inaugurated an active and autonomous policy of social progress.

The new phase opened with the foundation of the Bank of Tanzania in 1966. This meant more even than the break-up of the common currency area of East Africa, for it also put paid to all projects of economic union under discussion at the time and set each of the three countries on its own nationalistic course. In some ways this was regrettable, since it caused East Africa to miss a great opportunity; but in Tanzania, the creation of a central bank of its own undoubtedly strengthened the hand of those who were striving for more original and effective economic and credit policies.

The Arusha Declaration, which was followed by the nationalization of the commercial banks and by the establishment of the National Bank of Commerce, in 1967, was the first step

towards putting a new economic policy into effect. It was the beginning of a long and slow road of which the end is not yet in sight, but which must eventually lead to a radical change in every aspect of the economy of Tanzania.

It is in this light that the structural changes of the years since 1967 must be seen. They were clearly intended to introduce more specialization into the credit system and to rationalize management principles in separate sectors. Thus the Permanent Housing Finance Company was set up in 1968, the Tanzania Investment Bank in 1970 and the Tanzania Rural Development Bank in 1971, and eventually, in 1973, the Permanent Housing Finance Company was replaced by the Tanzania Housing Bank.

The most significant innovation, however, was the introduction of annual Finance and Credit Plans in 1971. This was prompted in the first place by the need to safeguard the domestic and external purchasing power of the Tanzanian shilling, but is bound to have other, far-reaching consequences in so far as it greatly improves the planning processes. With better statistics, this opens the way to flow-of-funds analysis, forecasts and planning.

As a result of all these transformations, Tanzania today has a remarkably sound and efficient credit system, well structured from the institutional point of view, with good territorial coverage and a high degree of functional specialization. It is a system specifically tailored to Tanzania's requirements and flexible enough to adjust to a changing situation.

Yet the system has its limitations and shortcomings, and those responsible for the country's monetary and credit policy are only too well aware of them.

The commercial banking system, for example, still needs a denser network in rural areas, wants to widen the scope of its

lending especially to small and medium-sized firms, and requires further rationalization as regards operational techniques and staff efficiency. This last problem is common to all other financial institutions of Tanzania and, for that matter, to all African countries.

The present arrangements for agricultural credit and housing credit are too new to allow of any conclusions as to their success. Certainly, both the Tanzania Rural Development Bank and the Tanzania Housing Bank are the fruits of experience with the limitations and deficiencies of the previous system. The TRDB has been given wider scope than its predecessors, in that it is to encompass the whole development effort throughout the rural world, with particular reference to *ujamaa* villages and to technical and economic assistance. For the Tanzania Housing Bank the main task is to become a responsive financial instrument for a socialist housing policy in urban and rural areas alike.

In the field of industrial development finance, where the Tanzania Investment Bank has been active long enough to allow of a least tentative appraisal, there is a clear need for promoting development projects and providing adequate technical assistance for putting them into effect.

All in all, it can be said that Tanzania's credit system is at present definitely getting rid of its colonial heritage, even though some vestiges still remain and it still suffers from some internal contradictions. Examples are the presence of foreign institutions, and of such misfits as the Karadha Company and the Tanzania Finance Company. It is a difficult process in Tanzania's conditions of economic backwardness, yet it is for this very reason that the country needs a credit system which is not merely formally withdrawn from private hands, but can, in practice, make an effective contribution to economic and social development.

The two chief outstanding problems at the moment appear to be an improvement in the operational efficiency of the credit system and a reorganization of the institutions for the mobilization of household savings. But behind these is a prior problem, which has to be resolved first. The trouble is that Tanzania's credit system in some of its aspects still rests on the principles typical of the colonial era, while operating in an economic context in which these principles are losing ground under the impact of the growth of public and co-operative institutions.

It follows that there are two sets of problems for monetary and credit policy. It will not be enough to make good the existing shortcomings and to put into effect the rationalization and the improvements which have been shown to be necessary. If Tanzania seriously wants to follow through to the end its policy choice of socialism, self-reliance and full economic independence, then the credit system must be freed of its remaining internal contradictions and the machinery of financial and credit planning must be strengthened.

Tanzania has already made considerable progress in this direction thanks to the formulation of annual finance and credit plans, even though in practice the whole parastatal sector remains outside their scope. The chief shortcoming is the absence of any clear definition of long-term development strategy, which makes it impossible to know what precise targets to set for financial planning¹.

Since independence, efficient short-term financial planning has been organized in Tanzania, and much has been done to block the major channels of capital outflow and to make capital

¹ See John Loxley, "Financial Planning and Control in Tanzania", *op. cit.*, p. 51 and 69-71.

funds available, instead, for development projects. But the growth of the public sector of the economy after the Arusha Declaration has added urgency to the problem of planning in more than merely indicative terms, given the inadequacy of the indications contained in the Second Five-Year Plan, and the deterioration of the domestic economic situation as well as of the country's external payments position. What has made it impossible so far to achieve really satisfactory results is precisely the lack of a well-defined long-term strategy, coupled with deficiencies in the preparation and appraisal of development projects and with the unsuitable pattern of public finances at central and local level.

In trying to identify the most urgent problems that need to be solved if Tanzania is to make further, and lasting, progress, one might suggest the following four-point action programme:

- (a) precise definition of development strategy, with particular reference to the parastatal sector, for which realistic production plans ought to be worked out in physical terms as well, as a solid basis for subsequent financial planning;
- (b) improvement in the collection and use of statistical data, so as to provide adequate knowledge for short-, medium- and long-term planning;
- (c) the most far-reaching possible institutional decentralization of economic planning, with a view to allowing firms in the public sector a certain degree of discretion within a well-defined development strategy, and giving the co-operative sector a chance of orderly expansion making full use of the creative potential in the country's human resources;
- (d) decentralization, too, in geographical terms, so that development strategy corresponds as closely as possible to real requirements and can help to eliminate or at least to reduce existing imbalances as between one region and another.

In such a setting, credit policy ought to be mainly of a selective nature and should be governed by appropriate plans resting increasingly on comprehensive flow-of-funds analysis. So conceived, credit policy could play a role of paramount importance, since it would help the government to implement its overall aim of growth and development, with reference to the country's physical and human resources alike.

ABBREVIATIONS

ACA	Agricultural Credit Agency.	LSMB	Lint and Seed Marketing Board.
CIDA	Canadian International Development Agency.	MDC	Mwananchi Development Corporation.
CUNA	Credit Union National Association.	MECCO	Mwananchi Engineering and Construction Company.
CUT	Co-operative Union of Tanganyika.	NAFCO	National Agricultural and Food Corporation.
DDC	District Development Corporation.	NAPB	National Agricultural Products Board.
DEVPLAN	Ministry of Economic Affairs and Development Planning.	NBC	National Bank of Commerce.
EACB	East African Currency Board.	NCB	National Co-operative Bank.
EADB	East African Development Bank.	NCDB	National Co-operative and Development Bank.
GDP	Gross Domestic Product.	NDC	National Development Corporation.
IBRD	International Bank for Reconstruction and Development.	NDCA	National Development Credit Agency.
ICAC	International Confederation of Agricultural Credit.	NEDCO	National Estates and Design Company.
IDA	International Development Association.	NHC	National Housing Corporation.
IMF	International Monetary Fund.	NIC	National Insurance Corporation.
IPS	Industrial Promotion Services.	NMC	National Milling Corporation.
		NPDMC	National Property Development and Management Corporation.

NPF	National Provident Fund.	TANU	Tanganyika African National Union.
NSIC	National Small Industries Corporation.	TDFL	Tanganyika Development Finance Company Limited.
OCC	Overseas Construction Company.	THB	Tanzania Housing Bank.
PHFCT	Permanent Housing Finance Company of Tanzania.	TIB	Tanzania Investment Bank.
POSB	Post Office Savings Bank.	TRDB	Tanzania Rural Development Bank.
RDF	Regional Development Fund.	TSC	Tanzania Sisal Corporation.
SDR	Special Drawing Rights.	TTB	Tanzania Tobacco Board.
SIDA	Swedish International Development Agency.	TTC	Tanzania Tourist Corporation.
STC	State Trading Corporation.	TWICO	Tanzania Wood Industries Corporation.
TAFCO	Tanzania Finance Company.	UN	United Nations.
TANESCO	Tanzania Electricity Supply Company.	USAID	United States Agency for International Development.
		WDC	Workers' Development Corporation.

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