

The Role of Commercial Banking in Building A Socialist Tanzania

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Before discussing the role of the National Bank of Commerce per se, I will outline what I believe to be involved in the building of a socialist Tanzania. Only then can we really assess the possible contribution that the National Bank of Commerce can be expected to make to this task and, consequently, only then can we assess the contribution that it has made to date.

Building a socialist Tanzania entails the creating of a situation in which all the people of this country are liberated from oppression and exploitation and are free and able to develop their talents to the fullest for the good of society. It entails, therefore, the creation of equality of opportunity for all and the abolition of all existing impediments to the development of the people's abilities, such as income or wealth inequalities, power based on status or contacts or unequal educational opportunities. Of necessity this will require the abolition of private property which is both the fruit of historical exploitation and the engine of present and future exploitation of man by man. It will also require the political mobilization of the masses to ensure that the new economic order really will herald in a new social order rather than stagnate into State capitalism which is a mirror image of the inherited capitalism but with bureaucrats replacing individual capitalists in attitudes and life styles. There has to be, therefore, a genuine involvement in the running of the economy by the masses and a complete reorientation of the role and attitudes of management and leaders generally. Indeed, the full development of the abilities and talents of the masses will only be possible when they are directly and genuinely involved in all decisions relating to their work and to the planning and management of the economy as a whole.

Even more than this, the control over the means of production must give rise to a new economic strategy. It must be recognized that underdevelopment has its roots in the traditional role of primary product exporter, a role assigned to us by colonialism and neo-colonialism. The pursuit of private profit has led and will continue to lead to a deepening dependence on the rest of the world and to a failure to realize the full potential of our domestic resources—both material and human. It will also guarantee our failure to meet the basic material needs of the people and instead 'the tyranny of demand' based on income and wealth inequalities will continue to dictate what is consumed and by which privileged group. We have the resources to ensure the complete eradication of poverty and all that it entails. These resources must be mobilized

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and aimed directly at meeting the pressing needs of the people rather than blindly building up exports in the hope that this will indirectly help solve our problems. We must ensure that all our people enjoy a basic minimum living standard before any group is allowed luxuries.

The implication of all this is that the economy must be planned in terms of physical needs and physical resources and all the public sector bodies should be brought into this broader, national, physical plan. Failure to do this will simply mean that the nationalized industries behave as if they were private firms following commercial criteria and acting anarchistically. The result would then be that the economy as a whole would follow the same pattern as the one we inherited which is the main cause of our failure to develop. These, in a nutshell, are the main prerequisites of building socialism. There are many others and even the ones I have touched on need elaboration—especially the political prerequisites for the successful implementation of greater equality, physical planning, etc.

Having briefly described the task facing Tanzania, the role of commercial banks in both capitalist and socialist economies will now be considered. Finally, the policies and performance of the National Bank of Commerce will be examined.

THE ROLE OF COMMERCIAL BANKS UNDER CAPITALISM

The objective of commercial banks under capitalism is, like that of all capitalist firms, the maximization of profit and the accumulation of capital for the shareholders. Banks are generally monopoly institutions and fix their charges accordingly. They compete with each other only by advertising and by the quality and diversity of their services, not by altering their prices. They make their profits by charging more for their credits than they pay out on the money they borrow, i.e., deposits. The amount of credit they are willing to extend to borrowers depends upon the profitability of the borrowing company and the probability of recovering the money from assets if the company were to go bankrupt; the latter is a function of the size of the overdraft required relative to total assets and of the legal security they are able to obtain over the assets of the borrower. Like all other capitalist firms their activities are not planned but they are to some extent regulated by the State—usually the Central Bank. The main justification for control in this case is that credit creation by banks is an important regulator of effective demand in capitalist economies. Too much credit will generate inflation; too little, unemployment. Since capitalist economies, by their unplanned nature, are perpetually experiencing either one problem or the other and, in recent years, both problems simultaneously, it will be appreciated that the State will take a great deal of interest in the activities of banks.

Two other characteristics of the commercial banks in capitalist countries are worthy of mention. First, the pressures of competition and the requirements of the capitalist system in terms of the artificial generation of demand, lead to great innovativeness in the banking field. New services and new techniques of

banking are constantly being introduced. Secondly, the pressures of competition and the edynamic of the capitalist system in terms of increasing integration between capitalist countries (the growing importance of multinational corporations) lead to increasingly complex international borrowing and lending transactions and international services generally. Banks, like other firms, have themselves become multinational corporations. In short, commercial banks under capitalism exhibit the same characteristics as all other capitalist firms but have an added importance because of the regulatory function they are called upon to play by the State by virtue of their position as credit creators.

THE ROLE OF COMMERCIAL BANKS UNDER SOCIALISM

Superficially, socialist commercial banks perform many of the functions performed by capitalist commercial banks; they accept deposits, advance credits, make transfers and handle foreign transactions. But their basic motivating force is not profit maximization and, in particular, their lending principles are based not on profit maximization and the safeguarding of private capital or wealth, but on the requirements of the physical production plan of the economy. Each enterprise will first of all, in consultation with the planning authorities, draw up a physical plan. This will then be converted into a financial plan, usually with the aid of the commercial bank. Since the financial plan is more or less dictated by the physical plan, the discretion of the banks in granting credits is very slight and the main functions of the banks become (a) the drawing up of financial plans and (b) the control over enterprises during the year. Indeed, the control function becomes paramount. Every single transaction of any size goes through the bank and is checked for conformity with the financial and, therefore, the physical plan. Any deviations from the plan are spotted, therefore, first of all in and by the banks which then seek to discover why they have taken place and what might be done to remedy the situation.

Legal security for credits takes on an altogether different meaning since all the means of production are publicly owned and, in most situations, such security is either not requested or else has little more than administrative implications.

The specific functions that are assigned to commercial banks are really a question of administrative specialization. Some countries have mono-banks performing virtually all functions including central banking, foreign exchange, long and short-term lending. Others have specialist institutions for some or all of these. It is really a question of organization and efficiency.

THE ROLE OF THE NBC IN BUILDING A SOCIALIST TANZANIA

At this juncture, I would like to make a basic point which I consider worthy of emphasis. Commercial banking, whether in capitalist or in socialist economies, is really an unproductive activity. It is a service industry which does not itself, *directly*, add to the stock of commodities in the economy. This is not

to say it is unimportant; it is really to emphasize that the resources devoted to banking should be kept down to a bare minimum consistent with efficiency. This means that cost-effectiveness should be an essential management tool in the Bank, especially as regards the use of staff since staff salaries account for two-thirds of our total operating costs. This must always be kept in mind. There has been a tendency in Tanzania to over-emphasize the financial sector and to neglect the production sector, a tendency not unconnected with the driving forces of underdevelopment. I believe that in future this tendency must be reversed if we are to put our problems into their true perspective.

As an example of what I have in mind let me discuss briefly the credit and finance planning that has been undertaken for the last two to three years. We now have a comprehensive credit plan covering all major parastatals in detail and all other sectors in general. This plan is worked out by the National Bank of Commerce following guidelines for priority sectors laid down by the Bank of Tanzania in consultation with Government. The plan is very detailed and closely supervised by the Bank. But it is not based on physical plans and in some cases is based only on financial projections of enterprises. Generally, the limits are indicative for whole sectors rather than planned to individual enterprises. This is a limitation that the National Bank of Commerce has recognized all along and, in a bid to tighten up on credit planning and to give a sounder theoretical base to our credits, we have recently begun insisting on a detailed cash flow, or financial planning statements from all our borrowers, beginning with the larger ones. This is an attempt to use the credit mechanism in order to get companies to begin planning their activities. Clearly this would not be the way to proceed in a planned socialist economy but since our planning mechanism is so weak and so rudimentary, the Bank has to seize the initiative and do what it can to make local enterprises plan their activities. We believe that if we can arrive at a situation where planning at the enterprise level is firmly established, then the task of integrating enterprises into a meaningful central, and physical plan would be that much easier.

It will be appreciated that planning for socialist transformation involves much more than the simple drawing up of enterprise plans. Effective national planning presupposes national and sectoral economic strategies and co-ordinated production plans between local institutions. There is little the National Bank of Commerce can do here except to pressure Government into recognizing the urgent need for this kind of comprehensive physical planning. Nevertheless, it is firmly believed that the limited improvements in enterprise planning that we can stimulate through the credit mechanism should yield significant economies in resource use, enable greater control over parastatal finances and, at the same time, facilitate the introduction of more comprehensive national planning.

It will also be appreciated that, in the absence of comprehensive planning and in a situation where parastatals work so closely with foreign private capital, there is little scope for the National Bank of Commerce to radically alter its credit approach from the capitalist principles to the socialist ones described above. We have to move slowly and cautiously and treat each sector

according to objective realities. This we have tried to do in the comprehensive lending policy which I shall now proceed to describe.

NBC's LENDING POLICY FOR 1973/74

Introduction

It is the Bank's responsibility to adjust its lending policy to meet developments in the economic, social and political environment in which it operates, to respond positively to the changing credit needs of the community. Given the rapid pace of institutional change in Tanzania, the growth and increasing structural complexity of the economy and the vicissitudes of the world economy in which we find ourselves, it is clear that the Bank's policy will need to be flexible and subject to review at least annually and possibly more frequently. This statement should, therefore, be regarded as a guideline for future action which will be amended as the need arises.

One major policy change over last year's position is that the NBC will, in future, seek much more data from would-be borrowers than it has in the past. This data will refer to the future activities of the customer and central to it will be a cash flow budget covering at least the forthcoming twelve month period. The implication of this is that borrowers will have to plan ahead more carefully than in the past and will be asked, therefore, to specify overdraft requirements with more precision. The Bank will continue to seek legal and other safeguards in the normal way, but will focus more attention on future plans than hitherto. This development is in line with the country's commitment to planning and should go some way towards imposing greater financial order and discipline on all borrowing enterprises.

Lending to the Cooperative Sector

Most of the lending to the cooperative sector still takes the form of crop finance, while the Bank provides finance for individual farmers in advance of crop proceeds being received from final sales. This credit is really advanced on a collective security basis to cooperative unions and not direct to primary societies or to farmers themselves, even though they are the ultimate beneficiaries.

Lending to unions is based on estimates of the size of the crop, verified as far as possible by officers actually in the field, and of the net value of the crop to growers after allowing for intermediate deductions for expenses, dues, etc. Total borrowing by unions must not exceed the figure stipulated in the maximum liability certificate issued by the Registrar of Cooperatives and consideration is given to the record of the union in its credit dealings. The credit is secured by a letter of hypothecation over the crop, sometimes also by a crop bill drawn on the union, and always supported by an irrevocable letter of undertaking by the Marketing Board, or this time the Marketing Authorities, that crop proceeds due to unions will be paid direct to the Bank. As a further

precautionary measure, the crop has to be insured at all times and the insurance policies are assigned to the Bank.

Ideally, crop financing is of a very seasonal nature and the unions are supposed to operate their accounts on a credit basis after crop sales. Unfortunately, experience has shown that many unions fail to repay crop advances. Part of the problem is the poor storage facilities and poor transportation, and these aspects of the problem need improvement. Other reasons for this problem are bad management leading to poor stock record-keeping, crop deterioration and general financial indiscipline. It may be that unions lack adequate and competent manpower but the Bank's policy is that credit for crop marketing will not be granted to unions unless they can provide returns to the Bank, because this is the only way we can determine the level of their requirements. It is also the Bank's policy not to finance crop shortages and, in future, credit will be given only when unions have made concrete proposals to cover shortages incurred in the past. The Bank will also henceforth establish limits for each major crop. In the general scheme for inculcating financial discipline in the operations of its customers for socialist construction, the Bank intends, in the future, to impose a penalty of 1% interest on all shortfalls.

Non-crop finance lending to cooperatives is a relatively small proportion of the Bank's total business but it is expanding and can be expected to continue to do so for many years to come as cooperatives become progressively more involved in commerce, industry and agricultural production. Because of the high risk involved in most of these projects, the credit criteria are essentially the conservative ones generally applied to private sector borrowers, but there is more flexibility and a good deal of time is spent in advising and assisting new cooperative ventures. It is hoped that the new Rural Development Bank will greatly assist NBC's efforts in this direction since it is designed to alleviate the two basic problems which most bedevil new cooperative ventures: shortage of long-term capital and lack of business and management expertise. Alongside these two problems, the provision of short-term capital, which is NBC's concern, is much less important. This observation applies with equal force to the lending of money to Local Councils and District Development Corporations both of which have received considerable encouragement from the NBC.

Finance for storage godowns should be available at the Tanzania Investment Bank or the Tanzania Rural Development Bank, while the problem of transportation will, hopefully, be solved when the National Haulage Corporation is finally off the ground.

Lending to Marketing Boards/Crop Authorities

In principle, loans to marketing boards present no problems different from those already discussed. NBC lends to them for the purchase of crops from cooperatives and private farmers pending receipts of proceeds from abroad or from final consumers locally. Lending is therefore secured by stocks or by bills of exchange. The main concern is to see that farmers are not overpaid relative to final sales prices, that stocks are held at a reasonable level in good storage

condition and insured, and that parties to the bills of exchange are reliable. This is normal banking business throughout the world and one in which NBC is extremely experienced. There is a great deal of disparity in efficiency between different boards, and the absence of up-to-date accounts and delays in securing payment for crops sold, in some cases, are a cause of great concern but, on the whole, marketing board credits are well-secured. The proposed introduction of a single board for the country will not in any way complicate NBC's business or alter its criteria since credit will continue to be advanced strictly in accordance with proven short-term requirements.

Where a board deals in more than one commodity, it is important for both the Bank and the board that the financial position of each crop be known clearly at all times. It is proposed, therefore, that as far as possible, each crop be given a separate account in the Bank. This will ensure that crop advances are in fact cleared at the end of the seasonal cycle.

Lending to the Sisal Industry

The Tanzania Sisal Corporation controls the bulk of the country's sisal production and is responsible for normal ownership and running of the nationalized sisal estates on the Government's behalf. Since its working capital requirements can be very easily calculated in advance on a per ton basis and since annual output of sisal is reasonably tightly controlled, the Corporation knows, with some precision, what its working capital requirements will be and the Bank can quickly verify these. While in the past the Corporation has been subsidized because of low prices, and the expenses of running TASMA (Tanzania Sisal Marketing Association) and subsidizing its selling policy were borne heavily by TSC, the state of the industry has since last year changed drastically from one of slump to one of boom. With production costs constant and the prices doubled, the Corporation should be able to survive without subsidy. The Corporation's diversification programme will continue to receive NBC assistance in the normal manner but once again these accounts should as far as possible be kept separate from the sisal accounts.

Lending to Estate Farms

Working capital to individual estate owners takes the form of running expenses until the time of harvest and delivery to the Boards of Authorities. Problems have been faced particularly as it applies to coffee farmers and to a certain extent the tobacco farmers so that repayment has been difficult. According to our experience there is a general lack of adequate investment finance in these estates and output has generally remained below expectations. Consequently, whatever working capital NBC has provided has been converted into long-term lending much against Bank policy. It is hoped that with TRDB now well established in the field of investment capital, this will in future be limited to financing of running expenses repayable out of crop proceeds. Generally, where the owners of large estates are foreigners, the bulk of the

working capital should come from their own resources, but where these foreigners take on local institutions as partners, financial assistance may be considered favourably. In all cases security will be legal mortgage over the estates plus the guarantee of directors or partners if the estates are registered as partnerships.

Since the Bank now has a fairly experienced cadre of Branch Managers, and with the need to follow the development of banking business more closely in each Region, it is hoped that local branches will be used as much as possible by all up-country customers.

Lending to the National Development Corporation

The NDC is a holding company for public sector industry. It has extensive dealings with private businessmen on both an investment (equity and long-term loan) and on short-term or credit basis through its subsidiary and associated companies. Member companies of the NDC group enjoying significant private sector credits, are treated by the Bank in much the same way as private borrowers in terms of security demanded for credit, while others are treated in more or less the same way as the TSC. In certain circumstances the Bank is prepared to accept NDC guarantees for credits advanced to weak group members. The main point here is to emphasize that in the Bank's view the financial position of the enterprise is marginal and hence the group as a whole (on behalf of Government) should make contingency provision for possible subsidization. The NBC will not accept a bad overdraft proposition simply because it is accompanied by a good guarantee. Only in this way can the Bank protect its own financial integrity against possible claims of inefficient performance of its control function. It will of course accept guarantees as support for risky propositions.

Given the fact that the NDC is almost constantly seeking outside funds to complement its limited internal, plus Government loan and grant sources, many NDC companies have a relatively weak capital base, relying extensively on loan (frequently overseas loan) finance. In this situation the Bank has to be extremely careful, for with such a high ratio of debt capital the profits of these companies tend to be highly volatile and cash flow forecasts therefore of limited reliability. It is not sufficient for the Bank that NDC guarantees may be available, for there is clearly a limit to the extent to which such guarantees are meaningful. What the Bank has to do is to assist in every way possible to improve the financial structure of such companies and this, at a very minimum, entails a thoroughly detailed review of all aspects of the company's projected operations including the sources and terms of outside finance. The NBC will not, of course, allow its own funds to finance long or medium term assets but it can advise on how the terms of the proposed sources may be improved upon. This type of problem is not peculiar to the NDC group and can be expected to affect the other parastatal holding companies (such as NAFCO and TTC) as the basic problem is not one of inefficient financial management but is quite simply that all such holding companies are short of finance and are required by

the Government to maximize their activities while simultaneously taking majority equity participation in almost all ventures.

In this situation there will always be a need for the Bank to be vigilant. Since quite a number of NDC's subsidiaries have been detailed to form the State Mining Corporation, the level of NDC's borrowing is expected to be less than that it enjoyed hitherto. The Bank also urges the NDC to encourage its up-country subsidiaries to use their local Branches instead of the City Branches.

Lending to the State Mining Corporation

SMC is also a holding company. Mining is a difficult industry to finance in the sense that it is saddled with peculiar risks such as exhaustion, collapse, failure to strike the end product, etc. This is an industry that must be studied very closely but as a general policy NBC will stand ready to provide it with capital. Security of the mines or even of the machinery will not normally mean much in terms of forced sale price, but hypothecation of the stocks of minerals and other related products would certainly be acceptable security.

Lending to the Importing and Distribution Trading Companies

The State Trading Corporation has now changed in structure and instead of the single mammoth, internal/external trading monopolist we have six Trading Companies specialized on a product basis and eighteen Regional Trading Companies which are not very different from the former up-country branches of the STC. As hitherto, the Trading Companies will continue to get working capital from the Bank to hold a reasonable level of stocks. The Bank's main concern with these companies is that, like STC, their capital is very thin and difficulties can be envisaged from the start. As a matter of principle the amount of working capital extended to these companies must be covered by a 25% stock margin, this being the companies' stake in the stocks held to cover shortfalls and a certain element of dead or unmoving stock. Great care needs to be taken to ensure that stock levels are not excessively high.

With the rationalization of STC's activities into product line companies, it is hoped the problems such as rapid and unplanned expansion will also be rationalized although such expansion cannot be stopped altogether in view of the planned dwindling out of the private sector. It is the Bank's wish that all up-country Regional Trading Companies will use the Regional Branches as their bankers.

Building and Construction

As a rule, for major projects, NBC assistance to building and construction activities is, and should be, a kind of bridging finance aimed at financing working capital only, which in the main should include:

- (a) work in progress, i.e., work completed but not yet billed;
- (b) outstanding debtors for completed projects, i.e., the amount of claims issued by the contractor but not yet paid by the principal.

Financing of building contractors is by no means an easy task. Because contractors normally take on several projects of different sizes together and more or less at the same time, there is a tendency to mix up finance of one project with another, and this has resulted in the Bank being forced to accommodate contractors on the basis of permanent overdrafts valid for one year and rolled over or renewed on expiry date.

In view of the Bank's desire to control the use of such finance in order to avoid granting too much or too little, it is a policy to grant credit adapted to every contract entered into by the contractor and this is negotiated in every case and considered in the following terms:

- (i) The Bank requires to be informed all conditions of the projects and supplied with a copy of the contract between the principal and the contractor.
- (ii) The contractor is required to produce a financial plan for the work completed each year. This will enable the Bank to calculate the maximum amount that the contract will need.
- (iii) The Bank is not supposed to advance any amount of the contractor's profits and/or equivalent of retention money as it represents a contingent liability.
- (iv) The Bank is not supposed to provide the funds for equipment used in contract. This has to be financed by the contractor from his own resources. There may, of course, be the possibility of this being financed by Karadha or TIB (Tanzania Investment Bank).
- (v) Where the principal pays for the material already delivered on the site, the Bank overdraft is reduced by the amount of such advances outstanding. In principle, contractors should use advances available from the principal before resorting to the Bank for finance.

Transport

As a general rule NBC does not provide credit to enable transporters to acquire commercial vehicles. This is the function of its subsidiary company—Karadha Company Limited. The NBC, however, does step in to assist transporters with working capital to meet the running expenses of the vehicles, and such facilities given by way of overdraft are repayable from collections for services rendered. As a policy the Bank will not provide credit to meet outstanding instalments on vehicles either to Karadha Company Limited or to any other hire purchase financier as such instalments ought to come from business receipts.

Motor Dealers

Most of the motor dealers in this country are associated in one way or another with the big multinational motor corporations overseas. Because of their special position in this respect it is not difficult for them to get working capital finance whether directly from their associates abroad or from overseas

confirming houses. This source of finance is very welcome under the present circumstances when the economy is still subjected to credit control. Where they cannot get foreign credit, NBC does assist by way of working capital to pay for their consignments of vehicles and stocks of spares. However, it is not the Bank's policy to extend credit to motor dealers to enable them to give hire-purchase credit to their clients.

Hotels and Tourism

Tourism is assuming a bigger role in the economy than before and facilities to cater for tourists are being increased. While finance for building up of hotels and for acquisition of vehicles to enable the industry to function as it should is not provided by NBC, the Bank is quite willing to make available finance to buy stocks of food and drinks and to meet the running expenses of hotels. TTC, which owns most of the tourist hotels in the country, has had problems with the management of most of its hotels and related services and as long as these management problems persist the Bank will continue to exercise extreme caution when lending money to TTC for the running of its hotels. As in the case of the NDC, it is the Bank's wish that the up-country subsidiary companies of the TTC will use the main local Branches.

Lending to Other Financial Institutions

Lending to these parastatals raises somewhat different questions. NBC will in all probability not, in fact, lend at all to the TIB and TRDB. Instead, NBC as a shareholder, will periodically supply additional capital funds when asked, to TIB. The frequency and size of these contributions will depend upon many factors, not least among these being the Central Government's estimates of how much public sector investments the economy can afford in any period, and the surplus of NBC funds over the above estimates of working capital requirements for the economy. Neither of these factors can be decided upon by the NBC but must be determined by the joint cooperation of Devplan, Treasury, Bank of Tanzania and NBC. Investment by the Bank in Government stock will be determined in a similar fashion.

Lending to East African Community Corporations

As essentially profit-making institutions, our approach to lending to these Corporations is strictly along business lines. Frequently, we contribute one third of the required credits; banks in Uganda and Kenya contribute the rest in equal proportions.

Lending to Foreign Controlled Companies

At this stage of the country's development, when loanable funds are insufficient to cater for the needs of planned priority projects, it has become

necessary for the Bank to review its lending to the various sectors of the economy. The public sector will obviously require our assistance at levels higher than presently granted if the projects embarked upon are to succeed and a review will therefore have to be made of credits to the private sector. In this sector, it is our lending to foreign controlled companies that requires special re-appraisal. The reasons for this are: (a) credit is obtained on extended terms from either the parent or associated concern overseas, and (b) part of profit is remittable abroad, thus eroding our foreign exchange reserves.

The extent to which our assistance is to be reduced, if at all, will depend on the merit of each individual case, but as a guideline or a basis on which to work, it is proposed that Bank accommodation should not exceed 50% of the paid up capital. It is not intended (nor is it possible) to put this proposal into effect immediately, but we intend to gradually reduce our lendings to this sector until this ratio is achieved.

We shall, of course, have to treat certain foreign trading companies in a different fashion since it would make no sense to demand that they hold a large paid up capital related to their seasonal export finance needs. In this case it will be necessary to analyse what alternative foreign sources of funds are available to them and then lay down controls to ensure that our finance is not substituted for this or is used to enable the exportation of capital, as has happened on some occasions in the past. As far as lending to other local firms/companies is concerned, the Bank will provide a maximum working capital of up to 75% of the total required although consideration to part from this general rule may be taken on the individual merit of each credit applicant in this category.

Bridging Finance

As a general rule the Bank does not encourage bridging finance, but where it is considered necessary to assist a borrower on this basis, a definite source of repayment and a definite repayment date will be insisted upon.

Personal Loans

To boost the small-scale industries in the country and promote the sale of other consumer items, the Bank is proposing to introduce limited facilities for personal loans. These personal loans will be given to increase the 'purchasing means' of an individual by way of loans not exceeding 60% of the cost price of an item, subject to a ceiling of Shs. 3,000/- and currency not exceeding twelve months. Further, items purchasable under the Personal Loans Scheme are confined to household articles only. This credit system will be limited to those who receive a regular income through their Bank accounts which should be satisfactorily conducted.

Personal loans of up to the equivalent of one month's salary and repayable over a period of six months may also be approved for meeting contingencies

such as buying roofing material, paying school fees, etc. When considering applications for these facilities, the credit worthiness of the customer will invariably be taken into account. However, where deemed necessary, the Bank may ask for additional security. Not more than one loan will be made available at any one time.

Ujamaa Villages

Ujamaa villages are expected to become centres of economic activity in the rural areas engaged in agricultural and industrial production as well as in retail trade. Ideally, finance for the establishment of agricultural and industrial infrastructure will be derived from the Development Banks namely TIB and TRDB. The NBC will provide working capital in the normal manner for the villages' retail trading operations. The Bank is likely to deal with three categories of villages:

- (a) those with marginal projects, which could be made fully viable through a selective credit programme;
- (b) those who do not need credit but nevertheless apply for it to use their own liquidity for less desirable activities;
- (c) those with sub-marginal projects who need more than normal credit to become viable.

It is therefore necessary to isolate those cases that do not qualify for credit, and who should seek alternative sources of finance through the Regional Development Fund or other forms of Government grants and subsidies. It follows that there must be a close liaison between the three financial institutions and that guidelines must be set out for granting assistance to the villages.

The conditions for loans are:

1. The ujamaa village must be a legal entity, i.e., it must have been registered as a cooperative society. An unregistered village may be able to obtain finance from the cooperative society through which it sells its crops, and the society could borrow on its behalf.
2. Whenever possible, preference will be given to those villages which have kept rudimentary records (not necessarily accounts), and at least one of the villagers will be required to undergo training in simple book-keeping.
3. The village must open a bank account with the nearest branch of NBC and all financial transactions must be conducted through that account.
4. Their projects should be productive and economically viable.
5. The total credit requirement, short-term, medium-term and long-term, must be known in order to determine their ability to repay. It should range between thirty and fifty per cent of the anticipated cash crop proceeds.
6. All crops must be sold through a Marketing Board or Crop Authority, which, if necessary, should provide the village with the required crop finance, since the Board Authority is able to estimate the crop that will be harvested.

7. Working capital other than that provided by TRDB and Marketing Board/or Crop Authority may be considered by NBC, provided the needs are well established and the reasons for the inability of the two institutions referred to earlier to lend are known.

Financing of the ujamaa village retail shops could be effected through the intermediary of the Regional Trading Companies, in which case they would provide stocks to the retail shops on a credit basis and in return the NBC would discount these bills or give advance against them to the Regional Trading Company. The immediate responsibility for collection would rest with the Regional Trading Companies since these would be closer to the ujamaa village shops in the sense that, if collection is difficult, further supplies could be curtailed. The rate of discounting the bills for goods supplied to these shops will be $6\frac{1}{2}\%$ for the time being. Similarly, working capital requirements to procure raw materials for their small-scale industries would as policy be provided through the local suppliers whose own credit requirements would be met by NBC. Where retail credit is given direct, security would be an estimation of the stocks, while in the case of small-scale industries, a chattels mortgage over the equipment will be insisted upon whenever possible. In all cases trade debtors would be assignable to the Bank.

Small-Scale Industries

So far NBC has not committed its funds to the development of small-scale industry, not so much because of unwillingness to do so but rather because of an absence of a national strategy for the development of small-scale industry in the country. Small-scale industry and ujamaa villages will, in our view, have to develop alongside each other, and the same policy adopted for ujamaa villages will have to be extended to small-scale industry development. Whether these industries develop at the initiative of ujamaa village administration or that of NDC, the Bank will look at them in the same manner in terms of their working capital requirements. Where these are initiated by NDC, that organization will have to guarantee final repayment. For small-scale industries initiated by ujamaa village administration the same binding policy used for providing crop finance will be followed, although there may be slight variations which will evolve in the course of time as experience is gained on the management and operations of ujamaa village activities. Finally, it is to be expected that District Development Corporations will also gradually move into the small-scale industries field. NBC policy will once again be that of active, but cautious encouragement.

Interest Rates

The Bank's interest rate policy has had to be revised in line with the above lending policy. The following rates are now applicable:

(Normal Rate 8%)

(a) Primary Production and Marketing	Deviation from Normal	Rate
	%	%
Ujamaa Villages/DDCs	-1.5	6.5
Cooperatives	-1.5	6.5
Marketing Boards/Crop Authorities	-1.0-0.5	7.0-7.5
Farming	0	8
Foreign Controlled Produce	+1-+2.5	9.0-10.5
Mining	0	8
(b) Secondary Production	Deviation From Normal	Rate
	%	%
Industrial Ventures	0	8
DDCs	0	8
Small-Scale Industries	-1.5	6.5
Industries	-1.0-1.5	6.5-7
TANESCO	0	8
Construction	0	8
Foreign Controlled Industry	+1-2.5	9-10.5
(c) Services		
Large-Scale Commerce		
Imports—Consumer goods	0-+1	8-9
Imports—Other	0	8
Domestic	0	8
Export	-0.5	7.5
Retail		
Ujamaa Multipurpose Cooperatives and Consumer Cooperatives	-1.5	6.5
Motor	0-+1	8-9
Tourism	-0.5	7.5
Transport	0	8
Financial Institutions	0	8
EAC/EAC Corporations	0	8*
Consumer Credit/Personal Loans	+1-+2	9-10
Other Services	0-+1	8-9
Foreign Controlled Trading	+1-+2.5	9-10.5
Public Sector	0	8

A penalty charge of = 1%, in addition to the above rates, is levied for excesses over approved limits without prior arrangement.

The new rates, on balance, raise rates a little and especially so for foreign companies. This is the intention as more expensive credit should lead to its more sparing use in general, and especially by foreign companies with access to overseas sources. At the same time, socially deserving borrowers in the public sector and foreign exchange earners are given preferential rates, while relatively high rates are charged for imports. The penalty charge is designed to discourage misuse of credit facilities and to instil greater financial discipline among all borrowers.

*This will vary from time to time in consultation with banks in the other Partner States.

Representation on Boards of Directors

It is the Bank's policy that, for the time being, it should be represented on the Boards of Directors of all major public enterprises including District Development Corporations.

To sum up this section, through the Bank's lending policy, it is attempting to give favourable treatment to public sector borrowers, but under conditions of strict control. Legal security requirements are being relaxed where appropriate, credit to less essential sectors controlled, and in general credit is being tied to need as revealed in cash flow statements, as opposed to historical criteria based on out-dated balance sheets. In short, NBC is midway between behaving as a capitalist bank and a socialist bank and the speed of progress from the former to the latter is dictated largely by factors outside the Bank's immediate control.

It should, however, be pointed out that there was no such thing as a clearly articulated credit policy before nationalization; so I believe that the drawing up of this document, and the adherence to it in practice, represents a big step forward over pre-nationalization days.

Unlike in a centrally planned, socialist economy, savings and investment are still not entirely planned in Tanzania. This being so, there is still a deposit raising function to be performed by the Bank. This function is clearly not a significant one where surpluses and their utilization are provided for in the plan, but in Tanzania it is still of importance. It is for this reason that a good deal of attention has been paid to the expansion of office facilities up-country. The plan at the moment is to have static representations in each District by 1975—a plan which is ambitious but nevertheless realizable. In recognition of NBC's broader social responsibility, attempts are made to minimize the capital cost of these buildings by erecting modest structures and by calculating optional locations. For the other centres there is a carefully worked out mobile banking system.

On the side of foreign banking NBC has direct contact with banks all over the world in order to facilitate foreign trade and payments. Since 1967 NBC has been actively building up ties with banks in socialist countries with the dual objective of helping to diversify trade outlets in order to reduce dependence on the West and secondly, of building up knowledge of how these banks operate in a planned economy. It is not considered necessary to enter the sophisticated foreign borrowing and lending market for profit. As a general rule, NBC keeps its working balances of foreign exchange down to a minimum, restricts foreign borrowing to the negotiation of foreign bills drawn by Tanzanian exporters on foreign importers, and leaves the investment of the country's foreign reserves to the Bank of Tanzania.

NBC does not have the competitive need to innovate in this or any other field as capitalist banks do. But use is made of an Organization and Systems Department and attempts are made to systematically improve services to the public while minimizing expenditures. In this respect the Bank is closer to banks in socialist countries than to those in capitalist countries, for as a

national monopoly there is no fear of competition but rather, the goal is cost minimization by constant reappraisal and overhauling of the systems.

ORGANIZATION DEVELOPMENT

As far as the organization and management of the Bank is concerned, we have already gone a long way towards decentralizing its activities and democratizing decision-taking generally. NBC now has zonal and regional managers and Regional Business Development and Credit Administration Committees. The latter are composed partly of bankers and partly of non-bankers including the Regional Planning Officers and experienced businessmen and administrators in the Regions. Together with the bank managers, these Committees have a good deal of discretion over affairs such as bank lending, expansion plans, etc. The reciprocal aspect of this is that NBC is now fully represented on such local development bodies as the DDC Boards and the District Development Committees. This is a significant departure from pre-nationalization days when the involvement of the banks was confined to the local businessmen's clubs.

Each branch of NBC has an Executive Committee as well as a Workers' Committee, which are free to discuss and to influence most items affecting Branch work and staff welfare. In recent years there has also been a very active, dynamic Workers' Council which has passed some very important resolutions which have been implemented by the Bank. At a recent meeting in Arusha, the Workers' Council concerned itself with the social accountability of NBC and it was agreed that, as a bare minimum, the NBC's contribution to social accountability should take the following forms:

- (a) Assisting in the promotion of the financial education of administrative officers of ujamaa villages. This was felt to be a much more positive step than to simply refuse credit to ujamaa villages on the grounds that they are not sufficiently conversant with what it involves. The Council felt that there was much the NBC could and should do (at its own expense) to inform villagers of the nature of the credit commitment, of their rights and obligations, of the beneficial effects of credit as well as of the dangers of its misuse. The Council recommends that since credit cannot and should not be separated from physical inputs and outputs and the technology of various agricultural systems about which bank managers know very little, the Bank should assist in the training of field extension staff to ensure that they are capable of importing the necessary financial knowledge. The Bank agreed to provide finance teachers and materials for this purpose.
- (b) Senior NBC staff should have practical experience of living in ujamaa villages. The Council resolved that managers must not lose touch with village life, with physical labour and the problems facing ujamaa farmers. They must develop a healthy respect for manual labour, for farming and, above all, for farmers. To this end all managers must, in future, spend some time actually living and working in villages with villagers.

- (c) The eradication of illiteracy in all NBC offices by 1976. The Council argued that the liberation of man is not complete until the liberation of the mind is complete. An illiterate man is a prisoner of ignorance and cannot truly be said to be free. The Council resolved, therefore, that all Branches must draw up concrete action programmes to fight and to completely overcome this problem, a legacy of our neglected past, by 1976 at the latest.
- (d) The education of all Bank staff in the goals of the liberation struggles of Africa and the dangers to which Tanzania is exposed being in the midst of these struggles. The Council resolved that the Bank has an obligation to see that staff have access to the necessary literature on African liberation and that they fully understand it. The Head Office of the Bank has therefore been charged with the task of circulating such literature. The Council also resolved that all staff should be called upon to make generous financial and material contributions to the liberation struggle, and to launch their campaign, the Council itself made a contribution of Shs. 1,300/-.

We have, therefore, a genuinely effective Workers' Council and one which has an enlightened view of the responsibilities of the Bank. With its help and encouragement, NBC is slowly becoming a more democratic institution where the voice of the worker is heard and is regarded as important. There is still a long way to go before the autocratic leadership styles and the hierarchical management structure that was built up before nationalization are completely eradicated, but a commendable start has been made.

CONCLUDING REMARKS

In conclusion, the role of NBC in helping the socialist construction of Tanzania is not rigidly laid down in any document. As a dynamic institution, the Bank will have to adjust to changing circumstances. In the same way it will be, as it always has been, responsive to public debate and suggestions on how best it might improve its contribution. I hope that this paper will provoke a lively debate out of which constructive criticism and positive ideals for improvement will be forthcoming. There is no detailed blueprint of how NBC should develop and, therefore, any ideas on how we might better our performance in the service of the people and the nation are welcome.

Israel and Nigeria: Continuity and Change in their Relationship

OLAJIDE ALUKO*

When Nigeria broke diplomatic relations with Israel on 25 October 1973 a new dimension to the relationship between the two countries was introduced. Although some people had speculated that Nigeria would take this step as far back as late 1972¹ when five African countries, Uganda, Chad, Congo (Brazzaville), Niger, and Mali broke diplomatic relations with Tel Aviv in quick succession, the Federal Military Government did not give it any serious thought until the second half of last October, although since the late sixties, Nigeria had at times taken an anti-Israeli stance especially in international conferences. In fact, on 9 October 1973, three days after the outbreak of hostilities in the Middle East, General Yakubu Gowon not only declined to talk about the possibility of breaking off relations with Israel, but also blamed both sides for not scrupulously observing the Security Council Resolution 242 of 22 November, 1967.² Within a fortnight of this, however, Nigeria reversed her position, condemned Israel as an aggressor, and broke diplomatic ties with her. But in taking this position, as does happen frequently in foreign policy decision-making, the Federal Military Government was largely forced by circumstances outside its control. First, as the current chairman of the OAU, General Gowon could not remain neutral when the tide was rapidly moving against the Israelis in Africa (sixteen African States had broken off diplomatic relations with Tel Aviv), and when it was crucial to stand by the OAU successive resolutions on the Middle East since June 1971, which had virtually committed the African countries to the side of the Arabs. Second, with Kenya and Ethiopia breaking with Israel, Nigeria's position became untenable. Third, there was the report that South Africa sent arms, military aircraft, and money to aid the Israelis against the Arabs. Thus, Lagos had no choice but to bow to these forces not only by breaking off diplomatic relations with Tel Aviv, but also by adopting some pro-Arab policies.

These recent developments may be seen as further evidence of the change that has been evolving in the pattern of relationships between Lagos and Tel Aviv since Nigeria's independence in 1960. Yet some elements of continuity in their relationships remain. For instance, the Israeli firms continue to operate in Nigeria, while their technical experts have continued to work in the country. It is these elements of change and continuity that will be the theme of this article, and an attempt will be made to offer some explanation for them. There

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¹ See *Africa Confidential*, 13, No. 25 (22 December 1972).

² *Daily Times* (Lagos), 10 October 1973.