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The Interrelationship Between Bank Failure and Political Interventions in Tanzania in the Pre-Liberalization Period

Marcellina M. Chijoriga

Summary

Over the years there has been an increase in the number of bank failures in both centralized and decentralized economies. Internal reasons given for bank failures include reckless lending, corruption, non-use of prudent classification and risk assessment methods, fraud and management deficiencies. External factors such as deregulation; lack of information among bank customers; homogeneity of the banking business, connections among banks do cause bank failure. For centrally planned economies, government and political interference in the banking operations and policies also contribute to bank failure. Tanzania, which until recently had a centrally planned economy, and the government having majority (51%) shareholding in parastatals and banks also experienced bank failure in the form of non-performing assets (NPAs). By 1991, due to increased lending to financially distressed parastatals and cooperative unions, the NBC suffered large non-performing loans (NPAs) equal to 70% of the total bank NPAs. Considering the high rate of NPA's suffered by NBC. This paper tries to show that government and political interventions and the non-use of prudent credit scoring methods had contributed to the NBC failure.

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