

# **Financial Sector Reforms and Commercial Banks Efficiency**

## **The Case of the National Bank of Commerce Limited**

**By**

**Massambu, D.M. Mataba, S.J.M & Bamanyisa, J.M**

**Moshi University College of Co-operative and Business Studies, 2010**

This study examines the improvement of the efficiency and performance of the NBC Limited in the face of the financial sector reforms programmes currently being implemented in Tanzania. The thrust of the study is to investigate into whether there have been positive or negative effects of reforms in the NBC Limited efficiency and what are the sources of scale inefficiency. A non-parametric approach, data envelopment analysis (DEA) has been used to arrive at the efficiency score for the National Bank of Commerce Limited.

The main empirical findings of the study suggest abundant support for the financial sector reforms in the case of Tanzania. The study reveals that annual average efficiency of the bank as a whole followed an upward trend, which supports the financial sector reforms to fulfill its promise in terms of efficiency gains to higher levels as anticipated. The Malmquist index results suggest efficiency improvement, sources of productivity improvement as the result of growth in scale efficiency, and technological progress. Others include the large proportion of the NBC Limited operate at pure technical and scale efficiency levels well on the best practice frontier on from the years 1998-2004, and the main sources of scale inefficiency in the NBC Limited was due to diminishing returns to scale which account for about 42 percent.

The study makes several recommendations, first, the study recommends that there should be further reforms and restructuring of the system with action to promoting competition and efficiency of the financial system. Second, it recommends that bank directors/management should make policies which will eliminate the scale problem in the bank and promote improvement in efficiency leading to achievement of optimal scale size. Third, it is also recommended that policies that eliminate scale problem and promote the use of the existing bank resources to the optimal utilization be given priority in the bank.