

SPEECH BY THE MINISTER FOR FINANCE, HON. ZAKIA
MEGHJI (MP) AT THE TBA PUBLIC LECTURE HELD AT THE
KILIMANJARO KEMPINSKI HOTEL ON 20th APRIL 2006

**The Governor of the Bank of Tanzania, Mr. Daudi Ballali,
The Chairman of the Tanzania Bankers Association, Mr. Mayank Malik,
Chief Executives of Banks and financial Institutions,
Distinguished Guests,
Ladies and Gentlemen.**

I have been looking forward to this auspicious occasion when I would have an opportunity to meet and talk to people who, supposedly, hold the pillars of the socio-economic development of this country. I will, therefore, begin by expressing my sincere appreciation to the Tanzania Bankers Association for according me the honor to participate in this important event. I am impressed by the good turnout and indeed I feel proud to share my thoughts with a gathering of professionals from different sectors.

I have been informed that this is not your first meeting to deliberate on **the role of courts in supporting financial sector reforms in Tanzania**. At your conference which was opened by my predecessor a year ago, the same theme was widely discussed and recommendations thereof submitted to the relevant implementing agencies. I am not sure whether the same theme has been brought up again this year for want of implementation of last year's recommendations which, in essence, are a challenge to the Government. Be as it may, I share the concerns of bankers as detailed in the Chairman's address.

Mr. Chairman,

I am not a spokesperson for the Ministry of Justice and Constitutional Affairs, but I know that the Government has been concerned with the performance of the country's legal system and weaknesses inherent therein. You will recall that way back in December 1999, the Government launched a strategy for improvement of the legal sector. This was in implementation of the recommendations made in 1996 by the Legal Task Force chaired by Judge Mark Bomani. The strategy was meant to be medium term, covering the period 2000 to 2005.

I believe you are aware of the achievements recorded during this short span of time. Suffice it to mention a few here:

- Establishment of the Commercial Division of the High Court.
- Establishment of the Land Division of the High Court.

- Establishment of Alternative Dispute Resolution (ADR) to resolve cases out of courts.
- Establishment of the Human Rights Commission.
- Establishment of the Law Reform Commission.
- Construction of the HakiHouse: and
- Establishment of the Lushoto Judicial College.

Mr. Chairman,

In March 2005, the Government launched the 2nd Phase of the Law Sector Reform which focuses on enhancing objectives contained in the year 2025 National Vision. Areas which are intended to be covered during the three years 2005/2006 to 2007/2008 include the following:

- Improvement of the country's legal system in order to do away with the slow progress of cases in courts.
- Restoring justice to the needy by eliminating corruption in the court system
- Strengthening administrative and human rights
- Illumination of the legal profession and improvement of legal services.

Mr. Chairman,

I have deliberately dwelt on the above programmes and successes in order to at least convince you that the Government is not silent on the weaknesses inherent in the country's legal system. We do appreciate your concerns about certain porous and outdated Laws which tend to protect defaulters and make it difficult for lending institutions to recover their money timely. We, however, urge all stakeholders to come together and find ways to making financial institutions play ball, otherwise our economy will for a long time remain imports based. Your meeting here today should be taken as one of the strategies towards achievement of this good cause.

Mr. Chairman,

I will not be doing justice to myself, and to you I suppose, if I do not share with you a few of my thoughts about the current performance of the banking sector in the country today. Basically I am just thinking aloud, as I believe this will not be new to you.

Firstly, Tanzania's banks and financial institutions presently offer very little when it comes to alternative investment vehicles or avenues, because they know fully well that they can earn high returns by just investing in Government Bonds and Treasury Bills. The huge profits being recorded by almost all banks and financial institutions justify my statement.

In many developed and developing countries financial institutions play a big role in the economy by making agriculture grow. They also support big and small industries and businesses in the fight against poverty. They also play an essential role in the overall

development of the economy. In our case much leaves to be desired. From the data I have, the country's Credit-Deposit ratio has been rising gradually from 29.1% in the year 2001, to 42.7% in 2005. This is not enough. It is just about half of BOT's threshold of 80%.

Secondly, I do not see enough efforts being made to design loan products for the agricultural sector. This sector accounts for 50% of the GDP, but presently receives less than 10% of the total loans. I am told the main hindrance here is collateral. But banks know very well that what matters most is the viability of the project/business.

Thirdly I am not happy with the present huge gap between the lending and deposit rates. Most commercial banks are presently offering a mere 2% interest for savings, while demanding a massive 18-24% on loans, giving a 16-22% differential. Given the current inflation rate of around 5%, is there any convincing reason behind this yawning gap? Could it be inherent risk?

Fourthly, as you have stated in your opening address, many banks are responding to the needs of the informal sector by designing and implementing appropriate loan products for Small and Medium Enterprises. The Government, on its part, has launched the Credit Guarantee Scheme, to which many banks have responded.

I believe bankers are aware of the constraints suffered by SMEs which if addressed systematically, will go a long way towards improving the SMEs credit worthiness. These include low level of technical and managerial skill, inadequate information on business opportunities and markets. Banks can help SMEs overcome these constraints by designing and implementing training programmes which focus on particular needs and practical problems of SMEs, such as entrepreneurship and managerial skills. I am told some banks have ventured in this area. We need more concerted efforts by the entire banking sector.

Fifthly, I expect to see and witness banks taking a keen interest in mortgage financing to enable Tanzanians acquire own houses. I understand that there are still some restrictions in the use of land as collateral. But this should not deter banks from venturing into this products.

Sixthly, banks have confined their physical representation in cities and a few municipalities, leaving the rest of the country marginally banked. In my view this is not a good development. Banks should strive to monetize the rural sector where the majority of Tanzanians live by opening up more branches.

On its part, the Government is striving to provide the necessary enabling environment including roads, electricity and security.

Mr. Chairman,

In your opening address, you stated that, as a banking sector you are an integral part of the economy, having a strategic role in facilitating the growth of the economy by linking all the other sectors. You have the capacity to do so. What you may be lacking is the enabling environment which you have been and continue to seek through this kind of forum.

I wish to assure you that my Ministry fully supports your endeavors towards realising an efficient and effective banking sector in the country. We will always be available for any consultations, either directly or through the Bank of Tanzania to achieve these objectives.

Last but not least. I would like to say a word about bank security. There is an urgent need to restore customers' confidence in financial intermediaries as a safe place for keeping their hard earned savings. With recent incidents of armed robberies, I am informed that individually and collectively through the Association, banks are working on modalities which would ensure that bank robberies are minimized, if not done away with altogether. Installation of modern security gadgets may be rather unaffordable for some of the smaller banks, but I believe that with collaboration with the Police Force, the problem of security should be solved.

With these few remarks, I now have the pleasure to declare your Public Lecture open. I wish you fruitful deliberations.

I thank you for your attention.

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