

WELCOME ADDRESS BY THE CHAIRMAN OF THE TANZANIA BANKERS
ASSOCIATION, MR. MAYANK MALIK, AT THE
TBA DINNER HELD AT THE KILIMANJARO KEMPINSKI
HOTEL, DAR ES SALAAM ON 3RD APRIL 2007

**The Guest of Honour, His Excellency Jakaya Mrisho Kikwete, President of the
United Republic of Tanzania,**

The First Lady, Mama Salma Kikwete,

The Chief Justice, Hon. Barnabas Samatta,

Cabinet Ministers,

The Governor of the Bank of Tanzania, Mr. Daudi Ballali,

Permanent Secretaries,

World Bank Representative,

IMF Representative,

Invited Guests,

Esteemed Colleagues,

Ladies and Gentlemen,

Protocol observed.

Your Excellency,

First and foremost, I would like to express the Tanzania Bankers Association's (TBA) appreciation and gratitude to you, for accepting our invitation to grace this occasion. We know you have a busy schedule. Thus, your acceptance to our invitation to be here with us this evening is a great honour to us. I also wish to thank all distinguished guests for sparing part of your precious time to share this occasion with us. You are all most welcome.

Your Excellency,

This is the first time you are meeting representatives from the banking sector as a group since you were overwhelmingly elected Head of State more than a year ago. It is,

therefore, an opportune time, on behalf of the Tanzania Bankers Association and on my own behalf, to express our heartfelt congratulations, albeit belatedly, for assuming the highest position in the land. Your efforts have already started bearing positive results. The World Bank's **Doing Business Report 2007** which was launched recently, indicates that Tanzania is among the world's best 10 improved countries and that all the indicators point to an even brighter future. The Association and indeed the country at large, is proud to have at its helm, a person of your caliber. We assure you of our unflinching support.

Your Excellency,

Before I proceed further, allow me to explain briefly on what we are and what our objectives are. The Tanzania Bankers Association (TBA) is an association of Banks and Financial Institutions licensed by the Bank of Tanzania to carry on banking business in Tanzania. The Association was registered in 1995. Currently it has 28 member banks and financial institutions out of a total of 33 banks and financial institutions operating in the country. Non-member banks are mostly community banks situated in the regions.

The main objectives of the Association are as follows:

1. To encourage members to conduct their business in accordance with the governing laws, ethics and internationally accepted banking principles and practices.
2. To strive for harmonization of operations in the banking industry in Tanzania.
3. To facilitate the exchange of information between members through members' meetings and the Credit Information Bureau.
4. To recommend to the Government legislation and/or amendments to laws impacting to the banking industry.
5. To promote and secure industrial peace and harmonious relations between its members and their employees.

Towards this end, TBA has registered a number of successes since its inception. These include the following:

1. The Credit Information Bureau, which facilitates sharing of adverse information amongst its members, was set up three years ago.
2. The TBA Website, which contains information about TBA and its members, was inaugurated in July 2004.
3. A voluntary Code of Banking Practice, which sets standards for good banking practice, is being developed in consultation with the Bank of Tanzania and is expected to be operational this year.
4. TBA participated fully in the process that led to the amendment of the Land Act No. 2 of 2004 to ensure that it takes into account members' interests, especially with regard to mortgage finance.
5. TBA along with other stakeholders submitted to the Government various recommendations on the review of selected labour laws which resulted into enactment of the Employment and Labour Relations Act No. 6 of 2004 and Labour Institutions Act No. 7 of 2004.
6. TBA has prepared a project write-up for a comprehensive study on court cases involving banks. The World Bank has responded positively to our request for funding this study. The recommendations thereof will be submitted to the Government for consideration.

7. TBA is working closely with Tanzania Leasing Project (TANZALEP) whose objective is to improve the conditions of finance leasing in Tanzania. TANZALEP has already submitted its recommendations to the Government.
8. TBA held its first Conference in March 2005 and a Public Lecture in April 2006. Both the Conference and the Public Lecture came up with various recommendations which are very useful in improving the banking environment in Tanzania.
9. Lastly, TBA is a founder member of the Tanzania Private Sector Foundation and an active member of the Tanzania National Business Council.

Your Excellency,

Let me now touch on the development of the banking sector and successes made. Among the positive results arising from reforms adopted in the country over the past 16 years, is the emergence of a fast growing banking sector in the country. As of now, the country prides of 33 banks and financial institutions compared to only seven (7) banks and financial institutions existing in 1991. The number of bank branches and agencies countrywide has reached 294 and the branch network continues to grow. There are also 176 Automated Teller Machines installed in major towns.

During the past five years, total bank assets increased by 197% from TShs. 2.2 trillion in the year 2002 to TShs. 6.6 trillion in the year 2006. While this is remarkable growth by any standard and reflects the robust underlying economic expansion driven by good policies and governance, we still have some way to go to catch up with the more developed economies where bank assets exceed the country's GDP and often by a factor of 1.5 times and more. As at 31st December 2006, total customers' deposits stood at TShs. 5.3 trillion, an increase of 221% from TShs. 1.7 trillion in 2002. Total loans and advances on the other hand increased at a higher rate of 320% from TShs. 566.6 billion

in 2002 to TShs. 2.4 trillion in 2006. Currently the banking sector provides employment to 6,400 Tanzanians.

In a bid to inculcate a savings culture in the society, most banks have designed various savings products tailor-made for specific market segments. Loan processes have also been considerably simplified, while a good number of banks have diversified their credit delivery systems and have come up with specific packages targeted to the hitherto un-bankable people, including the low income earners, the informal sector and the rural economically poor, on terms and conditions that are both appropriate and reasonable. However, much needs to be done in these areas.

Many banks are also responding to the needs of the informal sector by designing and implementing appropriate loan products for Small and Medium Enterprises. We already have several banks, including Community Banks, which have the informal sector as their target market. Furthermore, several banks have already responded to the Government call to lend under the Credit Guarantee Scheme for Small and Medium Enterprises. They have taken this challenge in order to help the enterprises overcome their major constraint, that is, access to capital to improve productivity, both qualitatively and quantitatively. As at 30th January 2007 loans valued TShs. 2.2 billion had been approved and guarantees amounting to TShs. 1.1 billion had been issued. Prospects for advancement of the Scheme are bright. We trust that recommendations submitted to the Government on how to improve the Scheme will be favourably considered by the Government.

For the Agricultural sector which accounts for 50% of the GDP, banks' contribution can be more significant, and so far has largely been in the area of financing of crop purchases. Banks must have some assurance or comfort that the borrower would be able to repay the loan. Until recently, the country's policies and regulations did not provide land as collateral for borrowers in the agricultural sector, despite the fact that land is a critical security that farmers possess to offer for borrowings from banks. But

now things have changed. Farmers can use land as collateral and many banks have gone public on what packages they can offer to farmers and agricultural investments. However, banks still cannot lend that effectively and in bulk to subsistence farmers and this is another area we can work on.

Your Excellency,

Your Government has vowed to give due regard and prominence to eight sectors and sub-sectors in your investment drive and overall growth strategy. These include Manufacturing, Mining, Tourism, Agriculture, Energy, Infrastructure, Information and Communication Technology and Human Resource Development.

These are sectors which require long term financing for which banks cannot adequately accommodate because of the short term nature of our funds. Thus, the recent Government decision to transform the Tanzania Investment Bank (TIB) into a Development Bank is highly commendable. We believe that a recapitalised TIB and other Development financial institutions to come, will go a long way towards addressing the development finance gap, provide business support services and act as the local coordinating point for international development financing initiatives. It is gratifying to note that some banks are considering floating bond products of long term nature in a move to alleviate the current paucity of long term finance. Housing loan schemes have also been established by a few banks, while many more are contemplating doing the same.

Your Excellency,

The current century has been referred to as a century of science and technology. In response thereto, most banks have come up with various forms of electronic banking products. These include Credit Cards, Automated Teller Machines, Online Banking and various forms of electronic money transfers. Very recently, six banks decided to pool

their resources together to form the UmojaSwitch Consortium which will provide shared electronic banking services nationwide.

The adoption of new banking technologies has gone a long way towards minimising risks, reducing workload on banks and enabling banks to improve customer service. Our banks have increasingly become more innovative and competitive, with some services being offered 24 hours a day through Automated Teller Machines and Points of Sale. Indeed today's bank customer enjoys better services than hitherto.

Your Excellency,

We realize that banks have a big role to play in the development of any economy, particularly as regards to lending to productive sectors. I must confess that banks are not doing enough in this area. However, there are reasons for this phenomenon. We have to bear in mind that banks are in business and they do this business with depositors' money. Banks have to lend with caution, particularly in an environment like ours where non-repayment culture is still prevalent. In addition, there exists excessive litigation, injunctions and court delays, the situations of which make banks incur unnecessary expenses in addition to loss of income and disrupted cash inflows due to delayed payments. In fact, for small loans, which have of late become a major thrust for many banks in an effort to supplement Government efforts to reduce poverty, the cost of collection tends to exceed the returns to the lending bank.

Your Excellency,

We are aware that the Government realizes its responsibility of providing an enabling environment for an efficient and effective banking system in the country. Already the Government has established the Commercial and Land Divisions of the High Court, the Law Reform Commission and an Alternative Dispute Resolution (ADR), the measures of which are intended to resolve court cases more expeditiously.

We have also been encouraged by the launching of the 2nd Phase of the Legal Sector Reform in March 2005, which focuses on enhancing objectives contained in the year 2025 National Vision. We have learned that areas which are intended to be covered during the three years 2005/2006 to 2007/2008 include improvement of the country's legal system in order to do away with the slow progress of cases in courts, restoration of justice to the needy by eliminating corruption in the court system, strengthening of administrative and human right and illumination of the legal profession and improvement of legal services.

We commend the Government for the positive steps taken to remove impediments inhibiting development of the banking sector. Nevertheless, we think that the pace is not fast enough. For instance, a few banks have ventured into mortgage financing, whereby mortgage loans are extended to a small number of selected borrowers. But, there are still some legal and regulatory issues which appear to impede future growth of the mortgage market and which have to be addressed. Some of these issues include the following:

- (i) While court intervention is always required to foreclose residential property, it is not easy to take away the property of the borrower, as foreclosure takes a long time. In order to allow flexibility, **Chapter X** of the Land Act should be amended so that non judicial mortgage enforcement procedures can be adopted.
- (ii) More Judges and modern case management equipment and skills are needed for the Land and Commercial Divisions of the High Court. This includes training in mortgage law and creditors'/debtors' rights.
- (iii) There should be a clear, transparent and reliable system to register legal interest in properties, including mortgages. This will increase property values, an incentive to investment in housing.

- (iv) Currently there is no system of citizen identification. The issue of national identities should be expedited as this is important to support a full credit reporting system.

When we come to lease financing, **Your Excellency**, we also find some impediments to the development of this important market. The IFC Tanzania Leasing Project has already advised the Government on enactment of a financial leasing law. Most stakeholders in the financial sector are awaiting Government action thereon. This is a product which we consider to be vital to the SME Sector where most of the beneficiaries require simple equipment to be able to take off smoothly.

Furthermore, incentives and guarantees for certain types of leasing are inadequate. For instance, agricultural equipment leasing can be an important driver of the country's agricultural sector, but given the high risks inherent in this sector, banks will need additional guarantees.

Your Excellency,

We realize that as a banking sector, we are an integral part of the economy and we must fully assume our rightful role – that strategic role of pushing up the economy of the country by linking all the other sectors. The banking industry has a pivotal role in this as without banks and financial institutions, no one can exhaustively talk about the economy of any country. The financial services industry forms a common denominator to all the other industries in that money is a common factor to every industry.

We believe the past and ongoing regular consultations have advanced Government comprehension on issues relating to banking business in Tanzania. Understanding of the issues justifies Government commitment to providing the necessary enabling environment. This is not limited to the legal framework. Indeed it includes the necessary physical infrastructure, such as efficient communication network (including

roads) and reliable power supply. On our part, as banks, we are desirous and keen to play our responsible role. We request Governments' understanding and support.

With these few remarks, Your Excellency, I thank you once again for accepting our dinner invitation.

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