

**STATEMENT BY THE MINISTER FOR FINANCE, HON.  
BASIL P. MRAMBA, AT THE OPENING OF THE TANZANIA  
BANKERS ASSOCIATION CONFERENCE ON MARCH 8,  
2005 AT THE GOLDEN TULIP HOTEL, DAR ES SALAAM**

**The Chairman of Tanzania Bankers Association  
Mr Mayank Malik,**

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

**Permanent Secretaries,**

**Distinguished Guests,**

**Ladies and Gentlemen.**

**Mr Chairman,** allow me to begin by expressing my sincere appreciation for being accorded the honor to participate in this important conference. This is an important occasion due to the growing importance of commercial banking in our economy as evidenced in part by a fast expanding branch network. In turn, this reflects the success we have recorded in the banking and financial sector reforms under the third phase Government.

**Mr. Chairman,**

I am pleased that once again the banking community has assembled here to take stock of business and to chart a way forward collectively in the light of prevailing social, economic and legal conditions in Tanzania. Much of what I will say may not be new to some of you, but for sure it is relevant and crucial for moving our financial sector agenda a step or two ahead.

Voltaire, one of France's greatest writers and philosophers, once said: "When it is a question of money, everybody is of the same religion."

And I am here to tell you that in today's world, when it is a question of financial intermediation, everybody is of the same religion. No one should, therefore, be excluded.

For the last nine years this Government, under the stewardship of President Mkapa, has worked hard to create in this country the right macroeconomic policy and business environment, as well as relevant institutions and infrastructure.

An atmosphere not just to make Tanzania an attractive and profitable investment destination for outsiders, but also a place where local energies and entrepreneurship can be applied, for the benefit of all the people who really want to self-develop. And this is not possible without some form of robust financial intermediation. President Mkapa wants to leave the leadership of this country under a healthy and thriving financial sector that has developed a wide array of instruments to provide enabling financial intermediation for the majority of the people.

Let me now share with you some of the thoughts of President Mkapa's Government concerning the achievements, to-date, in the commercial banking sector in our country, and the challenges that lie ahead.

### **Commercial Banking Achievements**

**Mr. Chairman,**

Those who have been with us long enough know the long road we have travelled, and the obstacles we had to surmount, to bring Tanzania's banking and financial sector to where it is today. It is with a sense of achievement, purpose and hope that

we note that today Tanzania has quite a competitive and profitable commercial banking sector. Efforts are underway to strengthen further the non-bank intermediaries and micro-credit institutions, as well as the insurance and pension schemes. The number of commercial banks has grown from one large bank at the inception of our reforms in the early 1990s, to 28 banks at present, including 22 mainstream banks (domestic and foreign-owned), and 6 relatively small regional and community banks. Besides, Tanzania has today 6 non-bank financial institutions; over 1700 Savings and Credit Cooperative Societies and numerous other Societies and NGOs involved in micro-credit operations; a sizable number of insurance companies; and several large pension schemes. Recently, a unit trust and an investment company have emerged in the financial system, to take care of the investment thirst of the upper poor among the local population. This is all good news.

**Mr Chairman,**

The theme of this year's conference is 'The Role of Banks in Facilitating Economic Growth in Tanzania'. Over the coming hours, you will discuss, among others, financial intermediation,

land reforms, pricing mechanism on deposits and loans, loan recovery and micro financing. These are well-selected topics taking into consideration the achievements made in the commercial banking sector and the challenges that lie ahead.

**Mr. Chairman,**

In parallel with the opening up and expansion of the financial sector, over the past fifteen years, the commercial banks' collection of deposits has increased, in relation to GDP, by more than one half. Lending to the private sector has risen, also in terms of GDP, by almost one half. Indeed, credit to the private sector grew from 6.1 percent of the GDP in June 2003 to around 9 percent of the GDP by December 2004. Growth of credit to the private sector has now reached above 30 percent per annum.

Meanwhile, the number of Tanzanians able to access commercial banks electronically and otherwise has expanded tremendously. The commercial banking sector is today providing employment to over 4000 Tanzanians, whose average annual earnings are well over thirty times the estimated per capita

income of the country. Thanks to the financial health of the commercial banking sector, its current contribution to budget revenue is well over Shs. 20 billion, compared to its substantial drain on the budget before the reforms.

These dramatic gains, attributable to players in the commercial banking sector, were facilitated by the sustained government momentum in macroeconomic and structural reform, including efforts by the Bank of Tanzania in managing and supervising this sector well.

We were all partners in bringing our financial sector to this healthy situation, well placed to withstand external and internal shocks that could lead to what is referred to, in the IMF and the World Bank language, as “systemic stress.”

Indeed, an IMF Executive Board meeting last month once again commended Tanzania for her continued good economic performance, encouraging us to continue taking measures aimed at deepening financial markets as a key step towards increasing market efficiency and the absorptive capacity of the economy.

IMF called for a more balanced use of monetary policy instruments in needed liquidity management and noted the development of various forms of credit guarantee schemes in our country as a necessary step for most developing countries which have recently reformed their financial systems but lack robust institutions to provide long term credit, especially to rural areas needing urgent government interventions.

In more mundane terms, there are also other benefits deriving from our prudent management of the commercial banking sector. Interest rates on bank deposits are now positive in real terms. This is welcome news for depositors and for the ongoing efforts to inculcate savings habits in our people. Interest rates on bank loans are trending downwards. This is good news for business and for Tanzanians seeking to leverage their economic situation through prudent bank borrowing. Indeed, the Government has all along endeavoured to curb its recourse to bank borrowing, thereby leaving substantial room for the private sector to borrow from the banking system. The interest rate margin has continued to narrow from around 18 percentage

points five years ago to 9.5 percentage points in September 2004.

Furthermore, the rising number of commercial bank branches outside Dar es Salaam, and the ongoing efforts by banks, such as the CRDB, to forge business links with SACCOs, SACAS and other grassroots entities is good news for the majority of Tanzanians that have hitherto been excluded from the formal financial sector.

Of great satisfaction to the Government of President Mkapa also is the preliminary information we have of significantly improved performance in all key areas, as well as stable labour relations, at the National Microfinance Bank. Under its current management, the bank's loan portfolio for small borrowers has almost trebled over the last two years, and its profitability has strengthened. The NMB, which will soon find a buyer to partner with Tanzanian owners, is well positioned to fetch a good price and to serve low-income customers in the near future.



## **Challenges for the Commercial Banking Sector**

**Mr. Chairman,**

We have every reason—and indeed every right—to celebrate our achievements in the commercial banking sector today. Nevertheless, the Government would like us to remember that our glass of economic development is only half-full, and we all have to pitch in to quicken our developmental pace. We expect the commercial banks to redouble their efforts to please their shareholders, but without forgetting the immense additional benefits that could flow from sustained efforts to lift the large number of Tanzanians that are still languishing in poverty.

In this connection, we would like to ask commercial banks in Tanzania to look at the following eight issues:

- **First**, to consider making an extra effort to bring more Tanzanians into the formal financial sector, and to help us intensify the struggle against poverty. I urge commercial banks to explore—without compromising their basic mission as commercial banks—more

innovative lending instruments that could reach closer to the poorer segments of the population, including forging effective relations with regional and community banks, SACCOS, SACAS, NGOs and other entities operating at the grassroots level. To assist the financial intermediaries in reaching out, the Government has introduced a Microfinance Policy, which is going to be underpinned by soon to be published Microfinance Regulations which will soon be published.

- **Second**, given the overwhelming role of commercial banks in the financial sector, Tanzanians will in the coming years continue to depend on the banks to provide a significant share of development finance. Thus, while the Government continues to explore ways of tapping other suitable sources of long-term finance, including the resources of insurance companies, pension funds and the new entrants –unit trusts and investment companies-, the commercial banks could now, upfront, participate more actively in the three credit guarantee facilities we have established at the Bank of Tanzania.

In particular, I am hoping that more commercial banks will take part in the operational Export Credit Guarantee Facility, and the just launched Credit Guarantee Scheme for Small and Medium-scale Enterprises the operational modalities of which will be published soon. Furthermore, steps are underway for the operationalisation of the Development Finance Guarantee Facility, thereby opening the door for commercial banks and other financial institutions to start addressing long over-due credit requests by the horticultural and other export oriented, labour intensive productive sectors, and to embark on the consideration of the credit needs of other sectors, such as, the mortgage or housing finance sector. It is noteworthy that these initiatives of the Government have as I said earlier, the backing of development partners, notably the IMF and the World Bank.

- **Third**, I urge the commercial banks to continue to work speedily with the Bank of Tanzania, in order to strengthen the effectiveness of the Credit Information Bureau, which was launched last year. This is an important tool for mitigating credit risk through the sharing of information that serves to decrease the number of dishonest borrowers.
- **Fourth**, while the Government continues to work hard to strengthen both the Commercial Court and the Land Division of the High Court, and to address legitimate concerns in the legal and judicial fields, we encourage our commercial banks to be more daring in carefully considering credit demands from customers without established track records. I commend those few banks that are ahead of the pack on this front. I know there is room in the commercial banking sector for constructive emulation. For, there is no way a new company can establish a track record of credit without first getting credit. Denying such a company credit is to consign it to a perpetual vicious circle of "no credit", "no track

record”, “no track record”, “no credit” and hence no growth.

- **Fifth**, the Banking sector’s inability to channel the deposits held into bankable projects is best demonstrated by their reliance on non-interest income to survive. On average, banks are currently receiving as much revenue from lending activities (interest) as from non-lending activities (non-interest). A high ratio of non-interest income for a bank reflects the general cost structure of the bank’s services. So the government will continue working with the banks in identifying and removing the impediments to more cost effective service delivery. These issues are being addressed under the Second Generation of the Financial Sector Reform Programme (FSAP).
- **Sixth**, I urge commercial banks to examine critically the structural impediments to the demand for bank credit and the obstacles to favourable assessment of expressed credit demand. Some of the problems that could be

encountered in this area, such as inability to prepare bankable projects, unfamiliarity with the potential borrowers, and lack of more familiar forms of collateral, could be overcome through a more forthcoming customer care mentality by the banks, including provision of modest technical assistance to prospective borrowers and deliberate efforts to meet and get to know the realities around your customers.

A bank that wants to make a difference in Tanzania has to reach out deliberately and proactively, by identifying potential entrepreneurs, nurturing them, and letting them grow under the bank's tutelage. Here, again, there are pioneering banks—which I thank and encourage—and plenty of good practices to be emulated by others.

- **Seven**, I urge our banks to urgently turn attention to two anomalies in Tanzania which are very rare in many other countries. The first is the absence of leasing undertakings in this country. Leasing is a significant

product in emerging markets like Tanzania. It helps to create employment, improve gross domestic product, and can play a crucial role in the promotion of small-scale industries. There is therefore a serious case for long term funding of leasing through provision of special lines of credit for leasing practitioners. I welcome suggestions from you as to how specifically I could take necessary and critical fiscal and legal measures to create the necessary conditions for a thriving leasing industry in Tanzania.

- **Eight**, the second wonder in Tanzania is how we build and acquire houses for domestic or even commercial use. Foreign people even wonder why Tanzanians live from hand to month; why they have to pay cash for every transaction they make. In developed countries you can buy bread, even sweets, on credit through the use of credit cards. You can acquire a house in a day and sell it the next day, thanks to various forms of banking products and mortgage facilities. It took me ten years to build a house, which would have taken much

longer, for lack of collateral, even though I have had very good sustainable social credit rating! In this area, our banks have a challenge: to also get us out of this disgrace. What else is needed to do so?

- **Finally**, I note that there are banks that have opted, for reasons of their own, to confine their activities to the city of Dar es Salaam. On balance, these banks tend to deal more with bank-worthy customers in the modern sector. I have no difficulty understanding the cherry-picking behaviour by such banks, since cherries are attractively delicious. The problem that I have, as a non-banker, is understanding whether the focus on cherry picking by branches of premier banks in the world is consistent with efforts to maximize cherry harvests in Tanzania, say ten years from now. My intuition tells me that we might all be better off if every bank were to do its best to reach out and lend a hand to the many Tanzanians upcountry, in rural and urban areas, that could in time become worthy bank customers.



## **Conclusion**

**Mr. Chairman,**

Let me, in conclusion, state the obvious. We are politicians; we count our profits by the number of votes we can score once every five years. We are therefore instinctively drawn to the concerns of the majority. Many of you, commercial bankers, have to focus, of course, on profits and the expectations of your shareholders. These considerations notwithstanding, we have a lot in common. In order to build a sustainable prosperous future, we have to pursue our short-term strategies within a vision providing for accelerated reduction in poverty and steady improvement in the well-being of Tanzanians. In this, we are true partners, comrade in arms, and you can count on the unwavering support of the Government.

T. S. Eliot, the poet, playwright, literary critic and editor was right when he said, "Only those who risk going too far can possibly find out how far one can go." And, in this country, those banks that want to operate in a cocoon, those that are averse to going out and risking, may never know how far they

can go if they work harder at it. I invite you all then to walk the extra mile with the government in prodding the margins of Tanzanian ingenuity and entrepreneurship.

**Mr. Chairman,**

May I end by taking this opportunity to commend the efforts and the role-played by your Association in promoting and monitoring the development of the banking sector. I appreciate the efforts you have made in addressing for example the high lending rates and low deposit rates that your members offer. However, we still have a long way to go. Indeed, it is my expectation that commercial banks could measure their success on the basis of the number of small enterprises including farmers who are able to obtain credit from banks, and while building long term credit relationships between them.

We are thus duty bound to sustain the achievements made by the reforms in the banking sector while at the same time focusing our sectoral contribution to poverty reduction. It is my expectations that this conference will come up with resolutions on the challenges I raised and others that will encourage the

commercial banks to prepare strategic banking services that would address the short and long term challenges economic growth and of poverty reduction especially in the rural areas.

**Mr. Chairman, Ladies and Gentlemen,** with these remarks it is now my pleasure to now declare the conference open.

I thank you for your attention.

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