

**SPEECH BY HIS EXCELLENCY JAKAYA MRISHO KIKWETE, PRESIDENT
OF THE UNITED REPUBLIC OF TANZANIA, AT THE TANZANIA
BANKERS ASSOCIATION DINNER, THE KILIMANJARO KEMPINSKI
HOTEL, DAR ES SALAAM ON 3RD APRIL 2007**

The Chairman of the Tanzania Bankers Association, Mr. Mayank Malik;

Honourable Minister of Finance;

Governor of the Bank of Tanzania;

Chief Executives of Banks and Financial Institutions;

Distinguished Guests;

Ladies and Gentlemen.

Let me start by saying what a privilege it is to address the Tanzania Bankers Association dinner this evening. I have been looking forward to this opportunity, to meet the people whose business is making money, and in the process stimulate economic growth.

I want to thank you for the enormous contribution you are making to Tanzania. As bankers, you are doing a commendable job, in mobilizing domestic resources and making them available to businesses and investors, who are in turn creating jobs and wealth in the country.

Mr. Chairman;

Ladies and Gentlemen;

I am delighted to see in this audience key stakeholders of the financial sector, the business community, legal professionals and my colleagues in Government. We have a common goal of improving the competitiveness of our economy and eventually achieve better life for all Tanzanians.

Allow me, therefore, to use this opportunity to discuss with you what, in my view, we can do together to meet the challenges of consolidating macro-economic stability and strengthening our country's growth prospects.

Ladies and Gentlemen;

I am aware that Bankers monitor closely the performance of the economies in which they operate. There is, therefore, little need for me to describe in detail the achievements that our country has made during the past two decades of reforms. Suffice it to say that most of the reforms we have made have produced positive results. Financial Sector Reforms, a more relevant topic for you, are now deeply entrenched. Currently there are 33 mostly private banks and financial institutions operating in the country, in addition to many private forex bureaus and insurance companies. There is also a growing stock market.

Last year our economy grew by 5.8 percent compared with 6.8 percent recorded during 2005. The slowdown in 2006 was due to the effects of drought and the energy crisis. The drought experienced during the whole of 2005 and the first quarter of 2006 affected food production and power generation. These developments together with persistent rise in oil prices exerted upward pressure on inflation which rose to an average of 6.2 percent in 2006 up from 4 percent in 2005. Foreign Exchange reserve position, however, remains fairly good.

The Government is currently working on diversifying in sources of power whilst looking for ways to better manage the power sub-sector in the country. We have taken measures as a consequence to increase power generation capacity from natural gas and coal. This will ensure reliable power supply which is essential for the proper functioning of the economy. The food crisis is now over as a result of good rains received in 2006. This year, the weather condition look promising. The prospects for 2007 are, therefore, good

and GDP is projected to grow at around 7 percent and inflation is expected to be at around 5 percent.

Ladies and Gentlemen;

I wish to take this opportunity to reaffirm my Government's commitment to stay the course of reforms, to continually improve the banking and business environment, and to promote private sector development.

To achieve these objectives, the Government has since 2002 been undertaking major reforms aimed at strengthening the business environment with particular focus on reducing cost of doing business. The Business Environment Strengthening for Tanzania (BEST) Programme is the instrument for achieving their objectives. Specifically, this is a programme for eliminating legal, regulatory, administrative and institutional impediments that inhibit the development of a competitive private sector in the country.

In further pursuit of this noble objective the Business Activities Registration Act (BARA) was passed by Parliament in January this year. The Act aims at reducing regulation and cost of compliance to the minimum. The overall objective is to reduce the cost of starting up business. Measures are afoot to streamline and harmonize the business licensing regime to ensure that regulatory licensing covers only businesses that have to be regulated by statute.

The Land laws have been amended to accommodate the provision of mortgages in order to reduce risk to Lenders and make borrowing easier for business. I understand, and, I am glad to note from the Chairman's statement that the Tanzania Bankers Association was involved in the review of the Land Act.

We are now working on expanding the scope of land reforms with a view to developing an efficient registration system for land titles. This will also involve strengthening the land information systems and improving the survey

and mapping infrastructure across the country. New resources are also being marshalled to strengthen further the Land and Commercial Divisions of the High Court and establishment of a National Identification System (National ID).

Labour laws are also undergoing reforms to address the concerns of stake holders including the banking fraternity. The underlying objective is to promote a better and efficient labour market and labour relations.

I presume you are also aware that the Government has recently taken deliberate measures to deal with the problem of efficiency of the Judicial and Legal system which has been a source of great concern for you. We have increased the number of Judges and Magistrates while at the same time addressing the infrastructural problems inherent in the Judiciary and the legal system as a whole.

Ladies and Gentlemen;

Allow me at this point to say a few words on the ongoing investment promotion drive by the government. There is no doubt that investment engenders economic growth, creates jobs and raises people's incomes hence reduces poverty. It is with this realization that my Government is quite keen on developing sustainable partnership with the financial sector and the private sector as a whole, in order to create a conducive investment climate in Tanzania. To this end, I have made investment promotion a major item on my development agenda.

We have agreed in Government that we should give prominence to eight sectors and sub-sectors in our investment drive and overall growth strategy. These include manufacturing, agriculture, tourism, energy, infrastructure, information and communication technology (ICT), export trade and human resource development.

Our objective is to see increased investment and business in these sectors. We are ready to go to great lengths to ensure that these aspirations are attained, for, I believe that if we succeed in these areas we will make a big leap forward in the development of our economy. I therefore look forward to the continued support and cooperation of the banking sector to enable us to succeed in these endeavours.

Mr. Chairman;

Ladies and Gentlemen;

I have highlighted in brief what we in the Government are doing to create conducive business environment to further the national cause. Now let us have a look at the other side of the coin. How has the banking system performed and what do we expect of it.

I note with satisfaction that there has been a marked improvement in the diversity and quality of operations and services in the banking sector in the recent past. For that, I commend you all. We count on the financial sector to play a key role in consolidating our economic gains. For, we cannot make significant progress in Tanzania's growth drive unless the financial sector moves with us. In this respect, I have a few observations and thoughts to share with you.

First, there is need to address public complaints on the banking sector. There are complaints that banks and financial institutions in the country are not aggressive enough in looking for alternative investment vehicles or avenues. They behave so portly because they earn high returns by just investing in Government Securities and Bank of Tanzania's liquidity papers. The large profits declared by banks and financial institutions somehow confirm this statement. I am informed that, the ratio of credit to customers' deposits is about only 45 percent. This means that 55 percent of deposits is invested in government

securities, in liquidity papers of the Central Bank of Tanzania, and in other assets.

Secondly, we need to find a solution to the present huge spread between lending and deposit rates. While inflation has fallen from 30% in 1995 to around 6% at present, the lending rates have during the same period declined more slowly from 37% to an average of 17% currently. Apart from high lending rates, borrowers are also charged loan administration fees ranging from 1 to 2 percent. All this makes borrowing in Tanzania very expensive.

Conversely, I am informed that most banks are offering a mere 1-2 percent interest on deposits which is negative in real terms when assessed against inflation rate of 6 percent. I know, bankers have a long list of reasons to justify the substantial interest spread, but honestly, a spread of 15% can hardly be justified.

The banking fraternity should do more to reduce the cost of credit in the economy. In this regard, you ought to bring down the cost of credit to reasonable levels so as to expand your clientele to include businesses engaged in production, for these are the businesses which are currently unable to climb the ladder with you. This includes development of loan products for the agricultural sector.

Thirdly, I am informed that some banks have floated and others are considering floating bond products of long-term nature in a move to address the lack of long-term financing. I have also taken note of your statement Mr. Chairman that a few banks have ventured into mortgage financing.

I commend them for the move. For it is impossible for the majority of Tanzanians to build houses from their own savings alone. Remember, shelter is one of the three basic needs of humankind.

The Government is committed to facilitate a process that will enable most Tanzanians to own houses. I have taken note of the concerns about impediments to the development of the mortgage and leasing financing markets in the country such as difficulties of foreclosure of properties of defaulting borrowers. I have also taken note of your proposal to amend chapter X of the Land Act to adopt non-judicial mortgage enforcement procedures, registration of legal interest in properties, lack of Citizen Identity, the need to enact a Leasing Finance Law and others.

I want to assure you that the Government is ready to consider the recommendations of the Tanzania Bankers Association as soon as it is practically possible. Already the process of developing a National Identity has commenced. A Leasing Finance Bill and a project to modernize Court case management are also underway.

Mr. Chairman; Ladies and Gentlemen;

I have heard that the banking sector prides of a network of 294 branches and agencies, and 176 Automated Teller Machines. Unfortunately, most of these are concentrated in urban areas, leaving the bigger portion of our vast country without financial services. I suggest that you revisit your policies on branch expansion programmes. We want all Tanzanians to have easy access to banking services.

Ladies and Gentlemen;

I believe this is the only way we can truly inculcate a saving culture in our society and build confidence in financial intermediation. For, there is still too much money circulating outside the banking system, a situation which is not healthy for our economy. I am confident that you can assist in the provision of financial services in the rural economy without necessarily compromising your returns on investment.

I commend you for undertaking micro-financing programmes and efforts to reach the rural population as mentioned by the Chairman. But you cannot reach these prospective clients by operating from urban centres. I therefore request you to open branches in rural areas so as to stimulate growth in these areas. At the same time I want to assure you that my Government fully supports your endeavours towards the assurance of an efficient, effective and safe banking sector. Our decision last year to deploy police officers to guard banks against armed robberies should be seen in that context.

Mr. Chairman,

Ladies and Gentlemen;

Last but not least, I would like to touch briefly on the National Economic Empowerment and Job Creation Programme which has dominated the news media recently. As you are aware, this programme was introduced by the Government this fiscal year with a view to providing soft loans to individual entrepreneurs, economic groups and financial intermediaries such as SACCOS.

As you know very well the programme is to be implemented in two phases. Phase one involving the two big banks namely CRDB and NMB, and the second phase, would involve small banks and other financial intermediaries that would be interested.

I would like to take this opportunity to reiterate what I said recently that the money under this programme is not free money. It is money meant to facilitate provision of loans to targeted groups under certain terms and conditions.

In this regard, banks and financial institutions are expected to apply their normal lending principles and procedures when processing applications from the would be borrowers but, of course, taking into account the requirements for the provision of soft loans and the fact that many of the clients in this category

are not familiar with banking rules. For the programme to succeed, and be sustainable, loans should be repaid. I, therefore, call upon banks to join hands with the Government to ensure that the programme succeeds.

Mr. Chairman and members of the Tanzania Bankers Association, the foregoing are some of my views which I thought I should share with you tonight. I believe that by working together – the government and the banking sector – we can meet the challenge of building a stronger national economy for the benefit of us all. It can be done, play your part.

I thank you for your kind attention and please enjoy your dinner.

'Bon Apetit !'.

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