Financial Institutions And Poverty Alleviation In Tanzania

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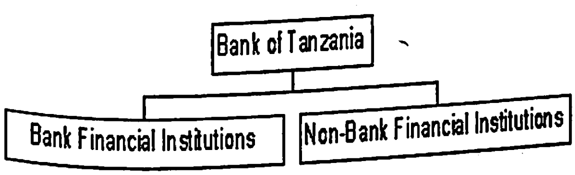
Abstract: Financial institutions in Tanzania have operated under a competitive financial system between 1961 and 1967. The same institutions faced a turnaround in 1967 into financial repression. It was a highly regulated and specialized financial system with government intervention in the context of a centrally planned system. High inflation and negative interest rates were common. The system was geared to serve more the public sector at the expense of the private sector. With the onset of economic reforms in 1984, the economy's direction began to move away from the tenets of a centrally planned economy towards free-market orientation. In 1991 financial sector reforms became a reality.

In their current set up financial institutions are divorced from the strive for poverty alleviation. They are least involved in direct poverty alleviation and only marginally involved in indirect poverty alleviation. Poverty as a broad concept that we adopt involves both income and non-income attributes of human development. Emphasis consists in the ability to meet basic needs and sustain human decency and dignity, which goes together with participation. Financial institutions have tended to serve the urban areas. They have also favored traders rather than producers. They favor short-term to long-term lending. Lending rates for long-term are also too high to be an incentive to productive sectors of the economy. They seem to be so risk averse that, a greater proportion of their investments are in government securities, thus leading to crowding -out effect of private sector investments. This trend has to be reversed by a search for means to reach the poor directly through micro-credit facilities, other micro-credit institutions and NGOs devoted to the cause and indirectly by lending to productive sectors at less than the current rates.

INTRODUCTION

The following superstructure represents Tanzania's financial institutions.[1]

Chart 1.0: Tanzania's Financial Superstructure



A financial institution is a business firm whose principal assets are financial assets or claims such as stocks, bonds, and loans, instead of real assets such as buildings, equipment, and raw materials. Financial institutions make loans to customers or purchase investment securities in the financial market place. They also offer a wide range of other financial services ranging from insurance protection and the sale of retirement plans to the safekeeping of valuables and the provision of a mechanism for making payments and transferring funds.

Financial institutions are part of a vast financial management system that serves the public. The financial management system is composed of a network of financial markets, institutions, businesses, households and governments that participate in that system and regulate its operation.

Table 1 provides a list of all financial institutions which were operating in Tanzania by December 1998 and comprised of 44 institutions, including the central bank. There were 20 licensed commercial banks, of which 17 were operational. Of the total 9 were foreign owned, 6 were joint ventures, and 5 local.

As a product of economic reforms these financial institutions are not strictly specialized, as was the case prior to 1991. Major weaknesses of the pre-1991 financial system constituted in

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1 Banking and Financial Institutions Act, 1991.

Table 1: *Financial Institutions in Tanzania*

Bank Financial Institutions	Non-Bank Financial Institutions
1.NBC (1997) Ltd	1.Tanzania Postal Bank Ltd
2. National Micro-Finance Bank Ltd	2.Tanzania Investment Bank Ltd
3.Peoples Bank of Zanzibar Ltd	3.Crown Finance & Leasing Ltd
4.Trust Bank (T) Ltd	4.National Bureau de Change Ltd
5.Standard Chartered Bank (T) Ltd	5.Savings and Finance Ltd
6.Eurafrican Bank (T)	6.Furaha Finance Ltd
7.Mufindi Commercial Bank Ltd	7.Capital Finance Ltd.
8.Kenya Commercial Bank Ltd13	8. Karadha Company Ltd
9.Exim Bank (T) Ltd10	9. Ulc (T) Ltd
10.Stanbic Bank (T)	10.Stanbic Financial Services Ltd
11.Akiba Commercial Bank Ltd9	11.1st Adili Bancorp Ltd
12.International Bank of Malaysia (T)	**Other Financial Institutions**
13.Citibank (T) Ltd	1.Heritage Insurance Corporation
14.Diamond Trust Bank (T) Ltd	2.Jubilee Insurance Corporation
15.Habib African Bank Ltd2	3.National Social Security Fund
16.CRDB (1996) Ltd	4.Parastatal Pension Funds
17.Mwanga Rural Community Bank	5.Alliance Insurance Corporation...
18.Greenland Bank (T) Ltd	6.Tudor Insurance Corporation
19.Kilimanjaro Cooperative Bank Ltd	7.Reliance Insurance Company
20. Agro Credit & Export Bank Ltd	8.Imperial Insurance Company
	9.Lion Insurance Company of Tanzania Ltd
	10.Royal and Sun Alliance Insurance Company
	11.National Insurance Corporation
	12.Zanzibar Insurance Corporation

the specialized nature of publicly owned banks and their monopoly positions, which made them become less responsive to opportunities and constraints in the market as they did not face any competitive pressures.[2] This was compounded by government interference in their day-to-day operations symbolizing lack of clarity of the distinction between fiscal and financial activities. Above all, widespread managerial weaknesses undermined the performance of financial institutions.

In brief, the damage to the financial sector was caused by; first, losses suffered by public sector institutions (parastatals, cooperatives, marketing boards), which had heavily borrowed, from the financial institutions, owing in part to government pressure. Second, was an ambitious branch expansion program and commercial bank' s reliance on central bank financing.[3]

Impact of Economic Reforms on the Financial Sector

In order to reform the financial sector for competition in the delivery of financial services the Banking and Financial Institutions Act, 1991 provided the legal and regulatory framework. The role of the central bank was redefined in the Bank of Tanzania Act of 1995 to focus on price stability and soundness of the financial system. Thence, the central bank has relied on indirect monetary policy instruments rather than the direct. The central bank's previous role of allocating foreign exchange and directing credit and administering interest rates was relinquished

The Loans and Advances Realization Trust was put in place in 1991 to take care of the large

3 *Ibid*

non-performing loans of financial institutions. To this effect LART bonds were issued to NBC and CRDB in 1992 and 1993 respectively in place of non-performing loans.

Restructuring and recapitalisation of publicly owned banks was conducted in phases, with CRDB being fully restructured and privatized in 1996. THB was closed in 1995 following huge losses, while NBC was split into two banks in 1997 to improve efficiency. The new banks are NBC (1997) Ltd, and National Micro-Finance Bank (NMB). Recapitalisation of NBC and NMB also took place in 1997.

Liberalization of insurance business was achieved in 1997 with an act of Parliament. Since then, 8 private insurance companies have been licensed.

The net overall impact of economic reforms in the financial sector can be assessed in terms of declining annual inflation from 28.8 % at the time of starting financial sector reforms to an average of 6% to date. About 270 public enterprises were divested by December 1999 through the Parastatal Sector Reform Commission (PSRC). Divested firms will provide a reliable customer base for financial institutions. Last, but not least, economic reforms in the financial sector have reversed the disincentive of negative real interest rates into positive real interest rates in terms of time value of money. Positive real interest rates provide an enabling environment for savings mobilization. Lending to the private sector improved substantially during the reform period. The share of domestic credit to the private sector increased from 21.8% in 1991 to 36.4% in 1994, 38.2 % in 1997, and 41.8 % in 1998. Conversely, the share of credit to publicly owned commercial enterprises and cooperative unions declined drastically from a peak of 53.5% in 1991 to 1% in 1997 and 1998 in view of their poor track record and their subsequent privatization. The share of credit to the government also declined, falling from a peak of 66.7 % in 1996 to 56.4 % in 1997 and to 54.5% in 1998.

As regards lending to the productive sectors, using figures for medium and long-term lending as a proxy, some improvement has been observed. While term lending accounted for 18% of all domestic credit in 1990, the same declined to 10.3 % in 1995 and further to 3.3% in 1997 because of reforms. The lending to productive sectors scenario improved slightly whereby in 1998 term lending accounted for 13.2 % of all domestic credit.

The main factors which constrain lending to the productive sectors are: first, the risk averse attitude of commercial banks, gives priority to investment in risk free government securities, through the treasury bills market, even at a lower interest rate rather than lend to their customers. Second, lack of bankable projects and the low credibility of potential borrowers most of whom have poor track records. Third, new banks are concentrated in Dar es Salaam and have a bias against small-scale borrowers and savers. Fourth, publicly owned banks took their time in restructuring restricted their lending operations and gave priority to loan recovery activities. Fifth, high lending rate charged by commercial banks are due to high operating costs of the dominant commercial banks. Last but not least the bureaucracy in the legal machinery slows down the settlement of commercial disputes especially, foreclosure of mortgages.[4]

The tendency for financial institutions to limit their lending to productive sectors is one indicator that they play a limited role in indirect poverty alleviation through employment generation.

Academicians, researchers, and consultants may have to assist financial institutions in the designing of new financial products to enable them address the current agenda of poverty alleviation. Such stakeholders 's inputs would also contribute to a reduction in financial institutions' high operating costs.

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4 *Ibid* p 11-12

Table 2: *Commercial Bank Lending by Percentage Shares*

Year	Short Term	Long Term	Govt	Public Enter	Private
1980	35.8	4.7	59.6	33.5	6.2
1981	23.8	14.3	62.0	32.0	5.4
1982	22.6	12.8	64.7	28.7	6.3
1983	20.5	13.5	66.0	27.7	6.0
1984	21.8	12.2	65.5	32.1	3.7
1985	25.0	10.2	64.8	32.5	4.8
1986	35.7	10.2	54.0	32.7	4.9
1987	52.4	8.3	39.3	51.5	6.5
1988	45.8	17.4	36.8	40.8	11.2
1989	52.6	14.0	33.4	43.9	13.8
1990	56.3	18.0	25.7	42.9	22.3
1991	67.1	16.9	16.0	53.5	21.8
1992	56.5	16.8	26.8	12.0	29.4
1993	41.9	17.8	40.3	10.0	29.9
1994	41.9	17.0	36.8	9.0	36.4
1995	37.6	10.3	51.7	6.9	30.2
1996	25.9	7.3	66.6	1.7	26.3
1997	40.6	3.3	56.4	1.0	38.2
1998	29.5	13.2	54.5	0.9	41.8

Table 3: *Deposits to GDP Ratios*

Year	Deposits	GDP	%
1986	32,828.2	224,464.0	0.15
1988	59,332.2	481,100	0.12
1989	76,938.0	582,166	0.13
1990	110,939.9	760,005	0.15
1991	151,459.7	989,594	0.15
1992	211,907.3	1,275,917	0.17
1995	535,700.3	2,796,642	0.19
1996	582,283.7	3,452,558	0.17
1997	668,489.6	4,281,600	0.16
1998	744,591.5		

THE STATUS OF POVERTY IN TANZANIA

Tanzania's Poverty Reduction Strategy Paper (PRSP) defines poverty to include "income" and "non-income" human development attributes.[5] A detailed conceptual framework is given in Annexes I and II. The characteristics of income poverty can be typified as: first, poverty is predominantly a rural phenomenon. Second, the poor are concentrated in subsistence agriculture. Third, urban poverty is also widespread and increasing. Fourth, the youth, the old and large households are more likely to be poor. Fifth, although female-headed households are not necessarily poorer than male-headed households, women are generally perceived to be poorer than men. The incidence of poverty appears to have declined during 1983-1991 and 1991-1993 and risen during 1993-1998. The more recent deterioration in the poverty situation is probably attributable to worsening income inequality, and relatively low rate in economic growth, particularly in the rural areas. Non-income poverty is a function of access to education, survival of infants, nutrition, clean and safe drinking water, social well-being and vulnerability to disease.[6] The causes of poverty may be global or local depending on one's analysis.

Global Context

Some observers see the radical liberalization of trade under WTO agreements as likely to further polarize the rich and poor both within and between developed and developing regions and countries. Tanzania's Development Vision 2025 correctly assesses that the current position of Tanzania in the world economy is characterized by marginalisation in trade, investment and technology flows. This is manifest in the form of not only a small share in world trade but also a declining one. The country's presence in world trade is largely confined to primary exports and importation of non-primary products.

The fast growing world investment flows and rapid technological advances have virtually by-passed Tanzania. Marginalisation in terms of investment flows is manifest in the low level of foreign direct investment (FDI), partly historically determined. The colonial history of Tanzania is associated with the periphery position to Kenya where most colonial investments occurred. In the

[5] URT (2000) "Poverty Reduction Strategy Paper" Dar es Salaam, October p.5

[6] *Ibid* p. 6-11

post-colonial period Tanzania did not pursue policies attractive to FDI. It is only recently that efforts have began to put in place an environment conducive to FDI, which in turn has began to pay off.

Relative to the world economy, productivity growth and technological learning has been low in Tanzania compared to most countries. Tanzania's abundant labour is largely unskilled, and hence cannot form a reliable and sustainable basis for international competitiveness.

Local Context

From research work done by Research on Poverty Alleviation (REPOA), it is generallyaccepted that the main local causes of poverty include the following factors: liberalization of agricultural markets; abolition of traditional land rights; export incentives; misuse and embezzlement of funds and tax evasion; food security and malnutrition; unemployment and underemployment; lack of appropriate property rights; low productivity in agriculture; the distance to the nearest road; distance to the nearest crop markets; access to private market institutions; prevalence of AIDS , polygamy and regional dimension of poverty.

Liberalization of Agricultural Markets

The internal liberalization of agricultural markets under Structural Adjustment Programmes (SAPs) mirrors the global policies of the international financial institutions (IFIs), the multinational corporations, the USA and its major trading partners. The negative aggregate impact of export promotion on the terms of trade for tropical products is often cited as a major weakness of SAPs in Sub - Saharan Africa.

Abolition of Traditional Land Rights

Other poverty-relevant elements of the liberalization strategy are the recent abolition of traditional land rights, which is leading to land grabbing for agriculture, ranching, hunting, tourism, mining or speculative purposes.

Export Incentives

Similarly, increasing export incentives may have serious environmental consequences, tobacco growing being one obvious example. Since market liberalization has so far largely failed to improve export incentives for traditional crops - coffee, tea, cotton, tobacco and (partially) cashew nuts - the environmental impact of the policy is yet to be fully appreciated.

Some environmentalists argue that present forms of economic development may be fundamentally incompatible with environmental conservation. This issue should be a major focus of future "poverty" research, including sustainable agricultural practices and technology, forestry, and water management. Which section of the poor stands to lose or gain most under a more market-oriented economic regime should also be a subject for future research.

Misuse of Funds and Tax Evasion

Anecdotal evidence and press reports indicate a huge misuse of donor import support funds and widespread tax evasion by both the private and public sectors. The accumulated losses of state industries, marketing boards and cooperative unions represents an enormous drain on national resources and continue to stall further efforts.

Low Agricultural Productivity

Agriculture is the mainstay of the Tanzanian economy, employing more than 80% of its labour, and producing more than 60% of GDP, and merchandise exports. High population pressure and lack of incentives have resulted in serious distress to the sector, in spite of evidence, especially in China, that small holder farmers can be relied upon to contribute to sound growth of the economy.

There are two million hectares of high potential agricultural land still available. Smallholder farmers are known to respond positively to changes in incentives. Measures to improve smallholder access to the cash economy can have a decisive impact on fostering agricultural development and speeding the transition from a rural economy to an industrial economy. Only when the agricultural sector grows enough to supply adequate food, foreign exchange and financial savings, can non-agricultural development - with high returns to labour fully blossom. Only then will Tanzanians currently employed in the agricultural sector be brought out of poverty.

Distance to the Nearest Road and Crop Markets

A World Bank study (1995) found that reducing the distance to the nearest road from the current average of 0.5 kms to 50-100 metres would increase household income by more than three percent. Decreasing the distance to the nearest crop market will also raise household income.

Access to Private Market Institutions

However, physical infrastructure is not the only factor that influences people's ability to trade. The institutions of the market also matter. Connection to the national market, especially marketing of traditional export crops, is the major factor in raising the welfare of large numbers of agricultural households. Several models of rural poverty show that involvement in the production of traditional export crops raises expenditure by approximately 16%. Conversely, it is the regions and households that lie beyond the network of private market institutions, and which do not grow cash crops that are most likely to be poor. In other words, a combination income creates a high level of relative poverty. While policy may not be able to address the problem of infertile soils, it is possible to reduce isolation and to bring impoverished areas nearer to alternative sources of income.

Food Security and Malnutrition

Food security has to be considered at two distinct levels: the national level and the household level. A survey of six farming systems in Kilimanjaro, Mtwara and Dodoma regions revealed complex food security patterns. In Newala District - considered to be a poor area - the majority of the surveyed households produced enough cassava to fulfill year-round needs. However, in the coffee-banana farming system of Hai District -a better-off area - households reported the need to buy food before harvest. Households in Dodoma region, also a relatively high-income area, were able to produce enough food to last for only about 9 months. Yet Hai District and Dodoma areas should be better off if higher income levels and a reasonable level of integration into the market economy are favourable to food security. This tempts one to conclude that these households are food insecure due to low levels of income and limited off-farm income opportunities. In rain-fed agriculture, poor households that are dependent on food crop production to generate income are very vulnerable to external shocks such as drought and are likely to be food insecure.

Unemployment and Underemployment

Recently conducted interviews with farmers reveal that while unemployment per se was not visible in the surveyed areas, there seemed to be persistent underemployment in terms of working hours. Suggested causes include shortage of accessible land, lack of capital to expand farm production and limited off-farm opportunities.

The slow development of the private sector, retrenchment in the public sector, and slow employment generation in the rural sector, may be contributing to increases in unemployment and underemployment. This imbalance between growth in the labour force and expansion of economic activities does not seem to be improving. In spite of land availability, the absence of basic infrastructure coupled with a long time heavily regulated economy, may have constrained the capacity of the rural sector to absorb surplus labour, and of the private sector to create new jobs.

Lack of Appropriate Property Rights

In rural Tanzania, the absence of certain property rights diminishes the capacity of smallholders to find the right labour-capital intensity or to respond adequately to price incentives. Traditional forms of property ownership can work extremely well within that group, but they can be a hindrance to the economic integration of the country. Informal and traditional systems also reinforce gender-based discrimination and can be particularly oppressive to the weak or poor.

Widespread formal property rights allow for low cost exchange of titles, thus fostering specialization and greater productivity in the case of land, with more than 80% of rural Tanzanian households owning some, the fact the property rights are not protected by formal title may constitute a serious threat to economic growth and an obstacle to efforts in alleviating poverty. Investments to improve the soil or reduce erosion are less likely to be made when people do not have formal titles. Similarly, irrigation schemes may not look like attractive investments because of the insecurity associated with the absence of property rights.

The widespread uses of common land ownership, in traditional systems and under the village governments, increases the incentive for large families and use of children as hunters/gatherers/vendors because land is free and abundant. The result is reduced investment, not only in land and agricultural capital, but also in human capital.

AIDS/HIV

The National Aids Control Programme (NACP) estimates that HIV prevalence rates are at 7-10% and higher in some regions, the worst hit being Kagera. Out of 800,000 victims in 1992, 160,000 developed AIDS. The prevalence of AIDS imposes financial constrain on limited resources and thus intensifies poverty.

Polygamy

Polygamy has been found to be mostly associated with the traditional lifestyles of rural areas. Polygamy is relevant for social welfare analysis due to its strong correlation with other poverty factors. It is always the case that polygamous households have large families in comparison to monogamous ones. Having a large family strains family incomes.

Strategies for Alleviating Poverty

Different authorities have come up with various strategies for alleviating poverty. The following are proposed for Tanzania:

Extend Social Services to Poor Households

The government and other agencies should target subsidies to poor households. They should move resources closer to the poor and promote household investment in human capital. This strategy represents a full departure from the supply-side approach to the social sector. In the long run, it will be the most effective way to finance important inputs into human capital.

In the short term the government should, firstly, design and test mechanisms through which investment in human capital for the poor may be delivered. Secondly, it should undertake studies to determine appropriate modalities for the type of investment in different sections of the society, based on gender and other social groups. Thirdly, it should design and test mechanisms for facility based management, in which the beneficiary group (being assisted) can see how they can affect decisions and, ultimately, have a say on the assistance provided.

Accelerate Economic Growth

There is ample example from around the world, particularly from East Asia, to show that poverty can be effectively reduced through accelerating economic growth. This is mainly so if growth is generated in the labour intensive sector of the economy. Economic growth policies have to be couples with income redistribution policies so that the poor households may acquire their own capital base.

Raise the Return on Assets

Subject to further research, raising the return on assets, especially land, labour and livestock, has been found to have a great potential in alleviating poverty, as opposed to increasing access to the productive assets *per se*. As shown in a World Bank Report (1993), the rural poor own assets, so raising the returns to agricultural production by reducing taxation on the rural sector and liberalizing markets should have a strong and immediate impact on the poor. Also, emphasis should be on increasing the quality of assets.

Diversify Employment

Diversification from farm employment to non-farm employment can raise the incomes of the rural poor. Alternative employment can either be sought in rural industries, rural informal sector activities or in urban centers.

Institute Property Rights

Where formal property rights are absent, ownership arrangements are defined by informal agreements since the formal law has no way to connect them. Clearly, the government is responsible for fostering change and formalizing ownership arrangements. The first step may encompass policies to strengthen indigenous tenure systems, e.g. recording of contractual arrangements, or security of water rights and dry season grazing for pastoralists. However, this will not solve the problem to ensure that, as land markets further develop, women are not increasingly disadvantaged since traditional tenure arrangements and customary laws are clearly biased against them.

Conduct Focused Research

One of the ways to increase understanding of the nature and cause of poverty in Tanzania is to undertake research and improve methodological issues, particularly data collection. Furthermore, a set of sub-themes on poverty should be identified and research undertaken in these areas (REPOA strategy). From these, policy measures can be proposed and designed to attack poverty with targeted interventions on the basis of available knowledge about its nature, spatial distribution, incidence and rate of change.

Involve Targeted Households

This approach was developed in the late 1970s and early 1980s by South Asian sociologists and economists searching for ways to reach out to the rural masses of India, Sri Lanka, Bangladesh and Pakistan. The approach, also known as "change agent" methodology, is concerned solely with micro-development processes although it has the potential to affect macro-processes in the long run. The methodology is most effective when macro-economic and macro-political policies favor small-scale initiatives and democratic participation. In the long run, this methodology ensures sustainability; to some extent rules out continued injection of external capital and does not involve top-down decision-making. This methodology works well with both on-farm and off-farm activities such as artisanal, service and small scale industrial employment.

All in all, poverty is a very complex and prevalent social malaise in Tanzania. It has so many dimensions, operating at different levels and varies across time and space. It also varies according to the social, economic, political and cultural development of the respective section of the society. Strategies to combat poverty include properly targeting the poor in terms of providing social services; accelerating economic growth;

instilling effective redistributive policies; raising returns on the poor's assets (including land); encouraging non-farm employment; ensuring fair inheritance rights and finally, making sure that the poor fully take part in planning their developmental activities and decision making.

ROLE OF FINANCIAL INSTITUTIONS IN POVERTY ALLEVIATION

In order for a sound banking system to make significant contribution to the economy, banking services ought to be accessible to the majority of the population. At present this is not the case. The majority of Tanzania's population lives in rural areas while most banks are located in Dar es Salaam and few other regional towns as shown in Table 5.0. As hitherto indicated the status of poverty in this country is characterized as a rural phenomenon among other.

It is therefore true that the rural poor do not have access to financial services offered by the banking system. This also translates to another fact that financial institutions have so far made no tangible direct contribution to poverty alleviation in rural Tanzania.

A review of the assets structure of financial institutions indicate that lending is mainly concentrated on short term financing such as overdrafts and advances with only little portion issued as long and medium term loans.[7] At the same time high lending interest rates make borrowing very expensive and has adverse effect on investments particularly in the productive sector. This can be seen in Table 6.0.

Only about 17% of total resources mobilized by banks in Tanzania is allocated to medium and long-term projects. Most of the funding was given to trade-related activities.[8] This means major beneficiaries of financial services offered by the majority of financial institutions are traders. Lending to the agricultural sector by commercial banks has been in the range of 41% in 1990 down to 9% in 1997. During this time interval percentage lending to agricultural production per se ranged between 8 to 12 percent.[9] The immediate interpretation of this statistic is that financial institutions have an indirect contribution to poverty alleviation to the minimum magnitude out of the total loanable funds. In simple terms out of every 100 shillings of loanable funds, the financial system, which is highly bank-centered, devotes about 12 shillings towards agricultural production, and hence the same amount towards indirect poverty alleviation in general.

As a natural law 'nature abhors a vacuum.' A mushroom of Savings and Credit Cooperative Societies (SACCOS), Non-Government Organizations (NGOs) and other local and informal money lenders substituted financial institutions in the fight to eradicate poverty. To date there are 500 urban and 228 rural SACCOS with a total membership of 133,700 and share capital of Tshs 5.1 billion.[10]

NGOs have been very instrumental in reaching the poor and difficult- to- serve clients. They have also been important in developing and testing innovative products and service delivery mechanisms.[11] Some countries like Bolivia have managed to transform NGOs into financial institutions.

There is still need for research to establish who has access to micro-credit facilities. Along the same lines, the argument is to establish to what extent the poor have made use of micro-credit facilities. Recent action plans have two funds under the Vice President's Office (VPO); namely the Poverty Alleviation Fund and the

7 See also Table 2.

8 C.S.Kimei (1999) "The Role and Experience of Financial Institutions in Financing of Economic Growth" 11[th] Conference of Financial Institutions, AICC Arusha, February

9 See Bank of Tanzania (1999) " Soundness of the Banking System and Sustainable Financing of Economic Growth" Directorate of Banking Supervision, 11[th] Conference of Financial Institutions, AICC Arusha, February, mimeo p.13.

10 G.C.Rubambe (1999)"The Role of Micro Finance in Sustainable Financing of Economic Growth" 11[th] Conference of Financial Institutions, AICC Arusha, February, mimeo p.6.

11 *Ibid* p. 7

Table 5: *Licensed Banks and Financial Institutions and Branch Distribution*

Name	Number of branches	Branch location
1.NBC (1997) Ltd	35	All regional towns and some district towns
2. National Micro-Finance Bank Ltd	95	All regional towns and some district towns and also in some wards
3.Peoples Bank of Zanzibar Ltd	3	Pemba & Unguja
4.Trust Bank (T) Ltd	3	Dar, Mwanza, & Zanzibar
5.Standard Chartered Bank (T) Ltd	2	Dar and Mwanza
6.Eurafrican Bank (T)	1	Dar
7.Mufindi Commercial Bank Ltd*	-	-
8.Kenya Commercial Bank Ltd13	1	Dar
9.Exim Bank (T) Ltd10	1	Dar
10.Stanbic Bank (T)	4	Dar, Arusha & Mwanza
11.Akiba Commercial Bank Ltd9	1	Dar
12.International Bank of Malaysia (T)	1	Dar
13.Citibank (T) Ltd	2	Mwanza and Dar
14.Diamond Trust Bank (T) Ltd	1	Dar
15.Habib African Bank Ltd2	1	Dar
16.CRDB (1996) Ltd	21	Nearly all regional towns
17.Mwanga Rural Community Bank*	-	-
18.Greenland Bank (T) Ltd+	2	Dar and Zanzibar
19.Kilimanjaro Cooperative Bank Ltd	1	Moshi town
20. Agro Credit & Export Bank Ltd*	-	-
Non-Bank Financial Institutions		
1.Tanzania Postal Bank Ltd**	3	Dar
2.Tanzania Investment Bank Ltd	1	Dar
3.Crown Finance & Leasing Ltd	1	Dar
4.National Bureau de Change Ltd*	-	-
5.Savings and Finance Ltd	1	Dar & Mwanza
6.Furaha Finance Ltd	1	Dar
7.Capital Finance Ltd*.	-	-
8. Karadha Company Ltd	1	Dar
9. Ulc (T) Ltd	1	Dar
10.Stanbic Financial Services Ltd	1	Dar
11.1st Adili Bancorp Ltd	1	Dar

+ Ceased operations in 1999.

** The institution operates in postal offices all over the country under agency.

* The institutions had not started operations by December, 1998

Source: Bank of Tanzania

Table 6: *Tanzania's Interest and Inflation rates 1976-1997*

YEAR	Interest Rate % Savings*	Interest Rate % Lending*	Annual inflation rate (%)
1976	4.00		6.9
1977	4.00	10.5	11.6
1978	5.00	11.5	6.60
1979	5.00	11.5	12.90
1980	5.00	12.00	30.20
1981	6.00	12.00	25.70
1982	7.50	12.50	28.90
1983	7.50	9.50	27.10
1984	7.5	9.50	36.10
1985	10.00	16.00	33.30
1986	10.00	16.00	32.40
1987	21.50	29.00	30.00
1988	21.50	29.00	31.20
1989	26.00	31.00	30.40
1990	26.00	31.00	35.90
1991	26.00	31.00	28.80
1992	26.00	31.00	21.90
1993	24.00	31.00	25.20
1994	26.00	39.00	33.10
1995	27.00	45.00	28.40
1996	22.30	46.00	21.00
1997	12.78	28.00	16.40

Sources:

(1) Bank of Tanzania " *Economic and Operations Report*" 1984, 1996, 4th Quarter Report, 1997

(2) Tanzania Bureau of Statistics: *Statistical Abstracts*; 1992

(3) *IMF Year Book*, 1996

* Highest interest rates were taken

Women Micro Credit Facility.[12] The later is linked to the Equal Opportunities Trust Fund although both funds fall under the VPO and are meant to finance the National Income Generating Programme (NIGP).

CONCLUSION

Poverty alleviation is the current agenda. Tanzania's financial system has to be fine-tuned to respond to this economic agenda so that it contributes more to economic growth through lending for agricultural production. This implies that there should be a shift in financial institutions assets structure to favour more long-term lending to productive sectors of the economy than focus on short and medium term to traders. This would be partly achieved by reducing long-term interest rates to slightly above 6%, the current average annual inflation rate. Due to central bank focus on price stability and soundness of the financial system expectations ought to be positive that the good inflation record shall be sustained.

Currently a big portion goes to investment in government securities; this has the direct crowding-out effect for investment in the infant private sector. The more financial institutions invest in treasury bills the less they lend to the private sector.

Financial institutions in Tanzania can use selected SACCOS and NGOs to reach the urban and rural poor. Though financial institutions are profit -seeking enterprises, they nonetheless, have a social responsibility in contributing towards poverty alleviation.

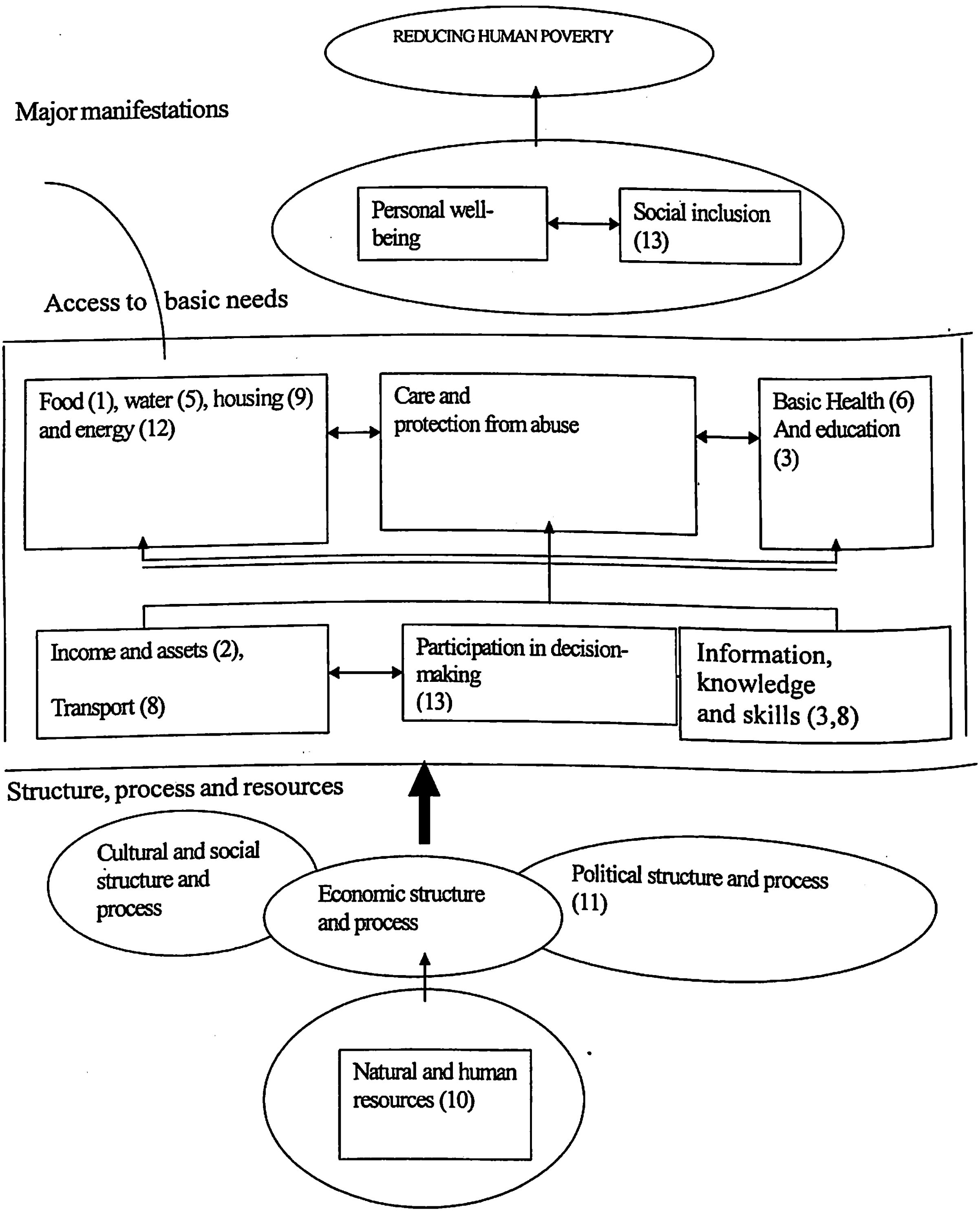
Annex I: *List of Poverty and Welfare Indicators (Nation-Wide)*

1. Food Security
2. Income and Production
3. Education
4. Health Status
5. Water and Sanitation
6. Health Services
7. Malnutrition
8. Transport and Communication
9. Housing
10. Environment
11. Household and Family Relations
12. Energy
13. Empowerment and Participation
14. Tradition and Norms

Source: URT (1999) " Poverty and Welfare Monitoring Indicators" Vice President's Office, November, Ch.2

12 URT & UNDP(2000) " Optimal Modalities Towards Increasing Access of the Poor to Micro-credit facilities" p. 3

Annex II: *Conceptual framework for Reducing Human Poverty in Tanzania*



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