TANZANIA MAINLAND'S 50 YEARS OF INDEPENDENCE

A Review of the Role and Functions of the Bank of Tanzania (1961—2011)

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June 2011

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ACRONYMS

AACB	Association of African Central Banks
ABC	African Banking Corporation
ADF	Africa Development Fund
AFCP	Annual Finance and Credit Plan
AFI	Alliance for Financial Inclusion
ATM	Automated Teller Machine
AU	African Union
BCP	Business Continuity plan
BFIA	Bank and Financial Institutions Act
BOT	Bank of Tanzania
BOU	Bank of Uganda
CBK	Central Bank of Kenya
CCBG	Committee of Central Bank Governors
CDD	Cooperative Development Department
CDS	Central Depository System
CEO	Chief Executive Officer
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
CRDB	Cooperative and Rural Development Bank
CSR	Corporate Social Responsibility
DANIDA	Danish International Development Agency
DCP	Debt Conversion Program
DFI	Development Finance Institutions
DFID	Department for International Development
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
EACB	East African Currency Board

EAPS	East Africa Cross- Border Payment System
ECH	Electronic Clearing House
EFT	Electronic Fund Transfer
FEP	Foreign Exchange Plan
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSDT	Financial Sector Deepening Trust
FSR	Financial Stability Report
GDP	Gross Domestic Product
GFRS	Global Financial Stability Report
HIPC	Highly Indebted Poor Countries
HMF	Housing Microfinance Fund
ICT	Information and Communication Technology
IDA	International Development Association
IFEM	Inter-bank Foreign Exchange Market
ILF	Intraday Loan Facility
IMF	International Monetary Fund
KCB	Kenya Commercial Bank
LTDF	Long -Term Development Financing
LVTS	Large Value Transfer System
MAC	Monetary Affairs Committee
MAFSC	Ministry of Agriculture, Food Security and Cooperatives
MDRI	Multilateral Debt Relief Initiative
MNOs	Mobile Network Operators
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPC	Monetary Policy Committee
MPS	Monetary Policy Statement
NBC	National Bank of Commerce

NBFI	Non Bank Financial Institutions
NGO	Non Government Organizations
NMB	National Microfinance Bank
NMP	National Microfinance Policy
NPA	Non- Performing Assets
NPS	National Payment Systems
OAU	Organization of African Unity
PBZ	People's Bank of Zanzibar
PC	Paris Club
POS	Point of Sale
PSRC	Parastatal Sector Reform Commission
RBS	Risk Based Supervision
RFSS	Rural Financial Services Strategy
RTGS	Real Time Gross Settlement
SADC	Southern African Development Community
SARB	South African Reserve Bank
SGFSR	Second Generation Financial Sector Reforms
SIDA	Swedish International Development Agency
SIPS	Systematically Important Payment Systems
SMEs	Small and Medium Enterprises
SMR	Statutory Minimum Reserve
SUCCOS	Savings and Credit Cooperative Societies
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TBA	Tanzania Bankers Association
TBC	Tanzania Bank of Commerce
TCRA	Tanzania Communication Regulatory Authority
TDFL	Tanzania Development Finance Limited
THB	Tanzania Housing Bank
TIB	Tanzania Investment Bank

TISS	Tanzania Interbank Settlement System
TNNSS	Tanzania National Net Settlement Services
TRA	Tanzania Revenue Authority
TRDB	Tanzania Rural Development Bank
TZS	Tanzanian Shilling
WB	World Bank
WOCCU	World Council of Credit Unions
ZRB	Zanzibar Revenue Board

FOREWORD

In 2011, Tanzania Mainland celebrates its *Diamond Jubilee*—that is, 50 years of Independence. In honor of this historic achievement, the Bank of Tanzania joins hands with other Tanzanians to rejoice. We take the opportunity to trace central banking and financial sector evolution in Tanzania, with a view to highlighting achievements, constraints and challenges encountered, and chart out the way forward.

In this review, it is clear, the Bank of Tanzania's role and functions have changed considerably, commensurate with country's socio-economic policies of the day on one hand, and developments in the international financial system on the other. All along, the Bank has discharged its duties responsibly and effectively, since it started operations in 1966.

The Bank supported Government's efforts of the 1970s and the 1980s to foster economic growth—under *socialism and self-reliance* policies. As the country moved from a state commanded economy to a market-based one in the mid-1980s, the Bank kept pace with the changes, putting a greater emphasis on driving reforms in the financial sector. The turning point of Tanzania's financial sector development started in the 1990s, following the implementation of the Nyirabu Commission's recommendation to liberalize the financial sector as a way of complementing the economic reforms, which started in 1986. Sequel to the Commission's recommendations, a number of legislations were enacted to pave the way for licensing of new banks and financial institutions, and to allow for market determined financial resource allocation as well as financial asset prices. The enactment of the Bank of Tanzania Act of 1995 provided the Bank with the requisite autonomy important for an effective discharge of its core role of maintaining *price stability* in the economy, mainly through the use of market based policy instruments. The economic and financial reforms together with prudent monetary and fiscal policies, among others, helped reduce inflation to low levels and boosted economic growth. Inflation declined from over 30 percent prior 1990 to the current single digit level, whereas real GDP has been growing at an average of 7 percent in the last decade, helped along by the sharp increase in commercial banks' credit to the private sector.

Going forward, as mandated now under the Bank of Tanzania Act 2006, the Bank strives to sustain these hard won achievements, while ensuring that the financial sector plays a greater role in boosting economic growth, and it contributes more effectively to attaining the Government's objective of poverty reduction. This book puts into context some of the measures taken by the Government to achieve these objectives. I trust the book will also provide other useful information on central banking and financial sector development in Tanzania.

Prof. Benno J. Ndulu
Governor
June 2011

INTRODUCTION

Tanzania Mainland, formerly known as Tanganyika, attained political independence on 9th December 1961. This year 2011, Tanzania Mainland celebrates her 50th Year of Independence. The Bank of Tanzania has published this book to trace the evolution of its role and functions in relation to the transformation of the financial sector in the country. This book also outlines the challenges encountered during the period, key achievements and the way forward.

In brief, before independence, central bank's function of money supply in Tanganyika was played by various entities. For example, during the Germany colonial era, the Germany East African Company (Deutsch-Ostafrikanische Gesellschaft), which administered the Germany East Africa colony up to 1903, was responsible for controlling money supply. This role was later taken over by the German Government until 1918 when Britain took over the Germany territory of Tanganyika. Later, the East African Currency Board (EACB) was established in 1919, with the main objective of supplying and controlling the issue of currency in East Africa. The EACB made its first issue of currency after the introduction of the Pound/Shilling system in 1921. In 1956, the EACB began to play the role of fiduciary issue, thus providing for the first time a reasonable opportunity for a monetary policy. As economic activities expanded, the monetization of the economies increased, necessitating the EACB to play a more active role in regulating money supply.

The EACB was liquidated in 1965 paving way for the establishment of national central banks in Kenya, Tanzania and Uganda. The Bank of Tanzania was established under the Bank of Tanzania Act of 1965 to perform all the traditional central banking functions.

Shortly after its establishment, the Arusha Declaration was pronounced in 1967 in which all private banks were nationalised. This made most of the traditional instruments of indirect monetary policy as stipulated in the Bank of Tanzania Act of 1965 inoperative. The Bank of Tanzania had no control over monetary policy as monetary operations were based on government directives. The Annual Finance and Credit Plan (AFCP) and the Foreign Exchange Plan (FEP) were the main instruments of monetary policy, supported by a system of administered prices and credit controls. This situation resulted into overall macroeconomic imbalances with high money supply, escalating inflation and a slow down in the rate of economic growth.

Following the transformation of the rural economy, the industrialization process and persistent weaknesses in the balance of payments in the mid-1970s, the Bank of Tanzania Act of 1965 was amended in 1978 to empower the Bank with additional developmental functions of providing refinance and offer guarantee facilities to banks and to other financial institutions. The Law also empowered the Bank to inspect and supervise banks and other financial institutions, which had not been the case with the Bank of Tanzania Act of 1965.

Following macroeconomic instability experienced in the 1970s and the first half of the 1980s, The Government took deliberate efforts to reform the economy in the late 1980s. The intention was to eliminate controls and introduce a market based economy. Pursuant to this goal, in 1988 a Commission of Enquiry (Nyirabu Commission) was formed to address the problems facing the financial sector at that time. On the basis of the recommendations of the Commission, the Bank of Tanzania embarked on a series of reforms in the 1990s, in an effort to liberalize the financial sector. The liberalization of the financial sector was spearheaded by the enactment of the Banking and Financial Institutions Act (BFIA) in 1991 which allowed the entrance of private sector (both local and foreign) in the Tanzanian financial sector. The new Act also paved way for the introduction of financial markets in the economy. This was followed by an enactment of the Bank of Tanzania Act of 1995 which relieved the Bank from multiple objectives in order to focus on a single objective of price stability. In the conduct of monetary policy, the Bank of Tanzania introduced indirect instruments of monetary policy namely: open market operations; repurchase agreements; discount window and Lombard facility; foreign exchange market operations; statutory minimum reserve requirement; and moral suasion.

In general, monetary policy has been successful in Tanzania as evidenced by a remarkable decline in inflation from as high as 30 percent in the 1990s to a single digit inflation rate in recent years. Real GDP growth rate has also been positive and at appreciable levels throughout the period. The financial sector intermediation and deepening have improved quite appreciably with the number of banks increasing from 3 before the 1990s to 42 in December 2010.

The opening up of the financial sector necessitated the Bank of Tanzania to put in place a robust system of licensing, regulating and supervising commercial banks. In addition, the Bank has undertaken deliberate measures to modernize the National Payment Systems (NPS) in the country with the objective of enhancing safety, soundness and efficiency in the payment and settlement systems. The Bank of Tanzania has also facilitated the development of a Microfinance Policy and regulations focusing on promoting a viable and sustainable microfinance industry with a wide outreach. The Government has approved the transformation of Tanzania Investment Bank (TIB) into a Development Finance Institution and was officially launched in November 2010, whereas the Finance Lease and Mortgage Finance Laws were enacted in 2008.

Notwithstanding the achievements realized so far in implementing monetary policy together with developments in the financial sector, there are still a number of challenges ahead. The economy is quite susceptible to both domestic and external shocks. In addition, monetary policy implementation is impaired by the limitation of the instruments used coupled with a weak transmission mechanisms. Likewise, financial sector development is constrained by shortcomings in the existing Land Laws that prevent commercial banks to extend credit to the private sector. Also, absence of credit reference systems and delays in issuing national identity cards further impede the development of the financial sector.

This book is organized as follows: Chapter one outlines the role and functions of a central bank and provides a basis for understanding the components of a well functioning central bank. Chapter two describes the evolution of central banking in Tanzania prior to and after independence in 1961. Chapter three presents the historical evolution of monetary policy formulation and implementation, by portraying the profound changes that monetary policy has undergone since independence. Financial sector reforms, banking supervision and financial stability are presented in Chapters four and five, respectively. Chapter six reviews developments in the national payment systems, while Chapter seven covers microfinance. Regional integration initiatives are reviewed in Chapter eight, while Chapter nine provides the main challenges and the way forward.

CHAPTER ONE: THE ROLE AND FUNCTIONS OF A CENTRAL BANK

A central bank or a monetary authority is an institution whose primary function is to issue currency, formulate and implement monetary policy. Other duties include managing a country's foreign exchange reserves and acting as a lender of last resort to governments and banks. It may also have supervisory powers, to ensure that banks and other financial institutions do not behave recklessly or fraudulently. In cooperation with other authorities, central banks also play a major role in the oversight and development of the financial system. Central banks have performed a multitude of other tasks, several of which remain part of the central banks' functions in many countries. They often supply banking services; asset and debt management services for governments; and they sometimes provide analysis and advice regarding economic and development policies. In the course of implementing monetary policy, a central bank controls supply of money for the purpose of attaining price stability and promoting economic growth.

A general consensus throughout the world has been that a monetary policy geared towards the pursuit of price stability is the central bank's most significant contribution to achieving high levels of growth for a nation's economic prosperity. By virtue of their ability to exert influence over money supply process, central banks achieve this objective by regulating the quantity of money in circulation as well as the level of credit to the economy. During a period of financial stress, central banks emphasis naturally shifts to safeguarding the stability of the financial system as a whole, consistent with their role as regulators and providers of liquidity to the banking system.

There has been a trend towards increasing the independence of central banks as a way of achieving long term monetary policy objectives. An independent central bank can run a more credible monetary policy, making market expectations more responsive to signals from the central bank. Advocates of central bank independence argue that a central bank which is too susceptible to political directions or pressure may influence economic cycles, to the detriment of the long-term health of the economy. Independence in this context includes the following aspects:

- ***Legal independence****:* independence of a central bank is enshrined in the Law. However, this type of independence is limited in a democratic state. In almost all cases the central bank is accountable at some level to the government, either through a minister or directly to the legislature. Even defining the degree of legal independence has been proven to be a challenge since legislation typically provides only a framework within which the government and the central bank work out their relationships.

- ***Goal independence***: a central bank has the right to set its own policy goals, whether inflation targeting, controlling money supply, or maintaining a fixed exchange rate. While this type of independence is more common, many central banks prefer to announce their policy goals in partnership with the appropriate government departments. This increases the transparency of the policy setting process and thereby increases the credibility of the goals chosen by providing assurance that they will not be changed without notice. In addition, the setting of common goals by the central bank and the government helps to avoid situations where monetary and fiscal policies are in conflict.

- ***Operational independence***: a central bank has the independence to determine the best way of achieving its policy goals, including the types of instruments used and the timing of their use. This is the most common form of central bank independence.

- ***Management independence***: a central bank has the authority to run its operations without interference by the government. The other forms of independence are not possible unless the central bank has a significant degree of management independence. One of the most common statistical indicators used in the literature as a proxy for central bank independence is the "turn-over-rate" of central bank governors.

CHAPTER TWO: THE EVOLUTION OF CENTRAL BANKING IN TANZANIA

2.1 Pre-Independence Period

Before independence, the central bank's role of money supply in Tanganyika— the now Tanzania Mainland—was played by various entities depending on the colonial government in place and the requirements of the colonies. Formal supply of money for Tanzania Mainland began at the turn of the 20th century, when Tanganyika, became a German East Africa colony together with Rwanda and Burundi. The German East African Company (Deutsch-Ostafrikanische Gesellschaft) administered the German East Africa colony up to 1903 and was responsible for controlling money supply. Thereafter, this role was taken over by the German government. The currency in German East Africa was the Rupees (Rupien).

After World War I (1914-1918), the German territory of Tanganyika was taken over by Britain and the East Africa rupee that had been circulating in the British colonies of Kenya and Uganda became the currency of Tanganyika. The East African Currency Board (EACB) was established in 1919 with the main objectives of supplying and controlling currency.

In 1921, the Pound/Shilling system was introduced in East Africa and the EACB made its first currency issue. During the British colonial era the legal framework of British colonial banking depended largely on the practice of Great Britain and what was taking place in its East African colonies. In 1956, the EACB began to play the role of fiduciary issues, thus providing for the first time a reasonable opportunity for monetary policy.

More banks opened branches in East Africa, following the expansion in export trade particularly of agricultural produce in the 1950s, resulting into rapid monetization of the economies. Given these new developments, it was considered necessary for the EACB to play a more active role in the regulation of domestic money supply. The EACB thereafter assumed the lender of last resort function, which was based on discounting highly rated bills for a crop finance facility in the 1960s. This was intended to allow commercial banks access credit to finance agricultural exports. The headquarters of the Board shifted from London to Nairobi and representatives from member countries were appointed to the Board. Despite the changes, commercial banks relied very little on borrowing from the EACB, due to high rediscount rate and the high standard of the paper that could be discounted. Government borrowing was also allowed, implying that currency in circulation could increase without a matching increase in foreign reserves.

2.2 Post Independence Period

Tanganyika gained her independence on 9^{th} December 1961. The independence was preceded by massive capital flight and withdrawals from commercial banks, as the business community became uncertain about the independent government that would take over. Given these developments, domestic credit demand could not be met by the banking system. Following Tanganyika's independence, an expert from the Deutsche Bundesbank, the Central Bank of the Federal Republic of Germany, Dr. E. Blumenthal, was commissioned to study the operations of the EACB and provide advice for a new setting. The expert recommended that the EACB be converted to an East African Central Bank and the individual States establish small country central banks. This idea was however considered by the East African Authorities to be unfeasible given the prevailing political environment at that time. Subsequently, the EACB was liquidated and the establishment of three national central banks was officially announced in June 1965 by the governments of Kenya, Tanzania and Uganda. The EACB officially ceased operations in 1966 paving the way for the operation of the Bank of Uganda (BOU), the Central Bank of Kenya (CBK) and the Bank of Tanzania (BOT).

The Bank of Tanzania was established under the Bank of Tanzania Act of 1965, which empowered it to perform all the traditional central banking functions. However, within eight months of the inauguration of the Bank, in February 1967, the Arusha Declaration was proclaimed placing all major means of production and exchange into public sector ownership. With this development, the Bank had to reorient its policies to fit into the new environment. Most of the traditional instruments of indirect monetary policy stipulated in the 1965 Act became inoperative, as there was no longer an environment of the type which exists in a competitive system—where indirect instruments are effective. The Annual Finance and Credit Plan (AFCP), supported by a system of administered interest rates, was devised as the main instrument of monetary policy from 1971/72. Similarly, the Foreign Exchange Plan (FEP) was devised to control the use of foreign exchange in accordance with national priorities. The plans were formulated by the Ministry of Development Planning in consultation with the Bank of Tanzania. However, the Bank and the banking system were responsible for their implementation. A system of direct controls was used for this purpose, as stipulated in the Exchange Control Ordinance Cap 294 of 1973 and the Import Control Ordinance of 1951 Cap 292 but amended by the Finance Act of 1973.

During the same period, several other developments took place, e.g. a radical transformation of the rural economy (as a result of the villagization programme), industrialisation, and persistent weaknesses in the Balance of Payments. In order to enable the Bank to better address these developments, the Bank of Tanzania Act was amended in 1978, with the result that additional developmental functions were vested in the Bank. As stipulated in this amendment, the Bank established four special Funds, namely the Rural Finance Fund; the Industrial Finance Fund; the Export Credit Guarantee Fund; and the Capital and

Interest Subsidy Fund. These funds were formed to provide refinance and to offer guarantee facilities to banks and other financial institutions against their loans and advances to specified sectors of the economy. The amendment of the Act also incorporated the following changes: The responsibility of financial planning was shifted from the Ministry responsible for Planning to the Bank, with the effect that the Bank became responsible for the preparation and implementation of the Annual Finance and Credit Plan (AFCP) and the Foreign Exchange Plan (FEP). The amended Act also empowered the Bank of Tanzania to inspect and supervise banks and other financial institutions, which had not been the case in the Bank of Tanzania Act of 1965. During this period, the Bank presided over a highly state controlled economy in the pursuit of socialism and self reliance objectives. As a result, it had an inflexible economic system that was characterized by monopolistic and heavily regulated production structures in all sectors of the economy. Similarly, the financial system was made up of a few public institutions enjoying a high degree of monopoly in their areas of specialization or functional designation.

The 1960s and 1970s were therefore broadly characterized by direct monetary control, marked by stringent exchange controls; directed credit to priority sectors; preferential interest rates; excessive government borrowing; accumulation of bad debts by commercial banks, partly due to excessive interference by governments; lack of adequate supervision of financial institutions; and pursuit of multiple policy objectives.

The above situation resulted into a weak financial system characterized by, among others, double digit inflation; negative real interest rates, decline in returns on formal financial assets; parallel markets; financial disintermediation and increase in cash transactions due to weaknesses in the formal financial system. These weaknesses necessitated the need to carry out a wide range of economic and financial sector reforms from the 1980s.

2.3 Economic and Financial Sector Reforms Beginning the 1980s

Deliberate efforts to free the economy from financial repression were undertaken by the government, including the elimination of state controls and introduction of market mechanisms. This laid the foundation for the introduction of indirect instruments of monetary management. These changes were accompanied by the International Monetary Fund (IMF) and the World Bank (WB) backed adjustment programs, which set targets for various important macroeconomic indicators. Measures were undertaken in certain crucial areas including imposition of ceilings on government financing; devaluation of the Shilling to reflect prevailing market conditions; and structural measures to eliminate controls in the foreign exchange market.

The Presidential Commission of enquiry (Nyirabu Commission) was formed in 1988 to set the milestone for liberalization of the financial sector in Tanzania. The 1990s was the turning point in financial sector reforms spearheaded by the Bank of Tanzania. On the basis of the Nyirabu Commission, the Bank embarked on a series of reforms in an effort to promote the development of a market based financial sector as a strategy to turn around the deteriorating economy, and accelerate economic growth. The strategy was kicked off by the Banking and Financial Institutions Act adopted in 1991, which paved way for entrance of private, foreign and domestic investors in the financial sector. The financial sector was liberalized, to allow private sector and foreign banks participation while the remaining controls were eliminated, financial markets were introduced and the use of indirect instruments of monetary policy was introduced.

Experience suggests that a central bank with too many things to do is likely to find itself doing none of them well. This international consensus was reflected in the Bank of Tanzania Act of 1995, in which, as compared to the Bank of Tanzania Act of 1965, there has been a move away from multiple-policy objectives to a single-policy objective of price stability. According to the Bank of Tanzania Act of 1995, the primary objective of the Bank is to formulate and implement monetary policy, directed to the economic objective of maintaining price stability, conducive to a balanced and sustainable economic growth. To achieve this objective, the Bank of Tanzania is required to ensure:

(a) A steady and acceptable rate of increase in the money supply;
(b) An appropriate rate of increase in domestic bank credit expansion that will not place undue demand

pressure on productive resources and that must be consistent with the Money Supply objectives;

(c) Realistic market determined interest rates;

(d) Adequate level of foreign reserves to enable the Bank of Tanzania to intervene in the foreign exchange market from time to time to smoothen out reversible short-term fluctuations of Tanzanian Shilling exchange rate, to meet import requirements, external obligations, and unexpected foreign exchange requirements in times of crisis;

(e) A relatively stable exchange rate for the national currency;

(f) Protection and development of sound and well-managed banking institutions (financial stability); and

(g) A well-functioning and effective financial markets, including an efficient payment system.

The Bank of Tanzania Act of 1995 also provided room for the establishment and supervision of private credit reference bureaux and gave powers to the Bank of Tanzania to ensure the attainment of price stability and soundness of financial system. Other functions include licensing, regulating and supervising banks and other financial institutions to ensure soundness, efficiency and integrity of the financial and banking system, improving efficiency and effectiveness of the payment system, as well as management of nation's international reserves.

Following the developments that had occurred since the beginning of financial sector liberalization in the 1990s, the Bank of Tanzania Act of 2006 was enacted to, among other things, enhance autonomy of the Bank, incorporate international standards and best practices and strengthen its regulatory and supervisory function.

In order to discharge its functions, the Bank of Tanzania's organisational structure has been changing overtime
(**See Box 1**).

Box 1: Bank of Tanzania's Organizational Structure

The Bank of Tanzania organizational structure has changed substantially since its inception in 1966 in tandem with the changes in economic and social policies. Up to the end of 1993, the organization structure of the Bank was a reflection of multiple-policy targets and control functions, which were a consequence of the role that the state had assumed in the economy. The structure was tailored in such a way as to achieve the objective of rapid growth in the economy. Commensurate with that, branches were opened in Mwanza, Arusha, Mbeya and Zanzibar, including a training institute in Mwanza. Tanzania's transition to a market- oriented economy necessitated the Bank's structure to change considerably. For instance, structures that supported rural finance and foreign exchange controls were abandoned.

The current organizational structure together with its branch network is designed to facilitate the execution of the Bank's mandated responsibility of ensuring price and financial stability. The highest decision-making body of the Bank is the Board of Directors assisted by Governor and three Deputy Governors.

2.4 Relations with the Government

There is a clear division of responsibilities and accountabilities between the Bank of Tanzania and the Government. The Bank of Tanzania has autonomy but is accountable to the legislature and the public at large. The relationship between the two institutions is presented focusing on the following major areas:

***Ownership of the Bank of Tanzania*:** The Government of the United Republic of Tanzania is the sole subscriber and holder of the share capital of the Bank, and the Bank is therefore required to pay dividends to the Government within three months of the close of each financial year. The authorized share capital of the Bank may be increased by such amount as may be determined by the Board of the Bank, and authorized by the Minister of Finance.

Appointment of the Governor, Deputy Governors and the Board of Directors: The President of the United Republic of Tanzania appoints the Governor and the Deputy Governors for a term of five years and they are eligible for re-appointment for a further term. The President can also dismiss them for a good cause or disqualification. Other members of the Board are appointed by the Minister of Finance. The Governor is the chairman of the Board. The Permanent Secretary of the Ministry of Finance of the Union Government and the Principal Secretary of the Ministry of Finance Zanzibar are ex-officio members to the Board.

Relationship in formulating and implementing monetary policy**:** The final responsibility in certain advisory and operational matters such as monetary policy decisions and foreign exchange management are placed directly under the Bank of Tanzania. The Governor of the Bank and the Board are responsible for the conduct of monetary policy. There is no provision for day-to-day Government intervention and involvement in the formulation and execution of monetary policy. The responsibility of the Government is on broader economic issues. However, since there are links in exchange rates, interest rates and the rest of the economy and the public policy, the advisory role brings the Bank closer to the Government through its interactive process with Government. The Bank is required to inform the Government of its monetary and banking policy by publishing and submitting to the Minister of Finance the Monetary Policy Statement for the next six months or for such shorter period as may be specified by the Minister of Finance.

The Bank of Tanzania as the banker and fiscal agent of the Government: The Bank maintains government revenue and expenditure accounts, makes transfers, opens letters of credit, and extends credit to the Treasury. In addition, the Bank issues and manages public debt securities on behalf of the Government. As the fiscal agent of the Government, it administers all Government transactions with international financial organizations or institutions of which the Government of the United Republic of Tanzania is a member. It also manages and implements payment agreements between the Government and other countries.

Financial and Budgetary relations: The Bank of Tanzania has a complete autonomy over its budget, hence able to pursue its own objectives. The Bank's policy and budget are approved by the Bank's Board of Directors. The Law provides for access to the Bank's credit by the Government. However, there is a credit ceiling.

Management of the National Debt: Since 1988, the Bank of Tanzania, on behalf of the Government, has been charged with the role of managing the public and private debt (**See Annex I**).

Reflections on meetings of senior Bank and Government officials: Other practical aspects of relationship between the Bank and the Government are vindicated through a variety of meetings to exchange information and increase cooperation between the two institutions. For example, the Government representatives participate in meetings of the Bank's Board, whereas the Governor participates in the Government Cabinet meetings. The Bank also participates fully in the budgetary process of the Government, including meetings to discuss tax policies and the resource envelope in general.

CHAPTER THREE: EVOLUTION OF MONETARY POLICY FORMULATION AND IMPLEMENTATION

Monetary policy is a framework commonly used by central banks, currency boards, and/or monetary authorities to determine the size and rate of growth of money supply, which in turn affects real output, inflation and interest rates. Its ultimate objective is to attain price stability conducive to sustainable economic growth.

3.1 Evolution of Monetary Policy

In the Tanzanian context, since the inception of the Bank of Tanzania in 1966 monetary policy has undergone profound changes. The 1960s and 1970s were broadly characterised by direct monetary controls, marked by stringent exchange controls and directed credit to priority sectors. The Bank had little control over monetary policy. The Annual Finance and Credit Plan (AFCP), supported by a system of administered interest rates, was devised as the main instruments of monetary policy from 1971/72. Similarly, the Foreign Exchange Plan (FEP) was devised to control the use of foreign exchange in accordance with national priorities. The Bank monetary operations were predominantly based on government directives. There was neither capital nor money markets.

The mid-1990's marked a major turning point in the Tanzania's monetary policy landscape. Given a decade of economic and financial sector reforms, Tanzania adopted a more focused approach to monetary policy with a single objective of price stability as mandated in the Bank of Tanzania Act of 1995. In the conduct of monetary policy, the Bank of Tanzania uses the following indirect monetary policy instruments:

- Open market operations;
- Repurchase agreements;
- Discount window and Lombard facility;
- Foreign exchange market operations;
- Statutory minimum reserve requirements; and
- Moral suasion

There are various frameworks that a central bank can use to conduct monetary policy. They include monetary targeting, inflation targeting, foreign exchange targeting and interest rate targeting. Since 1993, the Bank has been implementing monetary policy using a monetary targeting framework, with reserve money being the operational target and broad money (M2) an intermediate target. This framework was chosen mainly due to the low level of development of the financial markets and limited high frequency data on the real economy. These constraints together with structural rigidities in the economy limit the efficacy of other monetary policy frameworks.

The implementation of the monetary targeting framework uses the reserve money programming methodology. This methodology is based on the simple quantity theory of money. It involves forecasting of factors affecting the supply and demand for reserve money, the mapping of intermediate target, and design of monetary policy to ensure consistency with policy targets. Prior to 2006, the monetary policy targets were set using end of period reserve money stocks. This led to concentration of monetary policy actions at the end of a quarter causing sharp fluctuations in interest and exchange rates particularly during the program assessment quarters. With a view to distribute policy actions more evenly, average reserve money was adopted in 2006.

The Bank of Tanzania sets annual monetary aggregate targets and publishes them in the Monetary Policy Statement (MPS). The MPS together with its mid-term review are submitted to the Minister of Finance who in turn presents them to the Parliament. The Monetary Policy Committee (MPC) of the Board of Directors of the Bank of Tanzania monitors the implementation of the monetary policy on a monthly basis consistent with the ultimate objective of price stability. Meanwhile, the Liquidity Management Committee meets weekly to review the implementation of the MPC decisions, while the Bank's Technical Committee meets daily to review liquidity developments. The decisions of the MPC are also shared with the Chief Executive Officers (CEOs) of banks and the general public.

3.2 Monetary Policy Instruments

***Open market operations**:* This refers to sale and purchase of government securities in the money market. Prior to the introduction of the open market operations, government budget deficit financing was inflationary as it was directly financed by the Central Bank. Government securities were first auctioned for budgetary financing in 1993/94. Treasury bills with maturities of 35 days and 91 days were introduced in 1993, whereas those of 182 and 364 days were introduced in 1994, partly for liquidity mop-up. To increase the effectiveness of monetary policy, the Bank started to set aside proceeds from sale of 35, 91-days Treasury bills sales for liquidity management purposes. In order to extend the maturity profile of the security papers, Treasury bonds of 2-years maturity were introduced in 1997 and those of 5-years, 7-years and 10-years maturity were introduced in 2002 for deficit financing and liquidity management.

Repurchase agreements: In 2007, the Bank also introduced repurchase agreements (Repos) which are used to fine tune liquidity in the banking system with maturity ranging from 1-day to 21-days.

Discount window and Lombard facility: These are standby credit facilities that were introduced in 2003 to provide liquidity to commercial banks in need, to meet short-term obligations.

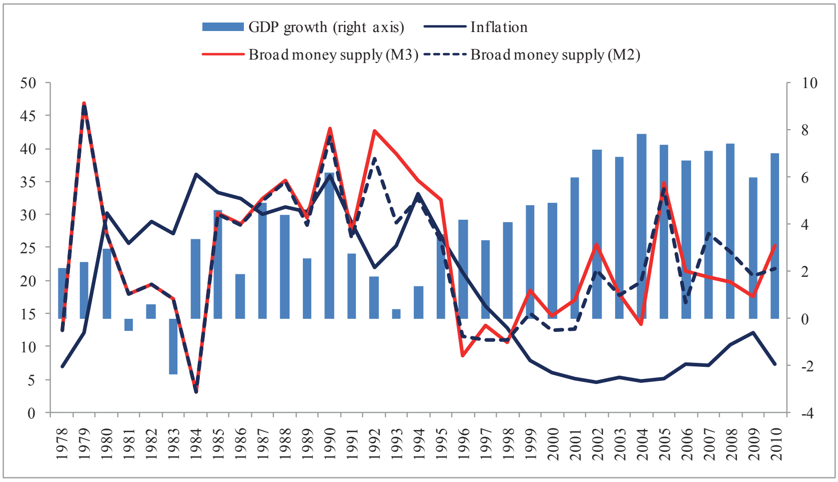
Foreign exchange market operations: The Bank introduced foreign exchange auctions in July 1993. The auction system was replaced by the Interbank Foreign Exchange Market (IFEM) in June 1994. The IFEM is a wholesale market which determines the Tanzanian Shilling exchange rate. Players in this market are the Bank of Tanzania and commercial banks. The Bank participates in the market mainly for liquidity management and to smoothen transitory fluctuations in the exchange rate.

Statutory minimum reserve requirements: The statutory minimum reserve (SMR) instrument was actively used, especially, in the second half of the 1990s, to control excess liquidity in the economy. The composition of SMR has been changing over time, depending on the liquidity situation in the economy. For instance, SMR was maintained at all deposit liabilities, excluding foreign currency deposits and vault cash as part of SMR before 1997. Thereafter, cash in vaults and foreign currency deposits have also been considered, though at varying degrees. To enhance financial intermediation in the economy and improve the liquidity position of commercial banks, banks have as well been allowed, for example, to hold up to 50 percent of their SMR requirement in Treasury bills (for example, in September 1995 to April 1996) or use 50 percent of vault cash in the computation of SMR, since 1998. In practice, an attempt to manage the liquidity overhang brought about by consistently high budget deficits (financed largely through central bank borrowing), the gold purchase and the debt conversion schemes, BoT raised the minimum reserve ratio from 3 percent to 4 percent in June 1993 and further to 10 percent in December 1993. The ratio was raised further to 12 percent in September 1994 and then to 15 percent in March 1995 and to 18 percent in September 1996. Later, given the liquidity position in the financial system, the minimum reserve ratio was lowered to 12 percent in September 1997, and further down to 10 percent since November 1997. In 2009, the Bank introduced reserve requirements on central government deposits of 20 percent and abolished acceptance of 50 percent of vault cash as an eligible component of the minimum reserves in order to limit the liquidity impact of the idle central government balances in commercial banks.

Moral suasion: The Bank uses moral suasion which is a gentlemen's agreement to influence monetary policy. This instrument has been used mainly through regular meetings with the stakeholders in the financial sector. For instance, the Bank organizes bi-annual conferences of financial institutions in which members deliberate on key issues of relevance to the financial sector.

So far significant achievements have been made in the conduct of monetary policy, particularly in the period 1995 to 2010. In general, monetary policy has been considerably successful in Tanzania, as reflected by a remarkable decline in inflation coupled with the high rate of economic growth. The progress was occasioned by, among others, prudent monetary policy pursued by the Bank of Tanzania to support macroeconomic objectives of the Government. Real GDP grew at an average rate of 6.0 percent during 1995 to 2010, compared with the growth of 2.3 percent during 1978 to 1994, while inflation decelerated to an average rate of 10.0 percent from 27.6 percent recorded in the period 1978 to 1994. In the same period, money supply grew at an average rate of 19.5 percent down from the average rate of 28.7 percent (**Chart 3.1**).

Chart 3.1: Growth of Money Supply, GDP and Inflation Rate (In percent)



The financial sector intermediation process and the financial sector deepening in general have also improved quite substantially over time. This was reflected by the increase in the ratios of commercial banks' private sector credit to GDP and to private sector deposits, as well as the decline in the ratio of currency in circulation to commercial banks' private sector deposits. It is worth noting that the increase in financial intermediation has been generally broad-based across sectors, notwithstanding some increase in loan concentration to personal activities, trade, manufacturing, agriculture, and transport and communication, which have been the main drivers of economic growth in recent years.

The loans and deposits rates of commercial banks have also exhibited a downward trend, with a much faster decline being recorded in the lending rates. Consequently, the interest rate spread narrowed by 8.7 percentage points in 2010, compared with 15.9 percentage points recorded during 1978 to 1994 (**Table 3.1**). This development was mainly attributed to the implementation of financial sector reforms, which led to increased competition in the banking sector as well as a reduction in the risks premium of lending to private sector.

Table 3.1: Selected Financial Indicators (In Percent)

	1978-1994	1995-2010	2010
Money supply growth (M3)	28.7	19.5	25.4
Money supply growth (M2)	27.5	19.0	21.8
Inflation	27.6	10.0	7.2
Real GDP growth	2.3	5.9	7.0
M3/GDP	33.0	24.6	35.2
M2/GDP	32.4	18.1	25.3
Private sector credit/GDP	4.2	9.3	19.5
Private sector credit/Deposits	21.6	45.8	69.0
Currency in circulation/Deposits	46.1	32.2	20.8
Overall deposits rate	17.5	7.9	5.9
Overall lending rate	33.4	19.9	14.5
Interest rate spread	15.9	12.0	8.7
Treasury bills yield	37.6	11.9	4.8

Source: Bank of Tanzania

3.3 Financial Markets Developments

A well-functioning financial market is a prerequisite to promoting financial stability and to support economic development. It is also important for effective monetary policy implementation. Financial markets provide a mechanism for mobilization and allocation of financial resources. This requires active market participation and availability of a variety of financial products. Significant strides have been made in this regard over the past ten years.

Prior to 1988, the financial sector was State controlled. Money and capital market transactions were administratively controlled. The enactment of the Banking and Financial Institutions Act of 1991, the Foreign Exchange Act of 1992, the Capital Markets and Securities Authority Act of 1994, and the Bank of Tanzania Act of 1995 paved way for the development of financial markets in the country. The introduction of the Treasury bills and the foreign exchange auctions were the first initiatives taken to develop financial market activities. A fully-fledged Directorate of Financial Markets was established in the Bank in 1994 to develop and supervise the functioning of the financial markets.

The financial market in Tanzania is primarily comprised of Treasury bills and bonds, repurchase agreements, interbank foreign exchange trading and other recent innovations including corporate bonds and equities. Open market operations provide mechanism to achieve three main objectives, namely financing of fiscal deficit, liquidity management and anchor of interest rates determination.

The establishment of money and capital markets enabled the Government to borrow directly from the public to finance its budget deficit. This is in contrast to the situation before when the Government used to borrow directly from the Bank of Tanzania. This non-inflationary approach of financing the government deficit through Treasury bills together with the introduction of liquidity papers by the Bank as a tool of withdrawing excess liquidity from the economy, contributed substantially to the decline in inflation.

The Bank introduced a computerised book entry system and a central depository system for Treasury bills in 1998. The system entails record keeping, transfer and updating ownership of the Treasury bills without having to issue physical certificates, thus improving efficiency. The system also facilitates divisibility of securities into smaller lots, which promotes secondary market trading.

In order to extend the maturity profile, lengthen the yield curve, and increase the number of tradable instruments in the market, Treasury bonds of two, five, seven, and ten years were introduced in 2002. In addition the Bank introduced Intraday and Lombard standby credit facilities in 2003. These facilities are available to commercial banks that are in need of liquidity in order to meet short-term obligations. The Intraday facility is being widely used by banks, with all commercial banks accessing the Lombard facility to date.

Following the enactment of the Foreign Exchange Act 1992, the Bank introduced foreign exchange auctions in July 1993. In June 1994, the Interbank Foreign Exchange Market (IFEM) replaced the auction system. Players in the foreign exchange market include the Bank of Tanzania, commercial banks and financial institutions. The IFEM, which is a wholesale market, determines the official Tanzanian Shilling exchange rate. The Bank of Tanzania participates in the market as a buyer and seller of last resort. It also intervenes in the market only to smoothen transitory fluctuations in nominal exchange rate.

In order to promote dialogue and networking among stakeholders in the financial sector, the Financial Markets Leaders Forum was established in March 2004. Structured and informal knowledge sharing facilitated by the Forum has enhanced comprehension of the market intricacies among market participants. It has also facilitated modernisation of the trading mechanism, assisted in the introduction of new products and contributed towards timely resolution of problems.

CHAPTER FOUR: FINANCIAL SECTOR REFORMS

The first generation of financial sector reforms began with the implementation of the Nyirabu Commission Report's recommendations. A number of legislations were enacted including the enactment of the Banking and Financial Institution Act (BFIA) of 1991. The BFIA paved the way for the licensing of new banks and financial institutions in the Tanzania financial sector and thus introduced competition in the financial sector for the first time in more than thirty years. The Commission also observed that, the fate of banks as lenders is firmly tied to the financial health of their borrowers. The financial sector clientele at that time was comprised of public corporations with very weak financial positions. The Government identified over 350 public corporations for privatization. In this regard, the Parastatal Sector Reform Commission (PSRC) was established in 1993 to carry out this task in order to rehabilitate and improve their performance, therefore paving the way for a strong client base for the financial sector.

In general, emphasis of the first generation of the financial sector reforms was to put in place a conducive environment for a free market to operate and to provide quality and reliable financial services. The reforms envisaged to bring about a new financial landscape in Tanzania and also a new culture of doing business. The banking sector which comprised of only three commercial banks before the reforms saw a rapid increase in the number of banking institutions reaching 42 as at the end of

December 2010. With these developments, customer service improved remarkably, with new products and services introduced, such as the Automated Teller Machines (ATMs) and debit cards.

The implementation of the Nyirabu Commission was reviewed by the Government in 2001. The review results showed that more needed to be done to improve the efficiency of financial resources mobilization and allocation. In particular, there was still a need to expand access to financial services by the majority of Tanzanians, most of whom operated outside the formal financial system. In order to boost economic development in the country, there was also a need to develop medium and long-term lending instruments and to bring financial services within the reach of the Small and Medium Enterprises (SMEs) Sector.

4.1 Financial Sector Assessment Programme

At the invitation by the Government of Tanzania, a joint IMF/World Bank Mission conducted a Financial Sector Assessment Programme (FSAP) in May 2003. The focus of the assessment was to identify the strength, vulnerabilities and general soundness of the country's financial system.

The FSAP Mission report observed that the Tanzania financial system played a limited role in the economy, and that the depth and efficiency fell short of what was needed to support economic growth. Access to financial services by the majority was still inadequate, as large segments of the economy were still working with little formal credit, and interest rates on loans were very high. There existed macroeconomic risks due to the structure of the real economy, which was dependent on agriculture, volatile aid inflows, as well as constraining regulations on lending. The financial markets which were expected to bridge the savings-investment gap were also largely underdeveloped.

The report recommended a number of legal, judicial and institutional reforms that would remove the main obstacles to lending, deepen financial intermediation and help develop the financial system. These included:

- Reform of the government-owned financial institutions, including finalisation of the privatisation process,
- Legal and Judicial Reforms to remove the main obstacles to lending,
- Enhancing access to financial services including the promotion of microfinance and creation of credit registry,
- Liberalization and development of long-term investment by insurance companies and Pension funds,
- Avoiding policy prescriptions or practices to open special windows for SMEs at financial institutions, or the need for government-promoted development banks,

- Further improvement of banks' regulations and supervisions and Crisis Preparedness.

As a follow-up to the FSAP report recommendations, the Government appointed a Committee to review the recommendations of the joint IMF/World Bank FSAP report and propose actions for implementation. The Committee chaired by the Governor of the Bank of Tanzania developed a roadmap which outlined a plan of actions to undertake the activities in the identified areas. The roadmap covering the period from 2006 to 2011 came to be known as the Second Generation Financial Sector Reforms (SGFSRs) and was developed and approved by the Government in 2006. Development partners agreed to provide Technical Assistance in areas where they had competence through new or ongoing programs.

4.2 The Second Generation Financial Sector Reforms

The activities for the implementation of the SGFSR were developed around nine broad areas. These include:

i. ***Improving the Monetary Policy Framework and the Legal and Regulatory Infrastructure so as to:*** improve access to financial services as a result of a better lending environment and an efficient legal and judicial infrastructure; introduce and promote conducive policies for an efficient payment system; and a transparent monetary policy that brings about financial deepening.

ii. ***Improving the supervisory function to ensure an efficient and sound financial system.***

iii. ***Developing financial markets with vibrant primary and secondary markets*** supported by appropriate and secure settlement systems as well as a stock exchange with diversified instruments and investors.

iv. ***Promoting an efficient and competitive pension sector*** responsive to market demand and supported by appropriate legal and regulatory structures.

v. ***Promoting an efficient, sound and competitive insurance industry*** with different products, a wider outreach, and market based investment policies.

vi. ***Establishing and promoting a viable and sustainable microfinance industry*** with a wider outreach, and operating under an enabling legal and regulatory environment.

vii. ***Putting in place appropriate labour laws and labour relations policies*** that are in line with international best practices that support financial sector development.

viii. ***Introducing and promoting an efficient, harmonious legal and judicial infrastructure for collaterization of land and settlement of land disputes.*** The intention is to strengthen the mechanism for adjudication of land disputes, establish land registries at district and village level, strengthen the land registry and search services, and harmonise all legislations related to land issues.

ix. ***Establishing a policy framework and legal infrastructure for provision of Long-Term Development Financing (LTDF) facilities*** with a view to addressing the existing gaps in the provision of long-term credit to productive sectors.

4.3 The Financial Sector Support Project

Consultations with Development Partners on the specific activities identified in the roadmap for implementation of the SGFSR programme led to the design of the Financial Sector Support Project (FSP). The FSP is a project aimed at continuing the support provided to the Government of Tanzania in reforming the financial sector. Two Development Partners, namely the International Development Association (IDA) and the UK Department for International Development (DFID) agreed to support the implementation of the project.

The roadmap for FSP identified six key activities that required technical assistance from Development Partners, namely:

Strengthening the Banking Sector which aimed at enhancing the soundness and the efficiency of the banking sector.

Developing Financial Markets focusing on promoting vibrant primary and secondary markets supported by an appropriate, secure settlement system and robust oversight.

Strengthening the Insurance Industry to promote an efficient, sound, and competitive insurance industry with a wider outreach and market based investment policies.

Facilitating the Provision of Long Term Development Finance to support improvement in the availability and access to long term financing for enterprises, infrastructure, and housing.

Transformation of Tanzania Investment Bank Ltd (TIB) into an effective and sustainable Development Finance Institution (DFI).

Strengthening of Micro and Rural Finance focusing on promoting a viable and sustainable microfinance industry with a wide outreach, operating under an enabling legal and regulatory framework.

Important milestones that have been accomplished include the passage by the National Assembly of the Financial Lease, Mortgage Finance and Unit Title Laws. Meanwhile, a regulator for Pension Funds has been appointed following the enactment of the Social Security (Regulatory Authority) Act of 2008. The Government has also approved the transformation of TIB into a Development Finance Institution, which was officially launched in November 2010. The remaining activities are at various stages of implementation.

CHAPTER FIVE: BANKING SUPERVISION AND FINANCIAL STABILITY

5.1 Evolution of the Banking Sector in Tanzania

The evolution of banking sector in Tanzania can be broken down into three main phases. These are (i) colonial era and the period before Arusha Declaration of 1967, (ii) post Arusha Declaration and the period prior to 1991, and (iii) the period after 1991.

5.2 Colonial Era and the Period Before Arusha Declaration in 1967

The development of the banking sector started way back in the early 1900s. During that period, commercial banks were the dominant financial institutions in the then Tanganyika. During the German rule there were two commercial banks established in Tanganyika, namely the Deutsche Ostafrikanische Bank, which was established in 1905 and the Handelsbank fur Ostafrika in 1919. These banks were mainly for serving colonial rulers and a few businesses.

After World War I in 1918, the British took over the control of the country from the Germans. Three commercial banks were established in order to replace the German banks. These banks were the National and Grindlays Bank, the Standard Bank and the Barclays Bank D.C.O. In the early 1950s, other banks from

India opened branches in Tanganyika. These were Bank of India and the Bank of Baroda, which opened branches in Dar es Salaam, Moshi and Mwanza. Other banks that established their presence in Tanganyika included an Anglo-French institution known as the Ottoman Bank, which operated in Dar es Salaam, Kigoma and Moshi. Also, during the 1950s, specialized Non-Bank Financial Institutions (NBFIs) started to evolve. By the time of independence in 1961, the country's banking industry was comprised of Standard Bank of South Africa, National and Grindlays Bank, Barclays Bank DCO and Ottoman Bank. Others were Bank of India, Bank of Baroda, Commercial Bank of Africa, and the National Bank of Pakistan. NBFIs which were present on the day of independence included the Post Office Savings Bank, Land Bank, Local Development Loan Fund, African Productivity Loan Fund and a few housing and loan associations catering mainly for Asians and white settlers.

The colonial banking system was characterized by the following: dominance of foreign owned commercial banks; inability to sufficiently mobilize savings and deploying funds to productive sectors of the economy; and concentration in urban areas such as Dar es Salaam, Mwanza, Moshi and Kigoma.

After independence, the government established new financial institutions to compliment those existing at that time. The Tanzania Bank of Commerce (TBC) was established in 1965 and the Government of Zanzibar established the People's Bank of Zanzibar in 1966 to act as a government banker as well as provide financing to state-owned companies in Zanzibar. There were also other specialized financial institutions involved in financial intermediation. These were formed by assistance from the Government and external donors to assist sectors considered important for the development of the country. These are institutions like Agriculture Credit Agency, which was established in 1962, and later converted to National Development and Cooperative Bank in 1964.

5.3 Post Arusha Declaration and the Period Prior to 1991

In 1967, following the Arusha Declaration, all private commercial banks were nationalized and their assets and liabilities were merged resulting into the establishment of one big commercial bank, namely the National Bank of Commerce (NBC), which was wholly owned by the Government.

The period after the Arusha Declaration was marked by rapid development of non-bank and development financial institutions. This was due to the increased role of public sector in development and the need to mobilize long-term funds to finance various productive sectors in the country. Tanzania Investment Bank (TIB) was established in 1970 to provide development finance to the country's productive sectors especially large-scale industry. Another non-bank financial institution was Tanzania Rural Development Bank (TRDB), which was established in 1972 to provide financing to the rural sector. The bank was later restructured and changed its name to Cooperative and Rural Development Bank (CRDB). In the same year, Tanzania Housing Bank (THB) was established to specialize in the financing of rural and urban residential, office and commercial buildings. Other non-bank financial institutions, which were formed, are the National Insurance Corporation, Pension Funds and the Postal Office Savings Bank.

During this period, except for Tanzania Development Finance Limited (TDFL) and Diamond Jubilee Trust Fund, the Government wholly or partially owned all banks and financial institutions in the country and their managements were under government direct control. The bulk of the lending from banks and financial institutions was directed to government-owned parastatal organizations in accordance with government approved National Credit Plans. Another important feature during this phase of the development of the financial sector was that each financial institution was governed by its own statute, while the Bank of Tanzania had limited supervisory role over the banking and financial system.

5.4 The Period After 1991

In 1988, the Government formed a Presidential Commission on Banking under the Chairmanship of the former BOT Governor, Ambassador Charles Nyirabu. The reasons for the formation of this Commission were threefold. First, the banking industry was performing very poorly. Increased losses and non-performing assets (NPAs) resulted mainly from lending to financially distressed parastatals and cooperatives. Second, there was an increase in the subsidies to the banks which were a burden to the Government. The third reason was a non-declaration of dividends by the banks. Since the Government had invested in those banks, it expected to get a return from its investments. However, due to poor performance, the government-owned banks and financial institutions could not declare profits and pay dividends.

Following recommendations of the Commission, the Banking and Financial Institutions Act (BFIA) was enacted in 1991 to govern the conduct of banking business in Tanzania. The Act gave the Bank of Tanzania powers to license, regulate and supervise banks and financial institutions. It allowed entry of foreign and domestic private banks in the market. Some of the early entrants into the banking system with years of entry in brackets were: Meridian Biao Bank Tanzania Limited (1992) which was later taken over by Stanbic Bank Tanzania Limited (May 1995), Standard Chartered Bank Tanzania Limited (December 1993), Eurafrican Bank Tanzania Limited (November 1994), and Citibank Tanzania Limited (May 1995).

The NBC was restructured in 1997 and three separate entities were formed, namely NBC (1997) Limited, the National Microfinance Bank Limited and Consolidated Holdings Corporation. The Cooperative and Rural Development Bank was also restructured into a private bank in 1996 and renamed CRDB (1996) Bank Limited. This bank later changed its name to CRDB Bank PLC.

Since the enactment of the BFIA, the banking sector in Tanzania has experienced failures of six banks and financial institutions, namely Tanzania Housing Bank - THB (1995), Meridian Biao Bank (1995), Trust Bank Tanzania Limited (1998), Greenland Bank Tanzania Limited (1999) and Delphis Bank Tanzania Limited (2003), and First Adili Bancorp (2000). Most of these failures were triggered by failures of their parent banks. In all these cases, no depositor lost a cent. Only two banks (Greenland and THB) were liquidated while others were taken over by other banks.

The Government also encouraged formation of regional/community banks and financial institutions in various parts of the country, in order to assist Tanzanians to have access to banking services in their localities. The BFIA was amended in April 2003 to give powers to the Bank of Tanzania to prescribe lower capital threshold for establishment of regional and community banks. As of December 2010, there were eight regional/community banks operating in Tanzania, namely Mbinga Community Bank, Dar es Salaam Community Bank, Mwanga Community Bank, and Mufindi Community Bank. Others are Kagera Farmers Co-operative Bank, Kilimanjaro Co-operative Bank Limited, Njombe Community Bank, and Tandahimba Community Bank.

In 2002, the Government approved the National Microfinance Policy to provide a framework for microfinance activities in the country. Since the approval of the policy, efforts have been made to introduce best practices in the area of microfinance and microcredit among all practitioners as provided for in the Policy. Accordingly, the Bank of Tanzania Act 2006 was amended to provide for regulation and supervision of microfinance and microcredit institutions.

In its effort to put in place a formal mechanism for sharing of credit information, the Bank of Tanzania Act of 1995 was amended to provide for the establishment and supervision of private credit reference bureaux. Tanzania Bankers Association (TBA) took ownership and management of the Credit Information Bureau to be operated in compliance with the guidelines prepared by the Bank of Tanzania. On 14th September 2004, a provisional license was granted to TBA to operate the Credit Information Bureau. However, the TBA bureau did not have capacity to capture all the relevant information about the borrowers. The Bank of Tanzania Act of 2006 provided for establishment of Credit Reference System in Tanzania, which consists of a databank and private credit reference bureaus. The Bank of Tanzania is mandated to administer the databank, and license and regulate the private credit reference bureaus.

The databank will receive, validate and merge information (credit data, including off-balance sheet operations) from banks, financial institutions and other institutions licensed by the Bank. Access to related credit information will then be granted to licensed credit reference bureaus. The bureaus will also source data from other entities such as utility providers, phone companies, external debt collection agencies, public institutions such as the Registrar of Companies and the Courts (public records). The resulting credit reports will then be sold on request to contributing companies for the purposes of credit assessment of borrowers.

Implementation of the requirements of the Act is on going and the following have been accomplished:

(a) Regulations for databank and credit bureau were gazetted in May 2010.

(b) Processes to engage a vendor to Supply, Install and Commission the Credit Reference Databank System at the Bank of Tanzania is on-going.

(c) A public notice which is intended to entice interested eligible private credit reference bureau operators to apply for license was prepared and issued to the public.

As of the 31st December 2010, the banking sector was made up of 42 banking institutions. The total number of bank branches and agencies nation-wide was 475 most of which were concentrated in the commercial city of Dar es Salaam. Those in Dar es Salaam were 156, which accounted for 33 percent of all branches and agencies nationwide. Arusha and Mwanza had 34 branches each that accounted for 7 percent of all branches and agencies nationwide.

Four banks namely NMB, CRDB, Dar es Salaam Community Bank and Kenya Commercial Bank have been listed on the Dar es Salaam Stock Exchange (DSE). Barclays Bank Tanzania Limited, Standard Chartered Bank Tanzania Limited and PRIDE Tanzania have also listed their corporate bonds at the DSE.

Liberalization of the banking sector in Tanzania has brought about the following advantages:

- A significant improvement in the asset quality of banks which has led to increased profitability;

- Increased competition in the sector, which has led to better banking services;

- Liberalization of the sector and increased competition have led to better use of Information and Communication Technology (ICT) among banks and hence better service to customers. The use of ICT has helped banks to offer better services and new products to its customers like the introduction of Automated Teller Machine (ATMs);

- Corporate governance in the banking sector has improved significantly;

- Increased deepening of financial services due to effective and expanded branch networking and establishment of community banks; and

- Increased lending to private sector.

5.5 Banking Regulation and Supervision

In Tanzania, the development of banking legislation had its own history. The East African Currency Board (EACB) did not have control or any supervisory authority over commercial banks and other financial institutions until 1960 when the Banking Ordinance (Cap 430) was enacted. It defined banking business as the business of receiving money on current account subject to withdrawal by cheque. The Ordinance allowed only a company or a co-operative society licensed by the registrar of companies to perform banking business and required a minimum paid up capital of Tanzanian Shilling 2 million. Banks were required to invest 25 percent of their annual income in Government stocks and bonds, subjected to inspection and were required to submit financial reports to the registrar.

In the post-independence period, supervision function started in 1978. However, before then the Bank of Tanzania did not have legal powers to issue regulations and supervise banks and other deposit taking institutions. All banks and financial institutions that existed before 1991 were established by independent acts of parliament and they were all Government owned. Objectives and powers of those institutions were defined in their respective statutes. The Acts were: The National Bank of Commerce (NBC) Act, 1967; The Tanzania Investment Bank (TIB) Act, 1971; The Tanzania and Rural Development Bank (TRDB) Act, 1971; The Tanzania Housing Bank (THB) Act, 1972 and the National Insurance Corporation (NIC) Act of 1967. The legislative system lacked an apex supervisory body due to the parallel existence of several legislations such that there was no institution that was obliged to develop the necessary body of regulations and enforce adherence to prudential standards.

The Banking and Financial Institutions Act that was enacted in April 1991 provided for banks and financial institutions to be licensed, supervised and regulated by the Bank of Tanzania. Some of the individual statutes that established the financial institutions were repealed and others amended accordingly. This was the beginning of an effective banking regulatory and supervisory framework in Tanzania. In the late 1990's, regulation and supervision of banks in Tanzania had been strengthened. On account of dynamics in the domestic and international financial markets, the Bank has since 2007 adopted a more risk-focused approach. This move was in line with the global trend, where the general direction on regulatory change was moving towards Risk Based Supervision (RBS), which places a strong emphasis on understanding and assessing the adequacy of risk management systems that are in place, identify, measure, monitor and control risks in an appropriate and timely manner.

Following the revision of the primary legislation in 2006, revision of old and drafting of new regulations were completed and gazetted on 12th December 2008. The new regulations are Prompt Corrective Action Regulations 2008, Physical Security Measures Regulations 2008 and Foreign Exchange Exposure Limits Regulations 2008. Also issued were guidelines for Directors of Banks and Financial Institutions 2008 and

Outsourcing Guidelines for Banks and Financial Institutions 2008 both of which became effective on 1st November 2008. Also issued were the Bureaux de Change Regulations 2008 which became effective on 1st July 2008. The regulations cover various licensing and operational aspects of the business of purchase and sale of foreign currencies in Tanzania. Business Continuity Management (BCM) guidelines for banks and financial institutions were developed and issued to banks and financial institutions for compliance. Meanwhile, the Foreign Exchange Act 1992, Problem Bank Resolution Manual, Guidelines for Mobile Bank Branches and Consolidated Supervision Regulations are in the review process. Other regulatory and supervisory issues include the following:

Minimum Capital Requirements for Banking Institutions: Section 17 of the BFIA of 2006 requires banks to commence operations and maintain at all times a minimum core capital of not less than TZS 5,000 million and ratios of core capital as well as total capital to total risk weighted assets and off balance sheet exposures, of not less than 10 percent and 12 percent, respectively.

For the purpose of increasing access to financial services, the Act empowers the Bank of Tanzania to establish other categories of banking institutions and prescribe the applicable capital levels. Accordingly, through the Capital Adequacy Regulations, gazetted in December 2008 the Bank of Tanzania specified capital levels of TZS 2,500 million for financial institutions and TZS 250 million for community banks.

However, these capital levels are regularly reviewed in line with the developments in the banking sector. The Bank of Tanzania is empowered to prescribe additional capital requirements based on the risk profile of a bank or financial institution. The capital levels prescribed are in line with best practice at international level such as those of the Basel Committee.

Meeting international regulatory and supervisory standards: The Bank of Tanzania has endeavored to keep itself at international standards in regulating and supervising banks and financial institutions. Most of these standards are those issued by the Basel Committee on Banking Supervision. In 1988, this Committee issued capital adequacy standards, which are now commonly known as Basel I. The Committee came up with a framework establishing minimum levels of capital for internationally active banks, which also incorporated off balance sheet exposures in the risk weighted system. The framework mainly focused on Credit risk. Capital adequacy was computed by assigning standardized risk weights on each asset owned by the bank.

In 2004, the Committee issued similar standards known as Basel II but which are more comprehensive than those of Basel I. The Bank of Tanzania has embarked on working on the prerequisites for the full implementation of Basel II. Pre-requisites for Basel II implementation are as follows:

- ***Full Implementation of Basel I***: Under Basel I the Capital Charge for Market Risk was excluded but has now been taken care off by the Capital Adequacy Regulations, 2008.

- ***Full compliance with Basel Core Principles (BCPs) for Effective Banking Supervision***: Efforts are underway to make sure the Bank of Tanzania is in full compliance with the Basel Core Principles. Following self assessment done in 2010, the Bank of Tanzania was fully compliant with four BCPs and largely compliant with 19 and materially non-compliant with one.

- ***Implementation of Risk Based Supervision: Risk Based Supervision is another prerequisite for effective implementation of Basel II***: The Bank of Tanzania has continued to develop and adopt risk based supervision methodology since 2007.

***Cross Border Supervision*:** the Bank of Tanzania has signed Memoranda of Understanding (MOUs) with other regulatory authorities across the borders. The MOUs provide for a framework for cooperation among regulators on banking regulatory and supervisory matters as well as providing a base to cooperate in the field of supervision of authorized banking entities or group on the principles and procedures outlined in the MOUs. They also establish an arrangement for sharing of supervisory information, exchange of information and coordinated cross border supervision of institutions with cross border establishments.

The Bank of Tanzania signed a Memorandum of Understanding (MOU) in 2005 in connection with consolidated supervision of African Banking Corporation (ABC) Holdings Limited whereby Reserve Bank of Zimbabwe is a lead supervisory authority responsible for preparing a consolidated report of ABC Holdings Limited. In 2008, the Bank of Tanzania signed an MOU on consolidated supervision for East African countries and Central Bank of Comoro. Also, the Bank of Tanzania has signed an MOU with the Reserve Bank of South Africa.

***Mobile Banking and Payment Systems*:** Mobile payment services are being provided by some commercial banks and mobile network operators in Tanzania. The legal and regulatory requirements of the mobile phone payment system require partnering of service providers with commercial banks. The existing arrangement creates gaps in the regulatory framework because the mobile phone payment services are regulated by two regulators, each with a limited scope of coverage. The Bank of Tanzania focuses on the financial transactions, while the Tanzania Communication Regulatory Authority (TCRA) regulates the communication infrastructure. In recognition of the importance of developing a rigorous supervisory oversight for this fast developing mobile banking industry, the Bank of Tanzania has signed an MOU with TCRA which provides a mechanism for regulatory and supervisory coordination between the two regulators. Mobile telecom companies introduced M-Pesa (VODACOM); Tigo Pesa (TIGO); Air Tel Money (AIRTEL) and Z- Pesa (ZANTEL).

Islamic Banking: The emergence of Islamic banking products has resulted into a need for the Bank of Tanzania to provide enabling environment for operation of such products in the market. The Bank has considered it ideal to have in place a policy paper, which is intended to back its decision to allow operations of the said products in the banking industry and provide the basis upon which legal, regulatory and supervisory framework for Islamic banking will be developed.

In East African countries, fully fledged Islamic banks were established in some countries, while others are at an early stage of reviewing their legislations, with a view to allowing Islamic banking operations. Some member countries are still applying the existing conventional banking laws to supervise and regulate these institutions.

As at the end December 2010, the Bank of Tanzania had granted approval to four banks namely Kenya Commercial Bank (KCB) (T) Limited, NBC Limited, Stanbic Bank (T) Limited and Peoples' Bank of Zanzibar (PBZ) Limited to open up windows for Islamic banking products and services. The approvals are limited to deposits based on "*al-wadeeah*" principles, which can be accommodated under the current legislations. Operationalization of other Islamic banking products and services including *shariah*-compliant banking business awaits the review of the legal and regulatory framework.

East African Cooperation: The East Africa Cooperation Development Strategy for 1997 – 2000 laid the foundation for the translation of the vision of the cooperation into a comprehensive action programme. The strategy calls for the harmonization of fiscal and monetary policies in the East African Region and formulation of standardized bank prudential regulations.

5.6 Financial Stability

One of the lessons from the recent global financial crisis is the need for putting in place an effective financial stability oversight in the economy[1]. Financial stability oversight covers the supervision of the entire financial system and the monitoring of systemic interactions among the components of the financial system. The financial system is made up of three components, namely the financial intermediaries (including banks, insurers, investment companies and pension funds); financial markets (as alternative sources of finance and as links between financial institutions); and financial system infrastructure which includes clearance, payment and settlement system as well as legal, regulatory and supervisory system. Financial stability function identifies potential sources of instability in the financial system, devises mitigation policy options in order to prepare for effective crisis management and resolution. Given the existing and the growing inter-linkages among various components of the financial system at national, regional and global levels,

[1] Stanley Fischer: Central Bank Lessons fro the Global Financial Crisis lecture available Online at http://www.bis.org/review/r110414f.pdf

coordination is a central issue in the conduct of financial stability function. Thus, Financial Stability Reports (FSRs) are produced regularly to raise awareness to policymakers and the public on financial stability issues.

National authorities produce country's FSRs while regional blocs which are at advanced stages of integration such as the European Union produce regional FSRs. The IMF produces the Global Financial Stability Reports (GFSRs).

The Bank of Tanzania established a Financial Sector Stability Department in 2009 with the key responsibilities of undertaking a macro-surveillance of the financial system aimed at: assessing the performance of the financial sector; identifying financial imbalances and the potential of those imbalances to trigger financial instability; and promoting preventive and remedial policies to mitigate the risk of financial instability under the respective regulatory authorities. In addition to undertaking the financial stability function, the Bank of Tanzania also promotes the stability of the financial system through its prudential oversight of the banking system, payment systems, and financial markets operations. It also acts as a lender of last resort and deals with the crisis resolution for distressed banks in exceptional circumstances.

Further, the Bank is pioneering the establishment of Tanzania Financial Regulators Forum. The Forum is a mechanism for coordinating the macro-prudential oversight among financial sector regulators and the Ministry of Finance. The establishment of the proposed Financial Regulators Forum will enable the extension of the FSR's coverage to include insurance companies, pension funds and securities markets.

The Bank of Tanzania has developed a financial stability monitoring framework which guides the financial stability function. The operation of the framework is reflected in the financial stability reports which are produced every September and reviewed in March. The first FSR[2] was published in December 2010. The Bank of Tanzania has also developed a multi-factor stress testing model which is used to test the resilience of the banking sector under different shocks. Macro-economic scenarios are used to develop the shocks which cover credit, liquidity, foreign exchange, interest rate and contagion risks.

Financial stability issues at the East African Community (EAC) regional level are coordinated through the EAC Monetary and Financial Affairs Committee (MAC) under the Banking Supervision and Financial Stability sub-committee. Bank of Tanzania is an active member of this sub-committee and coordinates the development and harmonization of financial stability monitoring and reporting frameworks in the region. The EAC regional cross-border stress testing study conducted by

[2] The Financial Stability Report is available online at

http://www.bot-tz.org/Publications/Fin-stability/financial%20Stability%20Report.pdf

IMF[3] observed that the level of financial sector integration in the region is too low to qualify for a centralized monitoring. The study recommended that more emphasis needs to be placed on enhancing national financial stability and monitoring frameworks. It further recommended that cross-border issues can be handled through individual country monitoring systems.

At the global level, the Financial Stability Board (FSB) and the IMF play an important role in coordinating the financial stability function. At the international level, the FSB coordinates the work of national financial authorities and international standard setting bodies. It also develops and promotes the implementation of effective regulatory, supervisory and other financial sector policies. The Bank of Tanzania is a member of the FSB and is committed to maintaining financial stability, transparency and implements international financial standards. To this end, the Bank of Tanzania is subjected to periodic peer reviews under the IMF/World Bank Financial Sector Assessment Programs (FSAPs). Two FSAPs have been conducted in Tanzania. The first FSAP[4] was conducted in 2003 and its outcome provided inputs to the formulation of the Second Generation Financial

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[3] Key findings of the study were disseminated in an EAC regional Financial Stability Workshop which was organized by the Bank of Tanzania in Dar es Salaam from 2-6 May 2011.

[4] The 2003 Tanzania FSAP report is available online at http://www.imf.org/external/pubs/ft/scr/2003/cr03241.pdf

Sector Reform Programme. The second FSAP[5] was conducted in 2009.

[5] The 2009 Tanzania FSAP Update report is available online at http://www.imf.org/external/pubs/ft/scr/2010/cr10177.pdf

CHAPTER SIX: NATIONAL PAYMENT SYSTEMS

6.1 Modernization of the Payment Systems

In Tanzania, cash has been the dominant payment instrument with little usage of cheques and telegraphic transfers as most transactions and payments were effected outside the banking system. Prior to the establishment of the clearing house at the Bank of Tanzania in 1993, clearing of paper-based instruments was purely on bilateral arrangements and there was no comprehensive unified law governing payment, clearance and settlement systems.

The financial sector reforms undertaken in the early 1990s allowed the private sector participation in the financial sector, which led into a rapid evolution of different modes of payments in the country. In response, the Bank of Tanzania undertook deliberate measures to modernize the National Payment Systems (NPS) with the objective of enhancing safety, soundness and efficiency in the payment and settlement systems. In 1997, the Bank established the National Payment System Unit, which was later transformed into a Directorate in 2000. The directorate is entrusted with coordination of activities related to modernization of payment system. Following these developments, the Bank of Tanzania Act of 2006 was enacted to enable the Bank to regulate, monitor, and supervise the payment, clearing and settlement system in the country.

6.2 Payment System Stocktaking and Situational Analysis Survey

In 1998, the Bank conducted a countrywide survey whose objective was to establish the strengths, inadequacies and challenges of the country's payments system. The survey revealed among other things that, the payment system was characterized by a narrow payment instrument base, low utilisation of basic payment technologies, and manual clearing and settlement processes. The survey results formed the basis for development of a National Payment System vision and a strategic framework document in 2000.

6.3 NPS Vision and Strategic Framework

The Framework put in place a timeline for the transformation of the National Payment Systems to the year 2005. It outlined the following major systems that were to be developed:

i. ***The inter-bank payment clearing and settlement systems:***

   - An Electronic Clearing House (ECH) System to enhance efficiency in cheque clearing processes.
   - An Electronic Funds Transfer system (EFT) to handle inter-bank low value debit payments.

- A Large Value Transfer System (LVTS) to enhance efficiency in settlement of high value and time critical payments,
- Cross-Border payment transfer system which process cross-border transactions.

ii. ***The inter-bank electronic retail payment and clearing systems***

- Payment Cards clearing systems for processing of interbank card payments resulting from Automated Teller Machines (ATMs) and Point of Sale (POS) devices.
- Electronic banking and internet based systems intended to support electronic banking products and services, and electronic commerce by using electronic and Internet based payment instruments

iii. ***National Payment System legal framework supportive of the developments and operations of the National Payment Systems.***

In implementing the framework the following have been achieved:

Electronic Clearing House System: In March 2002, the Bank of Tanzania acquired and successfully implemented an Electronic Clearing House System that facilitates cheque clearing in Dar es Salaam. As at the end of December 2010, the system was capable of clearing an average of 4,320 items valued at TZS 13 billion per day. The system was later implemented in phases at the Bank of Tanzania Branches of Arusha (2005), Mwanza (2006), Zanzibar (2007) and Mbeya (2008). The Bank is working towards modernization of the Clearing Houses in line with technological advancements to enhance efficiency in cheque clearing operations across the country.

Electronic Funds Transfer System: In December 2004, the Bank implemented an Electronic Funds Transfer System. The objective was to increase efficiency in the transfer of bulk payments, such as payment of salaries, inter-bank fund transfers, and other ggovernment payments and transfers. The system is mostly used to process low value high volume inter-bank payments.

Large Value Transfer System: In April 2004, the Bank acquired and successfully implemented a large value transfer system called Real Time Gross Settlement (RTGS) system dubbed as Tanzania Interbank Settlement System (TISS). This is an inter-bank fund transfer system through which large value and/or time critical credit transfers are made between participants in the system for their own account or on behalf of their customers. The system has significantly improved efficiency in the payments system by eliminating the settlement time lag (float) and minimizing settlement risks. Participants in the system include commercial banks, financial institutions, the Tanzania Revenue Authority (TRA), the Zanzibar Revenue Board (ZRB) and the Ministry of Finance (MOF). On average the system has been able to process about 5,000 transactions valued at TZS 16 billion per day.

Electronic Retail Payment Systems: The role of the Bank on retail payment system is to facilitate their developments and provide settlement services for retail inter-bank payments. In Tanzania noticeable developments in electronic retail payment schemes have been realized. These include card payments, ATMs, Point of Sell (POS), internet banking, Mobile phone payments and retail payment clearing system (Switch). In October 2005, about four banks members of Visa International agreed to share their domestic ATMs and POS network under the consortium known as the Tanzania National Net Settlement Service (TNNSS). As at the end of December 2010, the TNNSS was comprised of nine banks.

Furthermore, in December 2007 a consortium of six banks implemented a shared ATM infrastructure known as UmojaSwitch. As at the end of December 2010, UmojaSwitch consortium was made up of 14 banks. The Bank of Tanzania provides settlement services for both the TNNSS and the UmojaSwitch. Likewise, the mobile payments are flourishing following Mobile Network Operators (MNOs) success in countrywide coverage. It is incredible that the financial inclusion could be achieved more with mobile payment services compared to the conventional banking services. As of May 2011, there were four Mobile Network Operators offering financial services, with around 20 million subscribers.

***NPS Regulatory framework**:* In 1998, the Government Loans Guarantees and Grants Act of 1974, was amended to provide Book Entry Systems and Government Securities Central Depository System (CDS) in the Bank of Tanzania. This facilitated the creation of a legal framework for the development of the CDS and trading of Treasury Bills and Treasury Bonds. In 2003, the Bank of Tanzania Act of 1995 was amended to empower the Bank of Tanzania *inter alia* to implement, operate and regulate the payment and settlement systems. This facilitated the creation of a legal and regulatory framework for the development of payment systems.

The Bank of Tanzania Act of 2006 also empowers the Bank to oversee payment systems in the country. In February 2007, the Evidence Act was amended to incorporate admissibility of electronic evidence thus creating certainty of acceptance of electronic information as *prima facie* evidence in court cases. The Bank of Tanzania has developed the following regulations related to the payment systems and operations:

- The Electronic Payment System Guidelines and the Mobile Payment Regulations which intend to promote competition and innovation and offer legal certainty and predictability of mobile payment operations in the country.
- The systems' (TISS, ECH, and EFT) Rules and Regulations developed and adopted by members with a view of enhancing the systems' regulatory framework.

The Bank of Tanzania spearheaded the inauguration of TISS Dispute Resolution Mechanism Committee. The Committee was mandated to ensure compliance of TISS Rules and Regulations and solve disputes that may arise out of TISS operations.

6.4 Payment Systems Regional Harmonization

The Bank of Tanzania implements Payment Systems harmonization initiatives as agreed in various regional fora as follows:

SADC Regional harmonization: The Bank of Tanzania in collaboration with other Central Banks in the SADC sub-region have agreed to adopt a common business and technical specification for a suitable Settlement System. This arrangement was approved by the SADC Committee of Central Bank Governors (CCBG) in April 2002. The Bank of Tanzania has also been participating in furnishing payment system data to the South African Reserve Bank (SARB) for the publication of the NPS SADC "Green Book" on Tanzania, and other reports on payment systems undertakings.

East Africa Regional harmonization: The Bank of Tanzania implements the East African Monetary Affairs Committee (MAC) directives, which include:

- Allowing commercial banks to borrow from the Central Banks through the Intraday Loan Facility (ILF) and Lombard facility, against eligible collaterals. In Tanzania eligible collaterals consists of Treasury bills and Treasury bonds.

- Adopting the Society for World Interbank Financial Telecommunications (SWIFT) messaging standards for both domestic and international transfers. As of December 2010, 36 out of the 42 banks operating in Tanzania had joined SWIFT.
- Implementing the payment system oversight operations, including formulating a set of efficiency, risk management benchmarks and guidelines.
- Conducting Cross Border Payment Surveys to determine the nature, scope, architecture and other technical details on the most appropriate payment system for the region.
- Coordinating the establishment of a shared Card Payment system Infrastructure.
- Implementing the East Africa Cross-border Payment system dubbed ‘EAPS’ has been initiated for Kenya, Uganda, and Tanzania.

COMESA Regional Harmonization: The Bank of Tanzania collaborates with other countries in the Common Market for Eastern and Southern Africa (COMESA) on regional clearing and settlement operations. The objective is to enhance efficiency in payment clearing and settlement across the region.

Membership to the Alliance for Financial Inclusion (AFI): The Bank of Tanzania joined the Alliance for Financial Inclusion in 2009, where the regulators are provided with a platform to share experiences and knowledge relating to financial inclusion initiatives. To this end, the Bank became a member of AFI Financial Services Working Group where members seek to harmonize best practices and standards in achieving financial inclusion.

6.5 The Bank of Tanzania Oversight Activities

In 2003, the Bank of Tanzania Act of 1995 was amended to empower the Bank to conduct the oversight function on the payment systems in the country. The oversight functions include:

- Formulating, reviewing and updating specific payments, clearing and settlement system standards, guidelines, policies, rules and regulations for the operations of the systems, and
- Monitoring performance and conducting assessment of payment systems compliance to guidelines procedures, regulations and standards.

The main objective of payment system oversight is to enhance safety and efficiency in the national payment clearing and settlement systems to mitigate risks in their design and operations. The Bank of Tanzania prepares payment system oversight reports on a weekly, quarterly and annual basis.

CHAPTER SEVEN: MICROFINANCE

Prior to financial sector reforms of the 1990s, the microfinance industry was operating in rather uncoordinated manner. There was no clear policy on the conduct of this financial business. After the reforms, the Bank of Tanzania being a focal point in financial development explored and initiated alternative approaches towards facilitating development of a broader-based financial system in the country, microfinance inclusive. In 1999, the Bank of Tanzania established the Directorate of Microfinance which was entrusted with the responsibilities of coordinating and creating an enabling environment for the development of the microfinance sector in the country.

The Bank of Tanzania put in place a well-defined policy, legal, regulatory and supervisory framework for a well functioning microfinance system. The National Microfinance Policy (NMP) was developed in May 2000 and officially launched in February 2001, making Tanzania the first country in Eastern and Southern Africa to have such a comprehensive national microfinance policy. A review of nine relevant laws was undertaken in 2002 and the microfinance regulations and supervisory framework were developed in 2005 to operationalize the policy.

Following the creation of an enabling environment and promotion of microfinance in the country, micro financing services were increasingly being recognised as an effective poverty reduction instrument and an important cross-cutting aspect in policy making. The microfinance aspect has been integrated in 17 national policies and strategies in targeting the poor population and their economic activities.

To augment the Government efforts on promoting the growth of the microfinance industry, five development partners, namely SIDA, DFID, CIDA, DANIDA and the Royal Netherlands established the Financial Sector Deepening Trust (FSDT) in 2004. The FSDT was established to promote greater access for more people to engage in the financial system by increasing the range and diversity of pro-poor financial services and institutions. The activities being funded by the Trust are divided into three groups, namely capacity building, sector-wide development, and creation of an enabling environment for a wider usage of microfinance.

As at the end of December 2010, there were 42 commercial and community banks with microfinance portfolios, two microfinance institutions and SME specialised banks; about 100 financial Non Government Organizations (NGOs); 150 financial companies and over 5,000 Savings and Credit Co-operative Societies (SACCOS). These institutions provide a wide range of financial products including credit, savings, micro-insurance, leasing microfinance, housing microfinance, mobile phone banking, and SME financing.

The Bank of Tanzania has developed a Rural Financial Services Strategy (RFSS). Its main objective is to expand the level of access to a wide range of financial services by individuals, households and enterprises in the rural areas. The Strategy pulls together and ensures consistency of the different approaches of rural and agricultural finance (covering the entire value chain); that are integrated in various sectoral policies and strategies into a clear framework for implementation.

In addition, the Bank has established a Microfinance Database. The data base is used to systematically track and analyze the performance of the microfinance sector in the country. In 2002, the Bank started publishing a directory of microfinance institutions in the country in order to provide status and capture new developments in the sector. The directory contains basic information on microfinance institutions and at a glance provides general profile of the microfinance industry to stakeholders. It is updated after every four years and the current version is of 2009. In addition, a microfinance sub web (www.bot-tz.org/MFI/) was developed by the Bank of Tanzania in 2005, with a view to disseminating information relevant to the microfinance industry inside and outside the country.

The Bank of Tanzania has also developed operational guidelines for the Government and donors providing support to the microfinance sector. The guidelines aim at ensuring that such support is well coordinated in accordance with best practices and consistent with the NMP. The guidelines focus on how best to assist the industry without distorting the market.

In May 2004, the Bank of Tanzania in collaboration with the Ministry of Cooperatives and Marketing carried out a comprehensive study on the performance of SACCOS, aimed at improving their operational performance in the country. The study also identified areas for improvement, and recommended guidelines to enable SACCOS to operate according to international best practices. In October 2010, the Bank in collaboration with the Ministry of Agriculture Food Security and Cooperatives (MAFSC) commissioned World Council of Credit Unions (WOCCU) to assist the Cooperative Development Department (CDD) of the MAFSC, Regional and District Cooperative Officers in strengthening their capacity for licensing, inspection and supervision of SACCOS in the country. Other tasks include developing a mechanism for information exchange and sharing the same between the Bank of Tanzania and CDD on SACCOS monitoring and performance status.

The Bank of Tanzania has also developed a financial education framework to improve financial capability by ultimately changing people’s behaviour towards managing their money and engaging with financial service providers. The framework also informs and educates the public on their rights, responsibilities and alternative micro financing options.

In order to create an enabling environment for housing microfinance, the Bank of Tanzania facilitated the process of establishing a Housing Microfinance Fund (HMF). The fund will be utilized for provision of long term financing through wholesale lending or guarantees. The Housing Microfinance

Facility is a tool that facilitates faster and more efficient provision of a medium term reasonable priced loans for construction of houses to a vast majority of population.

CHAPTER EIGHT: REGIONAL INTEGRATION INITIATIVES

The process of integration in Africa began with the creation of the Organization of African Unity (OAU) in 1963 following the independence of most African States. Further emphasis was placed on continental integration through the frameworks of the Lagos Plan of Action (1980), the Abuja Treaty (1991), the Sirte Declaration (1999) and the Constitutive Act establishing the African Union (AU) in 2001.

Article 44 of the Abuja Treaty states that "in accordance with the relevant protocols, member states shall within a timetable to be determined by the OAU, harmonize their monetary, financial and payments policies, and boost intra-community trade in goods and services as well as to enhance monetary cooperation among Member States". To this end, Member States shall:

- Use their national currencies in the settlement of commercial and financial transactions in order to reduce the use of external currencies in such transactions;
- Establish appropriate mechanisms for setting up multilateral payments systems;
- Consult regularly among themselves on monetary and financial matters;
- Promote the creation of national, regional and sub-regional money markets, through the coordinated establishment of stock exchanges and harmonizing legal

texts regulating existing stock exchanges with a view to making them more effective;

- Cooperate in an effective manner in the fields of insurance and banking;
- Further liberalize payment systems and eliminate payment restrictions among them and promote the integration of all existing payments and clearing mechanisms among the different regions into an African Clearing and Payments House; and
- Establish an African Monetary Union through the harmonization of regional monetary zones.

Achievements of the objectives of the Abuja Treaty are predicated on, among others, strengthening of the sub-regional groupings and harmonization of national policies for the eventual evolvement of a monetary union in the continent. The African Monetary Union would be established when the majority of countries and or Central Banks in the various sub-regions, representing at least 51 percent of the Association of African Central Banks (AACB) membership, have fulfilled the macroeconomic convergence criteria.

Given the importance of macroeconomic convergence, the measures to achieve the objective of the African Monetary Cooperation Programme would include the adjustment of exchange rates of member countries to their equilibrium levels. The other requirements are the eventual liberalization of current and capital account transactions, adoption of harmonized exchange rate system, and harmonization of ceiling on Central

Banks' credit to government in order to ensure fiscal policy harmonization and the adoption of market-oriented approach to the conduct of monetary policy.

The Bank of Tanzania collaborates with other Central Banks through the Association of African Central Banks (AACB) to promote regional integration at the continental level. The AACB is the forum of Central Bank Governors, whose objective is to steer the African Continent towards a Monetary Union. The Bank of Tanzania signed the Articles of Association and became a member of the AACB on December 31, 1968. The AACB is coordinating the activities related to the following objectives:

- Promote co-operation in the monetary, banking and financial spheres in the African region;
- Assist in the formulation of guidelines in which agreements among African countries are reached in the areas of monetary, banking and financial issues;
- Strengthen efforts aimed at bringing about and maintaining price and financial stability in the African region;
- Examine the effectiveness of international economic and financial institutions in which African countries have an interest and suggest ways of possible improvement; and
- Envisage, following a well-timed and sequenced convergence process, the advent of a single currency and a common central bank in Africa.

Membership to Sub-Regional Bodies

Tanzania is a member of the African Union as well as two of the sub-regional economic communities namely the Southern Africa Development Community (SADC) and the East African Community (EAC). Therefore, the Bank of Tanzania collaborates with other central banks to attain the sub-regions' common goals.

The Southern Africa Development Community

The Committee of Central Bank Governors (CCBG) in SADC was established in August 1995 with the objective of strengthening the process of regional economic co-operation and integration. The establishment of the CCBG was in realisation of the need for a specialised body in SADC to promote and achieve closer cooperation among Central Banks of the Community. The CCBG has contributed towards development of several Memoranda of Understanding which include: progress towards macroeconomic convergence; coordination of monetary and exchange rate policies; harmonization of payment and settlement systems; cooperation in areas of information and communication technology; harmonization of statistical frameworks; and coordination of supervisory and regulatory frameworks. Against this background, a number of activities have been undertaken, and noticeable progress has been achieved. The Bank of Tanzania is a member of all the sub-committees of the SADC-CCBG.

The East African Community

The participation of the Bank of Tanzania in spearheading the EAC integration process has been within the onus of the EAC Monetary Affairs Committee (MAC) which was established in 1997. MAC is the forum of EAC Central Bank Governors broadly charged with facilitating monetary and financial integration. MAC has focused on developing, coordinating and harmonizing the following activities:

- Macroeconomic convergence,
- Financial markets, bank supervision and payment systems;
- Information technology infrastructure;
- Statistical methods and standards.
- Banking and Currency;
- Finance and Accounting; and
- Legal Issues.

MAC has recorded a significant progress in strengthening the economic integration in the region[6]. Areas of considerable progress include: improvement of the frameworks for the conduct of monetary policy; harmonization of statistical frameworks; harmonization of supervisory and regulatory frameworks; development of payment systems; and the development of Information and Communication Technology (ICT) infrastructure. The Bank of Tanzania is a member of the

[6] See the Report of EAC Monetary Affairs Committee (2008) "Review of MAC Achievements and Challenges".

High Level Task Force that is responsible for negotiating the East African Monetary Union Protocol in preparation for the EAC Monetary Union.

CHAPTER NINE: CHALLENGES AND THE WAY FORWARD

9.1 Major Challenges

While pursuing these activities, the Bank of Tanzania faces a number of challenges. One of the major challenges facing the Bank of Tanzania in realizing its vision and mission is the degree of preparedness to cope with the fast changing technological advancements in the world economy in general and financial system in particular. Also, the engagement of the Bank of Tanzania in non-core functions poses a challenge to the Bank to effectively discharge its core functions, and thus, jeopardizes its reputation.

In the course of formulating and implementing monetary policy, the Bank of Tanzania has faced a number of challenges including the following:

Thin and shallow financial markets: Markets are characterized by a limited number of participants, as banks are the only major participants hence lowering the competitiveness of price setting. Also, there are limited money market instruments which are Treasury bills, Treasury bonds, Foreign exchange and Repurchase agreements and limited transactions for securities in the secondary markets.

Unpredictability of government budgetary flows coupled with large and unpredictable expenditure floats: This makes it difficult to match monetary policy actions with actual flows, and hence reduces effectiveness of the actions.

Weak monetary policy transmission mechanism: Banks are fairly insensitive to interest rate movements in the primary market mainly due to structural rigidities in the economy and weaknesses in the legal framework.

Dominance of currency in circulation in the reserve money: Tanzania is basically a cash economy. This impairs the effectiveness of monetary policy actions.

Other challenges include:

The ever-changing environment that calls for a periodic alignment of supervisory function to the ever-changing banking and legal environment: This requires a continuous development of the necessary skills and expertise to meet operational challenges, and better manage expectations of key stakeholders.

The presence of multiple regulatory bodies in the financial sector: Apart from banks, other players in the financial sector, namely pension funds, insurance, and capital markets are regulated by different bodies. Evidence elsewhere suggests that these sub-sectors are interlinked posing a challenge in case of a failure.

Credit risks associated with the absence of credit reference systems, delays in issuing national identity cards and shortcomings in existing land laws prevent commercial banks to extend credit to the private sector.

Most of the existing laws are archaic and ineffective to support Payment System's development. Other limitations to effective payment system development include: rapid technological changes and innovations which call for dynamics in operations and effective risk mitigation measures; physical infrastructure (unreliable power supply, poor transport and telecommunications); limited knowledge on available payment systems and financial products; and predominance of cash based economy and informal sector across the country.

Unregulated microfinance operations impede the development of the financial sector given the increasing number of these institutions in the country, which operate without standards.

Overlapping membership to regional groupings adds to the burden of harmonization and coordination, given limited resources—both human and financial. In addition, inadequate sensitization on regional integration initiatives impedes full private sector involvement at both planning and implementation stages.

9.2 The Way Forward

Given the challenges listed above, the Bank of Tanzania will always endeavor to remain vigilant to maintain a modern central bank embracing best practices as stipulated in the Bank of Tanzania's Vision. The Bank of Tanzania shall ensure that it effectively carries out all its core functions, and where possible, continue to smoothly shade off non-core functions.

The Bank will endeavor to continue improving the effectiveness of the conduct of monetary policy. The process of managing the Monetary Policy Committee will be refocused to *inter alia* improve analysis with a view to making the conduct of monetary more effective. In addition, the Bank will intensify its efforts to promote an efficient and competitive system of financial markets in the country.

As a fiscal agent, the Bank will continue to intensify its collaboration with the government. The objective is to ensure that public finances are managed prudently and fiscal policy is supportive of monetary policy, thus achieve the ultimate objective of price stability.

A robust payment system is a critical component of the financial system infrastructure which is necessary for financial stability. Given the dynamics in the global financial system, authorities worldwide acknowledge the need to ensure that National Payment Systems are well developed. The Bank of Tanzania will endeavor to build capacity and strengthen its efforts in order to keep pace with these developments.

In spite of the positive developments registered in the financial sector, access to microfinance services by the majority of Tanzanians is still a challenge particularly to the low income segment of the population. Given this situation, the Bank of Tanzania will intensify its collaboration with other stakeholders to ensure that there is an enabling environment that promotes a vibrant and effective microfinance industry in the country. To this end, the Bank will regularly review the Microfinance Policy and Regulations to make them more supportive of the development of the industry.

In addition, the Bank of Tanzania will continue intensifying its efforts towards the harmonization process of monetary and financial issues relevant to regional integration.

Finally, the Bank of Tanzania will continue to coordinate the implementation of the Second Generation Financial Sector Reforms (SGFSRs) programme until all on-going activities are completed to ensure a vibrant financial sector.

ANNEXES

Annex I : Background to Tanzania's National Debt

During the years between 1970 and the mid-1980s, the country experienced a succession of economic crises and natural calamities, causing severe setbacks in the economy and accumulation of a debt burden. The total external debt as a percentage of GDP rose from the average of 35.6 percent in the 1970s to 44.9 percent in the 1980s before it peaked at 164.9 percent in 1994. The significant rise in indebtedness corresponds to the periods 1973-74, 1978-79 and 1985-87. The first and second coincided with the first and second oil crises respectively while the third correspond to the funding of structural adjustment programs. Specific factors which accounted for the mounting of both external and domestic debt were as follows:

i). ***External/Domestic Shocks****:* In 1973-74 the country was hit hard by the first oil price shock followed by the extensive drought in 1974/75 which caused a decrease in production of food and traditional export crops. The situation was further aggravated by the second oil price shock of 1978 and the deterioration of agricultural export performance in the wake of drought and floods during the later part of the 1970s.

In addition to these events, the war with Idd Amin of Uganda in 1978/79 took a financial and social toll, estimated to cost about USD 500 million. Over the entire decade, the only years recorded as good times were 1976 and 1977 when the country enjoyed a coffee boom.

It is thus not surprising that fiscal deficits started to increase sharply in the 1970s from less than 10 percent to 15.3 percent in 1981. Much of this was due to sharp increases in government spending which averaged above 30 percent of GDP between 1975 and 1985. These deficits triggered an increase of both domestic and external public debt.

ii). ***Break-up of the East African Community (EAC)*****:** The break-up of the EAC not only ended Tanzania's legitimate trade with its partners, but also necessitated substantial investment in infrastructure and other services that were previously provided by EAC. The huge capital investment requirements and operational costs associated with the establishment of the Tanzania Railways Corporation, Tanzania Harbours Authority, Tanzania Telecommunication Company Limited, and Air Tanzania Corporation constrained massive borrowing from both external and domestic sources.

iii). ***Worsening of the terms of trade*****:** Since the mid 1970s, Tanzania traded in an environment of escalating world prices for oil and manufactured goods, while, simultaneously, a global recession dampened the demand for primary commodities in the wealthy countries that were major trading partners. As the price it had to pay for industrial inputs increased, the country plunged into trade deficits, which were partly financed by short and long term loans. While the country's imports grew at the rate of 16 percent in 1970s, exports were increasing at a rate of only 8.3 percent. The external debt in nominal terms grew at an annual rate of around 15 percent. Indeed, while Tanzania recorded negative growth rate in 1980s, except in two years 1985 and 1986, the debt continued to grow at the rate above 15.0 percent.

iv). ***Poor tax administration****:* Before the establishment of the Tanzania Revenue Authority in 1996, tax administration was very weak leading to poor tax collections. Consequently, the Government was unable to raise sufficient revenue to finance its rising expenditures and hence resorted to domestic borrowing. After the establishment of the TRA in 1996, a big improvement in revenue collection has been recorded.

v). ***Financial sector reform and privatization of parastatal companies****:* The financial sector reform compelled the Government to issue re-capitalization bonds amounting to TZS 171.7 billion in favour of state owned banks between 1991 and 2000. The Government also issued long-term bonds to cover commercial banks non-performing assets amounting to TZS 176.4 billion. In addition, a large number of parastatal companies were restructured but had liabilities which were to be met. Given the shortfall in privatization proceeds, part of these liabilities had to be taken over by the Government.

vi). ***Fluctuations in crop production due to natural calamities***. The decline in crop production due to drought and *El Nino* floods in 1997/98 resulted in food shortage and damaged infrastructure. The Government had to incur unbudgeted expenditures to import and distribute food, and to repair the damaged infrastructure. Most of these expenditures were actually financed through domestic borrowing.

However, during 1990s the economic situation began to improve especially after 1995 following major economic and financial sector reforms undertaken by the third phase Government. The improvement, notwithstanding, the debt situation remained gloomy as the level of debt had become enormous relative to the size of economy. Following introduction of Treasury bills market in 1993, the Government had to resort to domestic borrowing to pay interest on external debt and to finance the ever increasing demand for social services. Interest rates on government securities, which averaged at 9.0 percent per annum throughout the period 1966 to 1987 before rising and maintained at around 22.0 percent per annum between 1988 and 1993. The interest rate peaked at 65.9 percent per annum in 1994 and fell to 41.9 percent in 1995. Excessive government borrowing was the major reason for the rise in interest rates on government securities.

Debt Relief Initiatives

Due to the accumulation of arrears and the impact of debt service burden on economic performance and provision of social services, the Government in collaboration with the international community took initiatives to address the situation. Efforts included seeking bilateral agreements with Paris and non-Paris Club members, debt conversion/swaps, debt buy back, Multilateral Debt Relief Fund and lately HIPC Initiative. The type and mechanism of the debt relief initiative varied depending on the nature and source of the debt under consideration.

Bilateral Debt Cancellations

Between 1986 and 2001, Tanzania participated in seven rounds of the Paris Club (PC) to negotiate for debt relief[7] with the last and the exit being in 2001 organized under the framework of the enhanced HIPC initiative. As at the end of December 2010, Tanzania had debts worth USD 2,724.5 million cancelled and USD 2,963.5 million rescheduled by PC bilateral creditors. On the other hand, the non-PC bilateral creditors cancelled and rescheduled debts worth USD184.6 million and USD171.2 million respectively.

7 The eligible debts for treatment under PC were the official bilateral and publicly guaranteed commercial debts contracted prior to 30th June 1986.

The non-guaranteed commercial and exports credits were treated under Debt Conversion Program (DCP) and the Debt Buyback Scheme. The DCP involved an investor exchanging at debtor country's central bank, the country's debt purchased at a discount in secondary market for local currency, to be used in equity and/or new investments deemed of priority to the debtor country. In Tanzania, the program was launched in 1990. Under the program, Tanzanian companies were granted prior approval by Special Inter-ministerial Committee to purchase external commercial debts and subsequently submit documentary evidence testifying the respective transactions. Between 1990 and 1993, Tanzania's external debts worth USD 182 million were converted under DCP arrangement and the proceeds were invested in 82 selected projects that were considered economically viable. Out of these, 28 projects were engaged in agricultural activities, 27 in industrial activities, 14 in tourism (mainly hotel), mining had two projects, transit trade had 4 projects and 13 other small projects involved in improvement of rural communities' health, education and small scale enterprises. There were also two projects involved with the export of surplus grain. DCP was however, scrapped off in 1994 due to its inflationary impact.

Debt Buyback Scheme was launched in October 1999 financed by a grant from the Debt Reduction Facility for IDA-only countries and funded by Germany, Switzerland, and the World Bank. Under this facility, Tanzania cleared debts worth USD 198.5 million at the price of 12 cents on a dollar of principal.

The amount cleared was 31.8 percent of USD 623.2 million (of which USD 324.6 million represents principal and USD 298.6 million were interest costs) uninsured debt initially earmarked for clearance under the debt buyback scheme. Most of these debts accumulated in the late 1970s and the 1980s when payments serviced by borrowers were accumulated in a pipeline held by the Bank of Tanzania in an External Payments Account.

Multilateral Debt Treatments

Tanzania has benefited from three forms of multilateral debt treatments. The first was in July 1998, when the Government established a Multilateral Debt Relief Fund (MDF) by requesting the donors to grant a support to cover debt service payments to the major multilateral institutions. The MDF was the first deliberate joint effort by development partners to provide external financing directly to the budget. Its aim was to assist the government to keep its external debt commitments fully serviced without cutting finance in other crucial areas. It was set up to provide interim debt relief whilst Tanzania aimed to fulfill the necessary requirements to obtain Highly Indebted Poor Countries (HIPC) relief. Six countries, namely United Kingdom, Sweden, Norway, Ireland, Finland and Denmark signed an agreement to contribute to the fund, and a total of USD 212.6 million was disbursed to the fund between 1998 and 2002.

The second treatment was under the enhanced HIPC initiative, aimed at cancelling external debt in flow terms to sustainable levels. Under the initiative, Tanzania reached Decision Point in April 2000 followed by a floating completion period reached in November 2001. As at the end of December 2006, a total of USD 452.8 million had already been realized from multilateral institutions under the initiative.

The third treatment was under the G8 Multilateral Debt Relief Initiative (MDRI) that involved the three major multilateral creditors: the International Monetary Fund (IMF), the International Development Association (IDA) and Africa Development Fund (ADF). Under the initiative, the three institutions utilizing generous financing commitments from the G8 members cancelled their outstanding debts upfront to the tune of USD 3.8 billion.

Annex II: Calendar of Important Monetary and Economic Policy Events, 1961 to 2011

2010 November: TIB transformed into a Development Finance Institution.

2010 June: The East Africa's common market came into force with the objective of deepening socio-economic co-operation among the partner states.

2009 March: The Bank hosted the IMF/Africa, International Economic Conference which discussed Africa's Growth challenge and its partnership with the International Monetary Fund on 10 - 11 March 2009.

2006 June: Enactment of the Bank of Tanzania Act, 2006 and the Banking and Financial Institutions Act, (BFIA) 2006.

2006 April: The Boards of Directors of the African Development Bank and African Development Fund approved the ADF's participation in Multilateral Debt Relief Initiative (MDRI).

2005 December: Introduction of the Two-way quote system in the Interbank Foreign Exchange Market (IFEM).

2005 October 10: Tanzania Net Settlement Services system (TNNSS) which is a system used to facilitate settlement of transactions arising from visa member banks obligations went live.

2005 June 11: The G8 Finance Ministers announced a proposal on debt cancellation for Highly Indebted Poor Countries.

2005 March: Bank of Tanzania issued Microfinance Regulations.

2005 January 1: The East African Community Customs Union commenced its operations.

2004 December: The East African Community Customs Management Act was enacted.

2004 October: The Electronic Fund Transfer (EFT) system, which is used to transfer low value high volume interbank payments, went live.

2004 April: The Bank introduced the Tanzania Inter-bank Settlement System (TISS).

2004 March 2: The Protocol on the Establishment of the East African Community Customs Union was signed.

2004 March 31: The second and final closing of the Debt Buyback Scheme took place under which debts worth USD 43.8 million, made up of both principal and interest was retired at a price of 12 cents on a dollar of principal amount tendered.

2004 March: Financial Markets Leaders Forum was established.

2003 December: The Bank of Tanzania introduced Intraday and Lombard standby credit facilities to provide overnight-collateralized advances to commercial banks.

2003 June: Joint Finance Commission (JFC) was established.

2003 May: Rebasing of the National Accounts from 1991 to 2001 and adoption the national account statistics to internationally accepted standards.

2003 May 21: Foreign investors allowed to trade at the Dar es Salaam Stock Exchange.

2003 April: Amendment of BFIA of 1991 to give powers to BoT to prescribe lower threshold for the establishment of regional community banks.

2003 March 3: The Delphis Bank stopped its operations.

2003 February: The Bank of Tanzania Act (1995) was amended by the Financial Laws (Miscellaneous Amendments) Act, 2003 to give the Bank general powers on the national payment, clearing and settlement system matters comprising oversight and regulation of the National Payment System.

2002 August: The Bank of Tanzania on behalf of the Government launched a 10-year Treasury bond.

2002 July: The Bank of Tanzania established an Export Credit Guarantee Scheme (ECGS) to hasten the provision of credit to the export sector, notably non-traditional exports in order to augment efforts towards increased export earnings.

2002 July: The Bank of Tanzania on behalf of the Government launched a 7-year Treasury bond.

2002 May 29: The Bank of Tanzania re-introduced the 35-days Treasury bill to cater for liquidity management.

2002 April: The Bank of Tanzania changed the 2-year Treasury bond auctions from uniform prices to multiple prices.

2002 March 1: The Bank of Tanzania Electronic Clearing House (BOTECH) system was established.

2002 February: Launching of a 5-year Treasury bond.

2002 January 17: The Paris Club Creditors met and agreed to offer debt relief under Cologne Stock Terms by cancelling 90 percent stock of their debts amounting to USD 737 million in net present value terms or USD 1.0 billion in nominal terms. This was part of HIPC Initiative.

2001 November: Tanzania fulfilled all the conditions and managed to reach HIPC Floating Completion Point in November 2001that was 15 months ahead of originally scheduled time of 36 months.

2001 June 6: The first closing of the Tanzania debt buyback operation with debt worth about USD 155.7 million (principal and interest) being retired, utilizing about USD 7.2 million from the grant. The first closing of the operation represents an important step towards the implementation of the Government's debt reduction strategy.

2001 February 2: The Government launched a national micro-finance policy.

2001 January 15: The Heads of State of Tanzania, Kenya and Uganda, formally inaugurated the East African Community (EAC).

2000 October 1: Tanzania pulled out of Common Market for East and Southern Africa (COMESA).

2000 September: The Publication by commercial banks of Financial Statements Regulations, 2000 was officially made operational on 1st September 2000.

2000 July 7: The EAC Treaty came into force and the new EAC was established

2000 May: The Bank of Tanzania took over the management of 1st Adili Bancorp on 15th of May due to its poor performance and shareholders inability to inject more capital in the bank to cover for the heavy losses sustained in its operations.

2000 April: Agreed minutes were signed on 14th April in relation to Tanzania's qualification for Paris Club VI rescheduling arrangement. Under this arrangement Tanzania will be treated under Cologne terms, which provide cancellation of 90 percent of the debt service due up to the Completion Point of the enhanced HIPC Initiative.

2000 March: Tanzania at end March reached a Decision Point and qualified for consideration of additional debt relief under HIPC Program, after the IMF approved Tanzania's three year Poverty Reduction and Growth Facility (PRGF).

1999 August: The revival of the EAC and the Association of African Central Banks (AACB) with the ultimate objective of promoting Monetary Union.

1999 July: The Bank of Tanzania introduced a computerized book entry system and a central depository system for Treasury bills. The system entails record keeping, transfer and updating ownership of the Treasury bills without having to issue physical certificates, thus improving efficiency. The system also facilitates divisibility of securities into smaller lots, which promotes secondary market trading.

1999 November 30: New EAC cooperation was signed and ratified.

1999 November 30: The Treaty to establish the current EAC was signed.

1998 July: Establishment of the Primary Dealership system.

1998 April: Trading activities at the Dar-es-Salaam Stock Exchange commenced after two years of preparatory work under the stewardship of the Government through the Capital Markets and Securities Authority. The opening of the Trading Floor coincided with the listing of TOL Limited (formerly Tanzania Oxygen Limited), as the first company on the new Exchange.

1997 August: East African Co-operation Commission established an autonomous Monetary Affairs Committee (MAC) for Central Bank Governors to take a lead role on matters pertaining to co-operation in monetary and financial issues.

1997 July: Repurchase agreements were introduced to complement Treasury bills and bonds in the open market operations.

1997 March: The first Treasury bond auction was held. 2-year Treasury bond was the only maturity offered.

1996 September: The Dar es Salaam Stock Exchange was incorporated as a private company limited by guarantee and not having a share capital under the Companies Ordinance.

1996: The Capital Markets and Securities Authority (CMSA) was established, in order to facilitate establishment of a stock exchange for mobilizing and allocating savings for medium and long-term investments.

1996 March 14: The full establishment of the EAC Co-operation after the set-up of the Secretariat of the PTC in 1993.

1995: Amendment of the Bank of Tanzania Act 1995 that provided a room for the establishment and supervision of private credit reference bureaux. It also gave power to the Bank to ensure the attainment of price stability and soundness of the financial system.

1995 August: The establishment of the Committee of Central Bank Governors (CCBG) in SADC with a view to strengthen the process of regional economic cooperation and integration.

1994 December: The 364-day Treasury bill was introduced.

1994 December: Issuance of the 35-day Treasury bill was discontinued.

1994 June: The Interbank Foreign Exchange Market was introduced, replacing the weekly foreign exchange auction system. The IFEM, which is a wholesale market, facilitated determination of the exchange rate.

1994 February: 182-day Treasury bill was introduced.

1994 January: The Capital Market and Securities Act was enacted.

1993 September: 35-day Treasury bill was introduced.

1993 August: Treasury Bills Auctions were introduced as a tool for financing short term government deficit, as an instrument of liquidity management, and as a reference point for the determination of market interest rates. The Auctions began with the 91–day Treasury bill.

1993 July: Bank of Tanzania began auctioning of foreign exchange as a tool for liquidity management as well as for determination of a market-based exchange rate.

1993 July: Foreign exchange auctions were introduced.

1993 June: Certificates of Deposit as an instrument of monetary policy were introduced for the first time.

1993 April: Introduction of the Bureaux de Change markets as an effort to liberalize foreign exchange regime.

1993 September 30: Agreement to re-establishment of EAC through Permanent Tripartite Commission (PTC) was signed.

1992 March: The Foreign Exchange Act 1992 was enacted. The Act liberalized the external trade and created an enabling environment for determination of market exchange rates.

1992: The formation of Southern African Development Community (SADC) for the purpose of deepening of the regional economic integration.

1991: The enactment of the Banking and Financial Institution (BFIA) Act 1991 to govern the conduct of banking business in Tanzania that pave way for the private banking business in Tanzania,

1988: The formation of Nyirabu Commission to revive the banking industry which was performing poorly.

1986 July: The Government launched a comprehensive Economic Recovery Programme (ERP) to improve macroeconomic management; tackle the underlying, structural weaknesses and; encourage more active private sector participation in the economy. The programme involved policies designed to increase output; reduce inflation and improve balance of payments.

1984 July: The beginning of Tanzania Economic Recovery Programme (ERP) under the IMF Structural Adjustment Facility (SAF).

1984 May 17: Bank of Tanzania HQ was gutted down by fire where many vital records and assets were destroyed.

1978: The amendment of the Bank of Tanzania Act of 1965 which empowered the Bank to conduct inspections to banks and financial institutions.

1977: The collapse of East African Community (EAC).

1972: Formation of Tanzania Rural Development Bank (TRDB) to finance rural sector.

1972: Establishment of Tanzania Housing Bank (THB) to finance rural and urban residential, office and commercial buildings.

1970: Formation of Tanzania Investment Bank to provide development finance to large scale productive sectors

1967: End of East African Common Service Organisation (EACSO).
1967 February 5: Birth of Arusha Declaration in which all private banks were nationalised resulting into the establishment of the government owned National Bank of Commerce **(NBC)**

1967: Establishment of East African Community (EAC).

1966 June 14: Commencement of operations of the Bank of Tanzania.

1965: Enactment of Bank of Tanzania Act of 1965 that established the Bank of Tanzania with multiple objectives.

1965: The establishment of the government owned financial institution (Tanzania Bank of Commerce (TBC) to compliment the foreign owned financial institutions.

1964: The Agriculture Credit Agency (ACA) was converted to National Development and Cooperative Bank in 1964.

1962: Establishment of Agriculture Credit Agency (ACA) as a specialized financial institution involving in financial intermediation.

1961: Establishment of East African Common Service Organisation (EACSO)

1961 December 9: Tanzania Mainland (Tanganyika) Independence.

Annex III: Corporate Social Responsibility

The Bank of Tanzania has been fulfilling its corporate social responsibility by taking part and supporting different social activities in the United Republic of Tanzania. In 1994, the Bank established the Gilman Rutihinda Trust Fund through which it provides sponsorship to the best university students to pursue Master's degree in the field of Economics and Finance. Up to December 2010, a total of 23 students—out of which 17 in economics and finance six—had benefitted from the Fund. Likewise, the Mwalimu Julius Nyerere Memorial Education Fund was established in 2009 to provide sponsorship to the best university female students in mathematics. The Bank allows researchers including students to freely access its publications and library.

In addition, the Bank has supported primary and secondary schools in the form of donations for construction of classrooms and buying reading materials (books). In the period 2009 to 2010, thirty primary and secondary schools were assisted.

In order to discharge its corporate social responsibility more effectively going forward, the Bank developed donation guidelines in 2009. The Bank is committed to providing financial support towards activities within the broad framework of the Bank's core functions and which are likely to benefit a broader section of Tanzanians. Three broad areas have been indentified, and they include:

Economic sectors: Activities that promote economic sectors in the country.

Education and Training: Activities aiming at improving standards of education provided to organized disadvantaged groups.

National Campaigns: Activities that aim at promoting national campaigns on health, social welfare, awareness creation on national issues e.g., on HIV-AIDs.

Annex IV: Statistical Tables

Table 1: Money Supply and Interest Rates

End of Dec.	Money Supply (Millions of TZS)						Interest Rates (%)		
	M1	Growth Rate (%)	M2	Growth Rate (%)	M3	Growth Rate (%)	Discount Rate	Savings Deposits	Average Lending
1966	853.0		1,269.0		1,269.0		4.27 - 5.0	3.0	8.5
1967	1,192.1	39.8	1,539.7	21.3	1,539.7	21.3	4.27 - 5.0	3.5	8.5
1968	1,213.9	1.8	1,498.9	-2.6	1,498.9	-2.6	4.27 - 5.0	3.5	8.5
1969	1,472.4	21.3	1,879.5	25.4	1,879.5	25.4	4.27 - 5.0	3.5	8.0
1970	1,678.9	14.0	2,219.6	18.1	2,219.6	18.1	4.27 - 5.0	3.5	8.0
1971	2,058.4	22.6	2,624.4	18.2	2,624.4	18.2	4.27 - 5.0	3.5	8.0
1972	2,326.8	13.0	3,089.7	17.7	3,089.7	17.7	4.27 - 5.0	3.5	8.0
1973	2,774.7	19.2	3,653.0	18.2	3,653.0	18.2	4.27 - 5.0	4.0	8.0
1974	3,456.3	24.6	4,462.0	22.1	4,462.0	22.1	4.27 - 5.0	4.0	8.0
1975	4,283.8	23.9	5,552.7	24.4	5,552.7	24.4	4.27 - 5.0	4.0	8.0
1976	5,331.8	24.5	6,946.8	25.1	6,946.8	25.1	4.27 - 5.0	4.0	8.0
1977	6,382.8	19.7	8,346.7	20.2	8,346.7	20.2	4.27 - 5.0	4.0	8.0
1978	6,826.9	7.0	9,396.3	12.6	9,396.3	12.6	4.27 - 6.0	5.0	7.5
1979	10,435.4	52.9	13,806.6	46.9	13,806.6	46.9	4.27 - 6.0	5.0	7.5
1980	13,345.9	27.9	17,519.8	26.9	17,519.8	26.9	4.27 - 6.0	5.0	8 - 9.5
1981	15,401.2	15.4	20,694.7	18.1	20,694.7	18.1	4.27 - 6.0	6.0	9 - 9.5
1982	18,323.2	19.0	24,728.6	19.5	24,728.6	19.5	4.27 - 6.0	7.5	9.25 -10.25
1983	20,564.3	12.2	29,127.4	17.8	29,127.4	17.8	4.27 - 6.0	7.5	8.75-11.25
1984	20,537.1	-0.1	30,218.1	3.7	30,218.1	3.7	4.27 - 6.0	7.5	8.75-11.26
1985	25,270.2	23.0	38,971.0	29.0	38,971.0	29.0	4.27 - 6.0	10.0	13.5
1986	35,809.5	41.7	50,353.4	29.2	50,353.4	29.2	4.27 - 6.0	10.0	13.5
1987	47,130.6	31.6	66,442.9	32.0	66,442.9	32.0	4.27 - 6.0	21.5	18.5-24.0
1988	65,401.0	38.8	92,987.7	40.0	92,987.7	40.0	22.0	21.5	18.5-24.1
1989	82,418.7	26.0	123,800.1	33.1	123,800.1	33.1	22.0	26.0	26.0
1990	111,084.9	34.8	178,061.8	43.8	178,061.8	43.8	22.0	26.0	26.0
1991	135,925.8	22.4	232,900.1	30.8	232,900.1	30.8	22.0	26.0	26.0
1992	185,876.2	36.7	352,272.3	51.3	352,272.3	51.3	27.0	26.0	30.0
1993	247,091.1	32.9	472,017.5	34.0	472,017.5	34.0	27.0	24.0	30.0
1994	329,624.8	33.4	647,840.3	37.2	731,094.3	54.9	65.9	26.0	33.4
1995	428,285.1	29.9	765,908.4	18.2	905,124.7	23.8	45.1	27.0	35-36.9
1996	449,213.3	4.9	684,990.6	-10.6	818,063.0	-9.6	19.0	22.3	33.5-37
1997	493,868.7	9.9	760,353.3	11.0	927,068.9	13.3	16.2	26.1	24.5
1998	545,517.0	10.5	844,929.4	11.1	1,026,984.7	10.8	17.6	22.3	22.5
1999	632,571.2	16.0	972,088.6	15.0	1,217,626.9	18.6	20.2	7.1	18.7
2000	695,006.5	9.9	1,093,610.9	12.5	1,397,688.8	14.8	10.7	4.7	23.1
2001	736,402.9	6.0	1,221,919.8	11.7	1,624,983.5	16.3	8.7	3.6	20.1
2002	940,377.7	27.7	1,516,807.3	24.1	2,057,103.8	26.6	9.2	2.7	16.4
2003	1,107,197.6	17.7	1,745,738.0	15.1	2,412,944.2	17.3	12.3	2.5	14.5
2004	1,359,019.2	22.7	2,125,835.9	21.8	3,068,575.6	27.2	14.4	2.6	14.1
2005	1,791,337.1	31.8	2,960,415.6	39.3	4,250,725.0	38.5	19.3	2.6	15.2
2006	2,006,767.4	12.0	3,454,491.0	16.7	5,164,455.6	21.5	20.1	2.6	15.7
2007	2,590,523.1	29.1	4,394,622.7	27.2	6,223,588.6	20.5	16.4	2.7	16.1
2008	3,158,306.3	21.9	5,468,460.8	24.4	7,458,779.1	19.8	16.0	2.7	15.0
2009	3,590,798.6	13.7	6,603,404.4	20.8	8,831,195.6	18.4	3.7	2.8	15.0
2010	4,521,363.6	25.9	8,042,113.2	21.8	11,012,588.7	24.7	7.6	2.4	14.5

Source : 20 years of Independence (1961-1981)
BoT Economic Bulletins December (2007) and Operations Report (Various Issues)

Table 2: Central Government Operations

Millions of TZS

End of June	Revenue			Expenditure			Grants	Overall Balance Surplus/Deficit (cheque Issued)	Financing	
	Tax	Non Tax	Total	Recurrent	Development	Total			Domestic	Foreign
1966	556	342	898	884	238	1,122	0	-238	155	84
1967	689	335	1,024	1,024	294	1,318	0	-294	167	127
1968	1,101	0	1,101	1,007	344	1,351	9	-291	232	58
1969	1,251	0	1,251	1,188	461	1,649	1	-317	237	80
1970	1,577	0	1,577	1,375	611	1,985	12	-334	229	105
1971	1,682	0	1,682	1,563	829	2,393	12	-486	251	236
1972	1,859	0	1,859	1,605	773	2,378	38	-499	255	243
1973	2,453	0	2,453	2,198	949	3,147	284	-538	329	209
1974	3,002	0	3,002	2,365	1,642	4,007	399	-652	431	222
1975	3,942	0	3,942	3,770	2,225	5,995	377	-1,175	579	597
1976	4,062	0	4,062	3,425	2,188	5,613	469	-893	445	448
1977	4,934	0	4,934	4,808	2,764	7,572	626	-1,972	1,232	739
1978	6,629	0	6,629	5,329	3,877	9,207	789	-2,103	1,320	783
1979	6,442	0	6,442	5,438	4,757	10,195	1,114	-2,732	1,957	775
1980	7,680	0	7,680	7,283	4,947	12,230	1,000	-4,796	3,601	1,195
1981	8,511	0	8,511	10,427	4,328	14,755	1,158	-4,346	3,659	687
1982	9,374	0	9,374	12,903	4,484	17,387	957	-5,037	4,157	881
1983	12,529	52	12,581	14,589	4,410	18,999	1,029	-3,055	2,228	826
1984	13,398	108	13,506	15,944	4,466	20,410	1,234	-6,145	5,489	656
1985	18,483	156	18,638	18,584	6,966	25,551	1,462	-6,469	4,037	2,432
1986	21,782	250	22,032	19,163	7,839	27,002	1,035	-7,669	6,175	1,494
1987	27,407	1,944	29,351	32,246	6,228	38,474	3,144	-15,568	4,476	11,092
1988	42,557	4,923	47,479	36,117	9,326	45,443	15,909	-2,185	4,900	-2,716
1989	63,085	7,332	70,417	44,235	13,062	57,298	20,985	6,782	-1,776	-5,007
1990	81,471	13,184	94,655	76,053	22,376	98,429	27,664	8,052	6,563	1,489
1991	118,257	14,981	133,238	109,445	16,488	125,933	22,875	-4,499	-4,359	8,858
1992	153,356	20,210	173,566	128,869	32,605	161,474	32,798	9,601	-32,277	22,676
1993	146,420	17,689	164,109	203,070	60,343	263,413	58,313	-72,141	44,144	27,997
1994	220,358	22,086	242,444	300,273	74,689	374,962	106,790	-104,515	40,557	63,958
1995	299,898	31,340	331,238	366,332	31,692	398,024	58,505	-62,442	59,486	2,956
1996	383,744	64,629	448,373	415,140	5,382	420,522	46,882	-16,804	51,704	-34,900
1997	505,355	66,675	572,030	486,494	28,896	515,389	81,416	-86,290	-41,927	-44,364
1998	566,123	52,961	619,083	543,751	186,585	730,336	119,358	-68,137	3,669	64,468
1999	630,108	73,041	703,149	680,183	136,524	816,707	169,946	-24,424	-5,740	-18,684
2000	685,107	92,537	777,645	808,865	359,913	1,168,779	280,306	-113,272	7,854	105,417
2001	827,788	101,836	929,624	1,018,782	286,253	1,305,035	286,306	141,820	-232,174	90,354
2002	939,267	103,688	1,042,955	1,121,526	344,611	1,466,137	379,849	-38,757	-83,086	121,842
2003	1,105,746	111,771	1,217,517	1,488,641	500,897	1,989,538	622,302	-163,211	-36,514	199,725
2004	1,342,798	116,505	1,459,303	1,780,115	736,828	2,516,943	696,673	-399,739	-34,496	434,235
2005	1,615,247	158,462	1,773,709	2,093,055	1,071,161	3,164,216	724,397	-727,075	144,945	582,130
2006	1,946,432	178,411	2,124,844	2,661,863	1,211,392	3,873,255	1,000,160	-924,413	363,194	561,219
2007	2,529,439	209,583	2,739,022	3,137,469	1,337,211	4,474,681	952,225	-955,797	238,008	717,789
2008	3,368,971	275,331	3,644,302	3,398,024	1,810,972	5,208,996	1,573,195	-381,264	-348,346	729,610
2009	4,043,673	249,401	4,293,074	4,681,459	2,052,619	6,734,078	1,166,371	-1,215,042	258,675	956,367
2010	4,427,834	233,707	4,661,540	5,562,443	2,611,306	8,173,749	1,405,288	-1,939,624	559,967	1,379,656

Source : 20 years of Independence (1961-1981)
BoT Economic and Operations Report (Various Issues)

Table 3: Gross Domestic Products (GDP), Population and Change in CPI (Inflation)

End of Dec	Gross Domestic Product (GDP) - Mill. TZS			Population	GDP Per Capita (TZS)		Inflation
	Nominal Market Prices	Constant 2001 Prices	Growth Rate (%)	In Mill. Mid Year Est.	Nominal	Real	Rate (%)
1966	7,217	2,909,642		12.0	603	243,281	n.a
1967	7,356	3,027,118	4.0	12.6	584	240,247	n.a
1968	7,866	3,183,901	5.2	12.7	619	250,701	n.a
1969	8,098	3,242,415	1.8	12.9	626	250,767	n.a
1970	9,173	3,430,465	5.8	13.3	691	258,513	2.4
1971	9,814	3,573,848	4.2	13.7	716	260,865	4.8
1972	11,172	3,814,159	6.7	14.0	798	272,440	9.1
1973	13,103	3,930,742	3.1	14.4	912	273,538	10.4
1974	15,994	4,029,010	2.5	14.8	1,084	272,968	18.9
1975	19,011	4,267,088	5.9	15.3	1,242	278,712	27.0
1976	24,876	4,540,453	6.4	16.4	1,516	276,688	6.3
1977	28,868	4,558,697	0.4	16.9	1,706	269,427	17.6
1978	32,933	4,655,789	2.1	17.5	1,882	266,045	7.0
1979	36,283	4,768,399	2.4	18.0	2,018	265,206	12.1
1980	42,228	4,910,995	3.0	18.1	2,333	271,326	30.8
1981	51,753	4,886,251	-0.5	18.6	2,782	262,702	25.7
1982	61,927	4,915,189	0.6	19.2	3,225	255,999	28.9
1983	69,522	4,799,225	-2.4	19.8	3,511	242,385	27.1
1984	85,392	4,960,695	3.4	20.5	4,165	241,985	36.1
1985	112,213	5,188,430	4.6	21.2	5,293	244,737	33.3
1986	148,391	5,286,571	1.9	21.5	6,902	245,887	32.4
1987	329,486	5,547,229	4.9	22.2	14,842	249,875	29.9
1988	506,426	5,793,006	4.4	22.5	22,508	257,467	31.2
1989	633,752	5,941,728	2.6	23.2	27,289	255,848	30.4
1990	830,693	6,311,832	6.2	23.9	34,782	264,280	35.9
1991	1,086,273	6,487,302	2.8	24.6	44,227	264,127	28.8
1992	1,369,874	6,605,252	1.8	25.3	54,234	261,504	21.9
1993	1,725,535	6,631,608	0.4	26.0	66,428	255,298	24.0
1994	2,298,866	6,724,455	1.4	26.7	86,056	251,724	35.3
1995	3,020,499	6,971,727	3.7	27.5	109,948	253,775	27.4
1996	3,767,642	7,264,351	4.2	28.3	133,357	257,125	21.0
1997	4,708,627	7,504,710	3.3	29.1	161,690	257,705	16.1
1998	6,283,970	7,803,926	4.0	30.0	209,330	259,962	12.9
1999	7,222,561	8,181,671	4.8	30.9	233,397	264,391	7.9
2000	8,152,789	8,585,338	4.9	31.9	255,575	269,134	5.9
2001	9,100,274	9,100,275	6.0	32.9	276,741	276,741	5.1
2002	10,444,507	9,752,178	7.2	33.6	310,991	290,376	4.6
2003	12,107,060	10,423,735	6.9	34.2	353,496	304,347	5.3
2004	13,971,591	11,239,734	7.8	35.3	396,154	318,694	4.7
2005	15,965,293	12,068,089	7.4	36.2	441,063	333,397	4.4
2006	17,941,268	12,881,163	6.7	37.5	478,100	343,258	7.3
2007	20,948,403	13,801,849	7.1	38.3	547,081	360,444	7.0
2008	24,728,005	14,828,345	7.4	39.5	627,787	375,642	10.3
2009	28,058,587	15,721,301	6.0	40.7	683,470	386,431	12.2
2010	32,293,479	16,828,563	7.0	41.9	683,470	401,499	7.2

Source : Economic Survey (various issues), National Account 1976-1994, Financial Programming Report Sept 2011
Bureau of Statistics- Selected Statistical Series (1951-1991)
BoT -Economic and Operations Report (various issues)

Table 4: Balance of Payments and Exchange Rates

End of Dec	Export fob	Import cif	Trade Balance	Current Account Balance	Overall Balance	Exchange Rates TZS/USD
	(In Millions of TZS)					
1966	1,785	1,613	172	172	n.a	7.14
1967	1,668	1,577	91	98	103	7.14
1968	1,717	1,834	-117	-61	113	7.14
1969	1,793	1,710	83	227	122	7.14
1970	1,853	2,274	-421	-103	-22	7.14
1971	1,989	2,752	-763	-513	137	7.14
1972	2,277	2,879	-602	-376	473	7.14
1973	2,581	3,479	-898	-673	235	6.90
1974	2,861	5,338	-2,477	-1,943	-1,023	7.14
1975	2,764	5,694	-2,930	-1,690	-185	8.26
1976	4,109	5,421	-1,312	-382	156	8.32
1977	4,518	6,160	-1,642	-524	992	7.96
1978	3,671	8,798	-5,127	-3,647	-1,947	7.41
1979	4,434	8,941	-4,507	-2,755	416	8.22
1980	4,776	10,260	-5,484	-4,273	106	8.33
1981	5,087	10,047	-4,960	-3,303	-842	9.52
1982	4,230	10,519	-6,289	-5,068	-1,023	12.46
1983	4,258	8,447	-4,189	-2,780	-212	9.52
1984	5,055	9,653	-4,598	-2,820	-427	12.46
1985	4,266	15,288	-11,022	-5,806	-6,894	18.11
1986	11,227	30,577	-19,350	-6,638	-12,570	16.50
1987	16,893	59,360	-42,467	-15,721	-18,057	51.72
1988	27,042	80,828	-53,786	-11,592	-27,134	125.00
1989	52,777	146,705	-93,928	-29,752	-35,636	192.30
1990	66,561	265,842	-199,281	-95,753	-53,985	196.60
1991	75,981	311,929	-235,948	-90,348	-58,637	233.90
1992	123,966	451,339	-327,373	-122,878	-66,806	335.00
1993	181,148	614,598	-433,450	-510,719	-262,745	479.87
1994	265,177	765,814	-500,637	-460,402	-227,652	523.45
1995	390,378	885,953	-495,575	-489,149	-214,649	550.36
1996	455,419	807,303	-351,884	-354,257	-129,918	595.64
1997	459,549	703,106	-243,557	-381,934	-109,814	624.60
1998	423,424	918,375	-494,952	-745,212	-346,953	681.00
1999	455,657	1,061,252	-605,595	-780,110	-33,458	797.30
2000	587,403	1,094,638	-507,235	-491,767	-29,941	803.30
2001	746,742	1,369,191	-622,449	-357,477	-126,424	916.30
2002	948,603	1,460,947	-512,344	-34,590	324,504	976.30
2003	1,270,085	2,011,339	-741,254	-121,048	347,471	1,063.62
2004	1,606,630	2,697,277	-1,090,646	-404,281	271,679	1,042.96
2005	1,900,603	3,390,754	-1,490,151	-977,078	-215,339	1,165.51
2006	2,404,572	4,855,151	-2,450,579	-1,469,446	538,373	1,261.64
2007	2,762,367	6,025,489	-3,263,122	-2,025,207	511,952	1,132.09
2008	4,280,582	8,385,698	-4,105,115	-3,093,881	189,036	1,280.30
2009	4,348,959	7,700,051	-3,351,092	-2,330,529	482,837	1,313.29
2010	6,092,544	10,063,228	-3,970,685	-2,539,548	511,692	1,453.54

Source : 20 years of Independence (1961-1981)
BoT Economic and Operations Report (Various Issues)

Table 5: Selected Financial and Economic Indicators

End of Dec	In Percent			
	Currency with Public to Money Supply (M3)	Money Supply (M3) to GDP (Nominal)	Government Revenue* to GDP (Nominal)	Government Expenditure** to GDP (Nominal)
1966	31.52	17.58		
1967	33.23	20.93	14.05	18.09
1968	35.27	19.06	14.46	17.75
1969	32.19	23.21	15.67	20.66
1970	36.87	24.20	18.26	22.99
1971	37.59	26.74	17.72	25.20
1972	38.87	27.66	17.72	22.66
1973	32.81	27.88	20.21	25.93
1974	34.00	27.90	20.64	27.55
1975	31.62	29.21	22.52	34.25
1976	29.82	27.93	18.51	25.58
1977	28.51	28.91	18.36	28.18
1978	31.02	28.53	21.45	29.79
1979	29.37	38.05	18.61	29.46
1980	29.94	41.49	19.56	31.16
1981	31.97	39.99	18.11	31.40
1982	32.31	39.93	16.49	30.59
1983	28.13	41.90	19.14	28.91
1984	34.66	35.39	17.44	26.35
1985	32.64	34.73	18.86	25.86
1986	36.36	33.93	16.91	20.72
1987	36.95	20.17	12.28	16.10
1988	34.09	18.36	11.36	10.87
1989	33.19	19.53	12.35	10.05
1990	32.53	21.44	12.93	13.44
1991	27.31	21.44	13.90	13.14
1992	27.10	25.72	14.13	13.15
1993	25.88	27.35	10.60	17.02
1994	24.12	31.80	12.05	18.63
1995	26.99	29.97	12.45	14.97
1996	31.50	21.71	13.21	12.39
1997	31.05	19.69	13.50	12.16
1998	29.97	16.34	11.26	13.29
1999	31.61	16.86	10.41	12.09
2000	28.08	17.14	10.12	15.20
2001	24.20	17.86	10.78	15.13
2002	24.13	19.70	10.67	15.35
2003	23.35	19.93	10.80	18.35
2004	22.63	21.96	11.19	19.99
2005	20.94	26.62	11.85	22.08
2006	20.02	28.79	12.53	23.26
2007	18.68	29.71	14.09	23.69
2008	19.29	30.16	15.96	24.12
2009	17.74	31.47	16.27	26.34
2010	17.23	34.10	15.45	28.53

Source: Bank of Tanzania
*Excluding grants, ** Including Expenditure Float

Annex V: Presentation of the new notes.

President J.M. Kikwete, Minister for Finance Mr. H. Mkulo and Prof. Benno Ndulu holding the features of the new notes.

BOT official explaining the features of new notes to the President J.M. Kikwete

BOT Governor Prof. Benno Ndulu presenting the features of the new notes to the President J.M. Kikwete

BOT Governor Prof. Benno Ndulu showing the features of the new notes.

Annex VI: BOT Governors

Prof. Benno Ndulu - Governor
From 8 Jan 2008 todate

Daudi Ballali - Governor
From 1998 to 8 Jan 2008

Dr. Idris M. Rashidi - Governor
From 1993 to 1998

Gilman Rutihinda - Governor
From 1989 to 1993

Charles M. Nyirabu - Governor
From 1974 to 1989

Edwin Mtei - Governor
From 1966 to 1974

Bank of Tanzania (1966)

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