

BRIEF REPORT ON THE 7:30 BREAKFAST DEBATE – AUGUST 27TH 2010

HOW EFFECTIVE ARE FINANCIAL SERVICES IN TANZANIA?

Liberalization of the economy in Tanzania has seen the emergency of both local and international banks into the market, but so far the issue of banking services is still very low to the overall population.

Policy Forum dedicated this monthly Debate to the effectiveness of financial services in Tanzania based on a Finscope Survey conducted in 2009 on the Demand for and Barriers to Accessing Financial Services. The debate included two presentations:- One on the Finscope survey-2009:- The Demand for, and Barriers to Accessing Financial Services in Tanzania by Annette Altvater from Fin scope and another on the practicalities of Access to wholesale funds in Tanzania, a Special focus to OIKO Credit by Deus Manyenye from OIKO Credit.

The first presentation was done by Ms Annette who started by saying that many people in Tanzania still do not have knowledge on how to access financial services. She said according to the survey that was conducted in some regions countrywide that include Kigoma, Tabora, Dodoma, Mbeya, Songea, Lindi, Dar es salaam, Pwani, Tanga, Moshi, Shinyanga, Musoma and Bukoba indicated that there is need for more public education on the whole aspect of banking. The effort should go in line with ensuring that people get information on how to access institutional financial services.

According to the survey findings, Ms Annett, pointed out that only 12.4% of 7,680 people interviewed had a bank account adding that 4.3% of these got financial services from organizations that are not licensed by the central Bank to offer credit services. She added that, the survey has indicated 56% of the interviewee does not have access to financial services, which is not good for a country that is focusing on the reduction of poverty.

On her conclusion, Ms Annett appealed to the government that there is need for deliberated government interventions in order bring on board the number of people who do not have access to financial services because the current figure is worrying, especially in the rural areas.

She further said Tanzania is a large country, so access to some of the rural areas is still a barrier. Many people they don't have enough money at their disposal to open up a bank account because of lack of knowledge and understanding of the banking operations. She added that even though insurance plays a vital role in the financial successes of businesses, many people do not know its role in covering financial

The second presentation came from Deus Manyenye from OIKO Credit, he started by pointing out that in Tanzania, under-capitalisation was still a big challenge for people to access finances. The market is highly collateral with most of the financial institutions requiring security to offer financial assistance that include land title and other fixed assets. He said that most of the people starting their business don't own any property or assets to offer as collateral.

Mr. Manyenye added that for those with the required collateral, finalizing the registration process of such title deeds is tedious, takes too long (up to three months) if a person is lucky but normally more than six months, while other leaders have tendency of asking for insurance cover, something which most borrowers lack and thus find it beyond means.

He added that initially mobile banking entails vehicles that were used to extend financial services to the hard to reach areas where there were no established banks. Today, the system has seen usage of cell phone to offer banking services most common in the country being the M-PESA and ZAP and this so far gained popularity since it is kind of a stress-free banking. The Cell phone mobile banking initiative is one of the latest innovations in the banking sector but however not been used to foster development as many people use it for consumption purposes not investment. He said most of the funds received or sent end up catering for daily obligations like paying for bills, airtime, bride prices and other family necessities.

In his conclusion remarks, Mr. Manyenye stressed that there is need for establishment of development banks since the interest rates commanded by most commercial banks are rather too high. There is also a need to sensitize the community to undertake a saving culture so as to spare funds for future generation other than relying on loans with high interest rates. Also, people's consumption pattern and expenses have to be revised since most of times expenditures are rather higher than the incomes from their businesses.

Comments and Questions from Plenary Discussions

- ❖ The finscope report shows there is an increase in the number of people who are not involved (excluded) in financial services, what is the reason as they are not involved?
- ❖ The banks and other financial services are much urban based and not in the rural areas where majority of the people live; even looking at money transfers from the urban to the rural, they are going for consumption purposes i.e. paying bills and very little is being invested

- ❖ People do not have attitude of investing, in the rural area they don't even know why they should actually invest, then something need to be done by OIKO and other financial institutions in educating people
- ❖ Looking at financial services in the urban areas, there is a lot of inconveniences, people selling coins in the streets which is the big failure of the central bank to balance notes and coins requirements
- ❖ People do not really understand the issue of insurance, as inflation is getting up and deflation is getting down and still they are asked to buy insurance.
- ❖ The report of the study have shown the poverty but it did not real show the services that are lacking and the actions to be taken
- ❖ Banks don't just get started because people have money to put in them but rather they start for people to transact and by transacting they formalize their businesses then they serve to which they will invest to grow. But that is not actually what has been done. Therefore, there is a need to assist the government in planning through the central bank
- ❖ Why do many people especially in the rural areas are in trouble with financial institutions or lenders?
- ❖ What are the roles of mobile money in increasing access of rural population to financial services?
- ❖ Interest rates that microfinance institutions charge the clients is very high that the clients fail to pay back the money or even the loan seem not to benefit the people

RESPONDS:

- ❖ Most of people in the rural areas lack bank knowledge, they think that the banks and other financial institutions are for those who are educated while majority of them have just basic education. There is no proper awareness campaign to make them aware and participate in to financial sectors.
- ❖ Looking at the economy of tanzania 80% of people are engaging in agriculture activity and are contributing 56% of the economy; and they are in the rural areas. The reason to why they are excluded is because majority of banks and financial institutions are more commercial targeting to commercial traders than farmers
- ❖ Poor infrastructures discourage commercial banks and financial institutions to operate in the rural areas. It is very difficult to operate financial services in areas where there are no roads as it threatens security?

- ❖ The micro finance institutions, SACCOS that are operating in the rural areas are not properly regulated, they are running on their own, there is no funds or returns at the end of the months and many people perceive them as they have been formulated by certain group of people for their own interest, they are not seen as institutions that honor people
- ❖ Many people in the rural areas are in trouble with the financial institutions or lenders because they use the loan to pay for their social needs/ problems e.g. health, education
- ❖ Majority of the people in the rural areas do not have knowledge on mobile money i.e. M -PESA and the big challenge to the mobile companies is how to reach them as the rural infrastructure does not support
- ❖ Financial services are not only about borrowing or lending the money; people are also interested with other financial services .i.e. transaction, investing their money, also people look for a safe place to keep their money

Mr. Alex Ruchyahinduru from policy forum closed the discussion and welcomed the participants to the other next month breakfast debate.