

# Bank of Tanzania

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## 1. History

At independence in 1961, the Tanzanian monetary system was based on the East African Currency Board established in 1919 to manage the supply and exchange of currency in the then British colonies of East Africa and neighboring countries. The Currency Board stopped functioning in 1966 when central banks came into existence in East Africa. The Bank of Tanzania (BOT) was therefore established in 1966 by the BOT Act of 1965 providing for the establishment, constitution and functions of the Bank of Tanzania as a central bank.

However, the BOT Act of 1965 was repealed in 1995 and was replaced with the BOT Act of 1995. The BOT Act of 1995 was the landmark in Tanzania's monetary history. For the first time, since the Bank of Tanzania's existence, there was a move away from multiple-policy objectives to a single policy objective, i.e. price stability.

## 2. Relationship with government

According to the BOT Act of 1995, the Central Bank is autonomous in conducting monetary policy without the interference of the Government, and its primary objective is to safeguard the internal and external value of the shilling by pursuing monetary policy that will ensure the maintenance of low rate of inflation.

The President appoints the Governor and the Deputy Governor for a period of five years. They are eligible for re-appointment but not for more than two terms. The Governor or the Deputy Governor can be dismissed by the President under the same conditions as other members of the Board. The Board of the Bank has ten members, including the Governor (Chairman), the Deputy Governor (Deputy Chairman), the Permanent Secretary to the Treasury of the United Republic of Tanzania, the Permanent Secretary to the Treasury of the Revolutionary Government of Zanzibar, and six other directors appointed by the Minister for Finance in Tanzania. The Board

of Directors is responsible for determining the policy of the Bank and approving the Bank budget.

The Bank of Tanzania acts as Government's banker and fiscal agent to both the United Republic of Tanzania and the Government of Zanzibar. As such, the Bank performs the following functions:

- Maintains and operates special official accounts in accordance with arrangements made between the Bank and the Government;
- Acts as an agent of the Government for servicing the public debt, including the issuance of, payment of interest on, and the redemption of bonds and other securities of the Government;
- Pays, remits, collects or accepts for deposit or custody funds in Tanzania or abroad;
- Purchases, sells, transfers or accepts for custody cheques, bills of exchange and other securities;
- Collects the proceeds, whether principal or interest resulting from the sale of Government securities or other property; and
- Purchases, sells, transfers or accepts for custody gold or foreign exchange.

The Bank, on behalf of the Government, may sell Treasury bills and bonds to finance temporary revenue shortfalls in the government budget and/or transfer spending power from the public to the Government. Currently, the Bank of Tanzania is issuing Treasury bills for maturities of 35, 91, 182, 364 days and two-year, five-year, seven-year and ten-year bonds through auctions.

### **3. Design and conduct of monetary policy**

#### **3.1 Main objectives of monetary policy**

The primary objective of the Bank of Tanzania is price stability. The Bank therefore, has the responsibility of ensuring that it establishes monetary conditions consistent to low and stable inflation.

#### **3.2 The money supply aggregate that plays the main role in monetary policy**

The Bank of Tanzania controls inflation by influencing the growth of money supply. The Bank focuses on the growth of broad money supply, M2, because it is the monetary aggregate that is estimated to have the closest relationship with the rate of inflation. To influence the growth of M2, the Bank targets reserve money, which is directly related to money supply through the money multiplier.

M2 is compiled by including the following aggregates:

- Currency in circulation outside banks; plus

- demand deposits; plus
- saving deposits; plus
- time deposits.

### **3.3 The monetary policy instruments**

The Bank of Tanzania uses indirect instruments of monetary policy to influence the level of money supply. This is mainly achieved through:

- Open Market Operations (OMO). OMO involves the sells or purchase of Government securities (e.g. Treasury bills, Treasury bonds) by the Bank of Tanzania in order to withdraw or inject liquidity into the economy, in order to influence the reserve money.
- Foreign exchange market operations (FEMO); which involves sells or purchase of foreign currency by the Bank of Tanzania.
- Discount rate; which is the rate of interest the Bank of Tanzania charges on loans it extends to commercial banks.
- Statutory reserve requirement requires all depository corporations in Tanzania: Mainland and Zanzibar, to maintain an account with the Bank of Tanzania for statutory minimum reserves (SMR).
- Moral suasion as an instrument of monetary policy has no legal commitment. It can be used by the Bank of Tanzania to influence the behaviour of certain economic units such as Government, banks and non-banks by using all means of communications: report, studies, speeches, etc.

### **3.4 Reserve requirements on financial institutions**

Reserve requirements on financial institutions is used for prudential purpose and for monetary policy objectives. Banks are required to hold a specified percentage of their liabilities arising from demand deposits, savings deposits, time deposits, foreign currency deposits, as well as from short and medium term borrowings, as balances on current accounts with Central Bank (i.e. minimum reserve ratio). The Bank does not pay interest on these reserves. The prevailing reserve requirement ratio is 10.0 per cent of total money banks' deposit liabilities including foreign currency deposits, and is met by a total of the balances in the SMR accounts and 50% of the vault cash, maintained on daily basis.

### **3.5 Types of refinancing as well as collateral used**

The discount policy has been the refinancing policy used by the Bank of Tanzania to refinance commercial banks. Under this policy the central bank may buy treasury bills, treasury bonds and other securities from banks at a rate (discount rate) set by itself. The central bank uses the status of the relevant bank's current account with the central bank to determine if refinancing will be accommodated. However, following the Bank of Tanzania Act of 1995, which empowered the Bank to deal with price stability, refinancing has been discouraged to the extent of reducing it to zero. But, the Bank has established a Lombard facility since 2004, which provides collateralized loans to banks that have signed master repurchase agreement and subject to short-term liquidity problems. However, the collateral should not be more than 91 days.

As collateral for refinancing (Lombard facility), the Bank of Tanzania uses Government securities i.e. treasury bills and bonds with maturity exceeding the loan duration and the amount is more than 100 per cent of the total loan.

## **4. Structure of the financial markets**

### **4.1 Organisation of the money and capital markets**

#### **4.1.1 Money Markets**

This is a market for short-term financial instruments with maturities not exceeding one year, e.g. treasury bills and repurchase agreements (REPOs). The market for treasury bills was introduced in Tanzania in August 1993 as part of the financial reforms, the main objective being to manage liquidity in the economy and to finance the government budget deficits. The rates obtained in the government securities market also serve as a benchmark for the determination of interest rates in the market therefore paving the way for market-determined rates.

#### **4.1.2 Instruments used and structure of the market**

Currently the Bank of Tanzania on behalf of the government issues government securities to the public through weekly auctions for treasury bills and monthly for treasury bonds in the primary market. The instruments involved are:

- The 35-day and 91-day 182-day, 364-day treasury bills.
- Two-year, five-year, seven-year and ten-year Treasury bonds.
- Repurchase Agreements (REPOs).

Treasury bills are auctioned under a multiple price system in which bidders pay for the price quoted. Settlement for Treasury bond successful bids is T+1 implying that successful bidders are required to pay within one day after the date of the auction. While settlement for Treasury bills successful bids are T+2 implying that successful bidders are required to pay within two days after the date of the auction.

#### *Primary Dealership*

The primary dealership system was introduced in January 1999. Before its introduction, participation in the money market was open to all investors. After the introduction of the primary dealership system, the structure of the market was changed such that participation in the primary market is now limited to licensed primary dealers (commercial banks and broker dealers). Every other participant now channels his or her bids through the primary dealers. Earlier, participants with bids worth TZS 100.0 million or above were allowed to participate directly, the amount was later reduced to TZS 50.0 million.

During March 2006, Bank of Tanzania announced the launch of a new arrangement for participation in Government Securities auctions, which aims at broadening participation by direct investors. Under this arrangement the minimum threshold for Direct Investors in Treasury Bills/Bonds has been lowered further from TZS 50 million to TZS 5 million. In this category the main participants are pension funds, insurance companies, non-bank financial institutions and individuals. To date there are 18 registered dealers out of which 13 are commercial banks and 5 are broker dealers.

The system has not performed well as the dealers have failed to play their role as “market makers” of buying securities in bulk at the primary auction and sell them to small investors and thereby create a secondary market. The main reasons for the dismal performance could be due to the following main factors:

- Lack of demand of securities as the potential investors who are pension funds and insurance companies are also allowed to purchase securities directly in the primary market.
- Commercial bank dealers purchase and hold securities up to maturity for their own liquidity management objectives.
- Low capital base by broker/dealers of TZS 10-20 million as compared to TZS 1.0 billion (minimum) for commercial banks dealers. This makes it difficult for the Bank to enforce requirement of two-way quotation by dealers. In the absence of a two-way quote price system it is difficult to have a dynamic secondary market trading.
- Low yields, declining from a level of about 12 per cent, when the system was established in 1999, to the current level of about 5 per cent thereby reducing the trading margins for dealers.
- Thus, the Bank is currently reviewing the primary dealership system with a view to address the above factors.

### *Treasury Bonds*

Two and five year Treasury bonds were introduced in 1997 and 2002 respectively and are auctioned by the Bank of Tanzania on behalf of the government. While seven and ten year Treasury bonds were launched in August and October 2002 respectively. Initially the two-year bond was issued fortnightly before it was changed to weekly and allocation was based on uniform pricing. However, after the introduction of the five-year bond the two bonds are now issued once per month through a multiple price bidding system. These bonds are listed at the Dar es Salaam Stock Exchange, (DSE).

#### 4.1.3 Capital Markets

The Capital Market and Securities Authority (CMSA) was established in 1994 after the Capital Market and Securities Act was enacted in the same year. According to the Act the Capital Market and Securities Authority (CMSA) is charged with the responsibility of promoting and facilitating the development of an orderly, fair and efficient capital market and securities industry in Tanzania. The Dar es Salaam Stock Exchange (DSE), which was incorporated in 1996, commenced its operations on 15th April, 1998 with only one listed company B the Tanzania Oxygen Limited (TOL). However there has been a modest growth in terms of listing, market capitalization and trading activities. Currently there are eight equity companies namely TOL, Tanzania Breweries Limited (TBL), Tanzania Tea Packers (TTP), Tanzania Cigarette Company Limited (TCC), Tanga cement company Ltd (SIMBA), Dar es salaam Airport handling Co. Ltd (DAHACO) and two cross listed from Nairobi Stock Exchange namely; Kenya Airways Ltd (KA) and East African Breweries Ltd (EABL).The DSE also has listed six corporate bond namely EADB bond, PTA Bank Bond, Standard Chartered Bank bond BIDCO bond and Barclays Tanzania. The two-year and five year treasury bonds were listed in March 2002.

## 4.2 Legal Framework

Treasury bills are governed by the Government Loans, Guarantees and Grants Act of 1974. Short-term deposits and bank loans are governed by the provisions of the Banking and Financial Institutions Act of 1991 and the same applies to inter-bank placements.

## 4.3 Participants in these Markets

- Deposit Money Banks (Commercial Banks).
- Insurance Companies
- Pension Funds
- Non-Bank Financial Institutions
- Dealers and Broker Dealers
- Investment Advisers

- Individuals.

## **5. External payment arrangements**

### **5.1 Determination of the exchange rate policy**

The Bank of Tanzania is responsible for determining the country's exchange rate policy.

### **5.2 The present exchange rate system**

At present Tanzania practices a managed float exchange rate system.

### **5.3 Organising the exchange market**

The foreign exchange market is a daily Interbank Foreign Exchange Market, conducted through both telephone and Reuters dealing system. During the market session, i.e. from 08:30 to 15:00, Monday to Friday, sellers and buyers (commercial bank and non-bank financial institutions excluding bureaux) are obliged to quote two way prices (bid/ask). The Bank of Tanzania intervenes by selling and buying only to smooth fluctuations.

### **5.4 The central bank's involvement in managing foreign exchange reserves.**

According to the Bank Act, one of the functions of the Bank is to manage the gold and foreign exchange reserves of Tanzania. The Bank is therefore automatically responsible for managing the foreign exchange reserves.

## **6. Currency convertibility and exchange control**

### **6.1 Current state of currency convertibility**

The Tanzanian currency (the shilling) is not convertible outside East Africa. In the spirit of East African co-operation, a currency convertibility agreement was reached in 1995. Under the agreement, commercial banks and foreign exchange bureaux in the region are allowed to buy and sell (deal) regional currencies just like the other convertible currencies. In this regard, modalities for the repatriation of excess holdings of the local currencies (resulting from dealing in those currencies) to their respective countries are in place. Moreover, commercial banks (in the region) are urged to establish correspondent relationships, so that they may open and maintain, in their books, currencies of their correspondent banks in the respective countries. Under the currency convertibility arrangement, residents of the East African States are allowed to use their respective national currencies in cross-border transactions,

thereby crossing the borders of the three countries with any amount in the three currencies.

## **6.2 Exchange control restrictions on current-account transactions**

The current account in Tanzania has been fully liberalized and the exchange rate is market determined. It was the ratification of IMF's Articles VIII in July 1996, which effectively removed all restrictions in the country on current account transactions with the rest of the world. Therefore, Tanzania's trade and exchange regimes can be considered to be free of restrictions.

## **6.3 Restrictions on capital-account transactions**

The capital account is not fully liberalised. For that reason, foreign investment in Tanzania is partially restricted. For example, foreign investment in Treasury bills, in foreign currency terms, is not allowed. In order to ensure and guarantee the eventual repatriation of dividends/profits and capital, foreign investment is subject to approval by the Tanzania Investment Centre, as required under the Tanzania Investment Act of 1997. However, the Act guarantees unconditional transferability through any authorised dealer bank in freely convertible currency of:

- Net profits or dividends attributable to the investment, payments in respect of loan servicing where a foreign loan has been obtained;
- Royalties, fees and charges in respect of any technology transfer agreement registered under the Act;
- Remittance of proceeds (net of all taxes and other obligations) in the event of the sale or liquidation of the business enterprise or any interest attributable to the investment;
- payments of emoluments and other benefits to foreign personnel employed in Tanzania in connection with the business enterprise.

With regards to outward investment, some restrictions have been removed. For instance, acquisition of foreign loans, overdrafts or financial facility by resident individuals or companies is allowed subject to approval by commercial banks concerned. In addition, no prior BOT's approval is required in respect of all cases of allotment or transfer of shares from residents of Tanzania to nonresidents.

The Government of Tanzania has decided that, effective 1st October 2002; it will allow foreign participation at the Dar es Salaam Stock Exchange (DSE). The decision to allow foreign portfolio investment is in line with the ongoing macroeconomic reforms, including the financial sector reforms. Opening the DSE to foreign participation constitutes a further liberalization of the capital account of the balance of payments that will require increased vigilance on maintaining macroeconomic stability and financial stability. The benefits of allowing portfolio investment in Tanzania are long-term, and are largely dependent on the number and

quality of private companies that will be listing at DSE. It will also depend on pace of expansion of the market capitalization of the DSE.

#### **6.4 Retention rules for foreign exchange earned or owned by residents**

At the moment Tanzania has no rules on foreign exchange retention. In the Foreign Exchange Act of 1992 and its subsequent manuals, all surrender requirements for foreign exchange earnings were abolished, except earnings from exports of the major traditional commodities, which were abolished in 1994. Residents are allowed to hold foreign exchange accounts in the commercial banks and they are free to sell their foreign exchange to the bureaus or money market changers.

### **7. The central bank and external debt**

#### **7.1 The role of the Central Bank in managing the country's external debt**

Since 1988 the Government of the United Republic of Tanzania has designated the BOT as the central institution for recording, monitoring and assisting in the management of Tanzania's external debt which covers all Government, parastatal and private sector borrowing (trade credits included). The Debt Management Department within the BOT is charged with and responsible for the following tasks:

- To collect comprehensive data on the external debt of the country and make projections of future debt service payments
- To undertake analysis on a complete debt database
- To participate in bilateral loan negotiations and in providing advice on the appropriate borrowing terms
- To manage and administer all external debt reduction, debt reorganisation arrangements and operations such as the Debt Conversion Programme, Debt Buyback and Debt Rescheduling.
- To prepare the Paris Club Memorandum requesting Paris Club relief/maintenance of Paris Club Agreements between the Government and Paris Club creditors
- To determine priorities for the externalisation of debt service payments
- To manage and administer Government domestic debt

In order to facilitate effectively the above-mentioned roles, a computerised debt management system was set up in the BOT Debt Management Department, namely the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).

## **7.2 The role of Treasury in this respect**

As for the legal framework, the Loans, Grants and Guarantees Act of 1974 and the amendment Act of 2003 empowers the Minister for Finance to raise foreign and local loans, to issue guarantees and receive grants for and on behalf of the government in order to finance Government activities. While this has been the legal framework as defined by the Act, the responsibilities between the Bank and Treasury are vested within the institutional framework. The Bank's Debt Management Department serves as the country's focal point for both external and internal debt management. Although the external debt management function in Tanzania is the responsibility of the Ministry of Finance, the BOT, Planning Commission, and the Attorney-General Chambers, the overall responsibility for the formulation of the country's debt policies lies with the Ministry of Finance. This includes all Government loans and contracts and its accounting.

The responsibilities of the Central Bank and the Government have been clearly spelled out in the Bank of Tanzania Act of 1995. According to the Act, the Bank has been entrusted with the full responsibility of formulating and implementing monetary policy, whereas the Treasury is responsible for controlling the fiscal side of the economy.

Central to the Bank is the achievement of its single policy objective of price stability. The Bank of Tanzania is primarily responsible for monetary conditions conducive to price stability over time. That is, it is responsible for the regulation of the quantity of money in circulation and for the supply of credit in the economy.

The Treasury is solely responsible for the formulation and implementation of fiscal policy so as to bring about macroeconomic stability in the long term. The Treasury is responsible for controlling Government spending and revenue collection so as to reduce inflationary pressures in the economy.

## **8. Supervision of financial institutions**

### **8.1 Banking institutions**

#### **8.1.1 Authority responsible for banking supervision**

The Bank of Tanzania is responsible for the supervision of all banks.

#### **8.1.2 Licensing procedures for establishing a new bank**

The promoters of the new bank submit an application for a banking license to the Bank of Tanzania.

The Bank of Tanzania assesses the application's conformity with the policy and procedural guidelines on the licensing of banks and financial institutions formed under section 52 (I) of the Banking and Financial Act, (1991).

Then the Bank communicates its decision to the promoters on whether they are allowed to operate a bank or not.

#### 8.1.3 Types of licenses that exist

There is only one type of banking license in Tanzania, i.e. a full banking license.

#### 8.1.4 Minimum capital requirements for the different types of banks

A non-regional bank has a minimum capital requirement of 1 billion Tanzania shilling and a regional bank whose head office is located in a regional capital has a minimum capital requirement of 200 million Tanzania shilling. A minimum capital requirement of 100 million and 50 million Tanzania shilling applies to regional banks located in other towns.

#### 8.1.5 Regulations governing current activities of banks

- Banking and Financial Institutions Regulations, 1997: sets conditions of entry or exit into banking industry in Tanzania, in general it deals with all matters relating to licensing of new entrants in the banking system and conditions necessary for safe and sound operations.
- The Management of Risk Assets Regulations, 2001: these regulations provide prudential guidance on management of risk assets and bases for providing for losses on loans and other risk assets.
- The Capital Adequacy Regulations, 2001: These Regulations provide guidance for measuring capital and provide the depositing public with reasonable protection by enhancing the capability of banks and financial institutions to absorb unexpected losses and thus minimize the incidence of bank failure.
- The Liquid Assets Ratio Regulations, 2000: The main objective of the Regulations is to provide guidance on measuring and monitoring liquidity of banks and financial institutions and the maximum ratio of loans to deposits.
- The Publication of Financial Statements Regulations, 2000: these regulations aimed at keeping the general public informed on the condition and performance of banks and financial institutions. Quarterly publications are

required for un-audited balance sheet, income statement and cash flow statement while audited financial statements are to be published once annually.

- The Independent Auditors Regulations, 2000: These Regulations guide banks and financial institutions to appoint independent auditors that are recognized and registered by the National Board of Accountants and Auditors and also by the Bank of Tanzania. Bank auditing requires more than commercial enterprise auditing and as such only audit firms that meet registration requirements by the Bank of Tanzania may be appointed to audit banks and financial institutions
- The Credit Concentration and Other Exposure Limits Regulations, 2001: The objectives of these Regulations are; to encourage risk diversification and curtail excessive concentration of risk; to promote arm's length relationship in dealing between a bank or financial institution and its directors, officers, staff, shareholders and their related interest; to make credit available to a broader group of borrowers; to regulate equity investments of banks and financial institutions and to avoid undue concentration of economic power; and to regulate the amount of investments in fixed assets and prevent the use of depositors' money in acquiring such assets.
- Circular No.1: Reserves Against Deposits and Borrowings, requires banks to maintain statutory minimum reserves on their total deposits, including foreign currency deposits, received and funds borrowed from the general public. Non-bank financial institutions are not required to maintain minimum reserves.
- Circular No.5: Foreign Exchange Exposure and Placements, Purchases, Sales and Balances sets limit on placements with the correspondent banks by the banks and financial institutions, and require the institutions to maintain a net open position not exceeding 20% of the core capital.
- Circular No.7: Instructions for Filling Reports under the Banking and Financial Institutions Act, 1991. The Circular provide guidance to banks and financial institutions on how to properly fill returns submitted to the Bank of Tanzania under the Banking and Financial Institutions Act, 1991. The aim is to capture accurately and uniformly compiled information.
- Circular No. 8: The Money Laundering Control. This Circular became effective on 1st September, 2000 and aims at guiding banks and financial institutions on uncovering, reporting and controlling money laundering.

#### 8.1.6 Main supervisory practices

The Bank of Tanzania uses both on-site and off-site inspection in supervising banks and financial institutions. In on-site inspection a full scope examination where the supervisors review the five key components of the institutions, that is Capital adequacy, Asset quality, Management quality, Earnings capability and Liquidity (CAMEL) at least once a year for every institution. In addition, supervisors do verify compliance with laws and regulations and assess the effectiveness of the institutions' internal control system.

In the off-site inspection assessment of financial soundness through analysis of the statistical and other returns covering key areas of the institutions is done. From the analysis an Early Warning Report is produced. The statistical returns are submitted periodically (i.e. weekly, monthly, quarterly, semi-annually and annually or on ad hoc basis if the circumstances so demand). Currently, the Bank is in the process of adopting Risk Based Supervision.

#### 8.1.7 Measures to remedy deficiencies as well as penalties utilized

The central bank uses directives to the institution's board of directors as well as management to remedy deficiencies. Sanctions and monetary penalties can also be applied if necessary.

### 8.2 Non-bank institutions

#### 8.2.1 Responsibility for supervision of non-bank financial institutions

The Bank of Tanzania is responsible for the supervision of all non-bank financial institutions.

#### 8.2.2 Categories of financial institutions and their licensing procedures

The licensing procedures are the same as those for banks.

#### 8.2.3 Information as requested under 9.1 which is applicable to non-bank financial institutions

There is a minimum capital requirement of 500 million Tanzania shilling (TZS) for non-bank financial institutions. A minimum capital requirement of TZS100 million, TZS75 million and TZS50 million is in place for regional non-bank financial institutions whose head offices are located at regional municipality other regional towns and towns outside the regional offices, respectively.

## **9 National payment, clearing and settlement system**

### **9.1 How is the payment, clearing and settlement system organised?**

#### **9.1.1 Payment Systems**

In this context reference to payment system is limited to the actual process of invoking a payment instruction, which invariably is facilitated by various payment instruments that pass through the financial systems. The payment instruments include cash, cheques, Electronic Fund Transfers (EFT), telegraphic transfers (TTs) and mail transfers (MTs).

Most of the payment transactions are made on cash basis and outside the financial systems. That is due to the fact that banking services are concentrated in town centers leaving about 65 per cent of the total population living in rural areas without banking facility.

Currently, there are 24 registered commercial banks out of which ten (10) banks have introduced Automated Teller Machines (ATMs) with reach 120 in total and in addition a range of 800 POS. The volume and value of transactions through these ATMs are 1,885,897 and TZS 335,221.11 per year respectively. Most of these ATMs are located in bank branches of the respective banks while others are installed at convenience locations.

Cheques, which form one of the debit instruments, is currently the most popular means of making payments. Businessmen, banks, government and other institutions are the main users of cheques for various transactions.

Telegraphic Transfers TTs are still in use for fund transfers whereby as at 31<sup>st</sup> December 2005, the total volume and value of TTs were 48,860 and TZS 4.76 million respectively. Other high value, time sensitive funds use other means of network communication such as VSAT and also leased lines. Individual banks with their respective branches (intra-bank transactions) use such facilities.

Funds transfers between banks (i.e. inter-bank funds transfer) are done through the use of a Real Time Gross Settlement system called TISS, that is, Tanzania Inter-Bank Settlement System. TISS went live on 8 April, 2004 with 19 members and currently there are 23 participating members comprising of commercial banks and the Central Bank. TISS uses SWIFT as its message carrier. Banks also use SWIFT for international transactions.

Other fund transfer systems include Western Union Money Transfer and MoneyGram Systems, which are offered by Tanzania Postal Bank (TPB), Twiga

Bankcorp Ltd and Exim bank. The systems are used to transfer funds mainly of low value for both domestic and international payments. Tanzania Postal Services (TPS) also offer other services for local payments such as money fax; money orders; express money orders; postal orders as well as GIRO systems.

### 9.1.2 Clearing and Settlement Systems.

Inter-bank payments are cleared between banks through local clearing arrangements on bilateral or multilateral arrangements and through bankers clearing houses. There are two types of clearing: the local currency and the US dollar clearings. Bilateral and multilateral arrangements are practised where clearinghouses do not exist. Non-local items are cleared on collection basis. Currently there are five clearinghouses located in the Bank of Tanzania's premises. The electronic clearing house is located at the BOT headquarters in Dar-es-Salaam, whereas the other four are housed at the Bank branches in Arusha, Mwanza, Mbeya and Zanzibar. The electronic clearinghouse became live with effect from 1 March 2002. At the Dar es Salaam Electronic Clearing House (DECH), the clearing process takes two working days for instruments originating from and destined to Dar es salaam, and up to 7 working days for instrument originating from other parts of the country.

Due to the number of members and volume of instruments cleared per day, in clearing houses, clearing process takes 1 to 3 working days for instruments originating and destined to branches within towns where clearinghouses are situated, and up to 7 days for branches located in regional centers and in remote areas. Efforts are being made to minimise the clearing period. However, the rules and regulations of the clearing houses<sup>1</sup> guide the clearing operations at all centres.

Settlement of inter-bank obligations is done on each business day after the clearinghouse sessions. All regional clearinghouses send their net settlement figures to the electronic clearinghouse in Dar es Salaam. The net settlement figures are consolidated and sent to TISS for settlement. The finality of inter-bank payments is accomplished when settlement is effected through banks' clearing accounts at Bank of Tanzania (BOT).

The management of the clearing system is done by committee of management comprising of members from the central bank and commercial banks. The operation procedures are guided by the system rules and regulations. While the management of the settlement systems is done by the central bank. Rules and regulations also guide the operations of settlement systems.

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<sup>1</sup>. Names of clearing houses are Dar es Salaam Electronic Clearing House (DECH, Arusha Bankers Clearing House (ABCH), Mbeya Bankers Clearing House (MBCH), Mwanza Bankers Clearing House (MWZBCH) and Zanzibar Bankers Clearing House (ZBCH)

## 9.2 What is the role of the central bank in the system?

The primary mission of the Bank of Tanzania is to formulate and implement monetary policy, directed to the economic objective of maintaining price stability, conducive to a balanced and sustainable growth of the national economy of Tanzania.

In that regard, the BOT has been entrusted with the task of modernizing the country's national payment system (NPS). Its key responsibilities to that effect include managing the National Payment System Modernization Projects, as well as to oversee and co-ordinate all NPS arrangements/activities. Oversight functions include ensuring safety and efficiency in the payment systems. The Bank draws these powers of regulating, overseeing and participating in the payment, clearing and settlement by the Bank of Tanzania Act.

## 9.3 Short description of the processing of payment instructions

Clearing arrangements involve intra-bank and inter-bank transactions. Clearing of intra-bank transactions differs within organizations. For banks, which have linked their branches through computer networks, payment messages between their respective branches are effected as and when they are initiated, and the fate of such payment is immediately known and the beneficiary are eligible to get value on the same day. However, for banks, without such links to their branches, cheque clearing is done on collection basis, i.e. cheques must be sent for payment to the branch at which it has been issued (drawee branch). In such cases beneficiaries will have to wait for a number of days ranging from two to seven days as detailed at item 9.1 above in order to have the cheque cleared.

Inter-bank clearing is grouped into local clearing (within clearinghouse localities) and non-local clearance (inter-regional clearing). At the DECH, clearing documents are processed electronically, using Bank of Tanzania Electronic Clearing House (BOTECH) system, BOTECH facilitates exchange of both physical instruments as well as the corresponding electronic journal accompanied with the settlement files. Using these details a settlement batch is produced and sent to TISS for settlement.

The current procedure for inter-bank non-local payments requires that items must be first sent for payment to the branch at which it has been issued before the beneficiary gets value. Practically, when a cheque destined to a different town is received, the collecting bank has to send the items to its sister branch which is near the payer's branch where it will then be cleared through the regional local clearing<sup>1</sup>.

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<sup>1</sup> Those regions which do not host clearing houses have the arrangement of exchanging their instruments bilaterally and or multilaterally before sending their instruments to their nearest respective clearing house.

However, when the cheque presented is payable in an area where the collecting bank does not have a sister branch it will be forwarded to the respective collecting bank head office for onward presentation to the clearinghouse to be collected by the drawee bank for payment. In such cases the payee will have to wait for a number of days ranging from 5 to 30 working days so as to have the payment cleared.

In regional centres where there are no clearinghouses, banks have a bilateral or multilateral arrangement of clearing inter-bank cheques. Each bank branch maintains a clearing account of the other bank(s) in which clearing items are posted and netted on each business day. Clearing period is in most cases one working day. However, final settlement is not received until the cheques are presented at the BOT, which maintains clearing accounts of all commercial banks.

The clearing period for cheques sent through the clearinghouses is governed by clearinghouse rules and regulations. The duration varies depending upon the distance, but range from two to seven working days.

#### **9.4 How are non-funded positions settled in the system?**

In principle settlement is done only where the participant has sufficient funds. The net settlement figures sent from BOTECH to TISS in a batch is not processed until all banks have sufficient funds to clear their settlement obligations.

For banks, which do not have sufficient funds or have debit balances in their accounts at the end of clearing periods, are supposed to make arrangement so that their accounts are funded before 3.30 p.m. The arrangement include borrowing from inter-bank market or participant may approach the BOT for collateralised Intraday Loan Facility (ILF) or Overnight lending (Lombard) funding as a last resort.

A penalty is given to all clearing banks with insufficient funds at 3:30pm. In addition, the clearinghouse rules and regulations stipulate that if the member fails to meet its day's clearing and settlement obligations due to insufficient or lack of funds, they shall be suspended from the DECH membership.

## **10. Currency in use**

### **10.1 List of legal tender notes and coins currently issued and in use in the economy**

- Currency: - shilling  
100 cents equals one shilling
- Notes: - 10 000 shilling, 5 000 shilling, 1 000 shilling,  
and 500 shilling .

- Coins: - 200 shilling, 100 shilling, 50 shilling, 20 shilling, 10 shilling, 5 shilling, 1 shilling, 50 cents, 20cents, 10 cents, 5 cents.

## **11. Other activities of the central bank**

### **11.1 Activities of the central bank not covered above**

Apart from its primary function, the Bank of Tanzania has important subsidiary central banking functions:

#### *- The bank of issue*

The Bank has the sole right to issue notes and coins in Tanzania for the purpose of directly influencing the amount of currency in circulation outside banks, thereby providing the economy with sufficient, but if possible non-inflationary liquidity.

#### *- The banker's bank*

This function includes the acceptance of deposits to act as prudential reserves for these banks, the willingness to discount commercial and government paper, and the commitment to act as a lender of last resort to banks. It also involves the provision of central clearance facilities for interbank transactions.

#### *- The government's bank*

The Bank is the banker and fiscal agent for the government, and may be the depository of the government's funds.

#### *- The adviser to the government*

The Bank may advise the government on any matters relating to the Bank's functions, powers and duties. The Bank may also be requested to advise the government on any matter related to the government's functions, powers, and duties.

#### *- The guardian of the country's international reserves*

The Bank is the depository of the official external assets of Tanzania, including gold and foreign currency reserves.

#### *- Supervision of banks and financial institutions*

In general this activity involves ensuring that commercial banks and other financial institutions conduct their business on a sound prudential business basis according to the various laws and regulations in force.

#### *- Promotion of financial development*

This refers to the establishment of an effective financial system, with whose aid the financial transactions necessary for the smooth functioning of the economy can be carried out at a minimum cost.

## **12. The position of the central bank in SADC**

### **12.1 Special relationships with other central banks in SADC (CMA excluded)**

The Bank of Tanzania, as the leading financial institutions in the country and facilitator of the transactions between Tanzania and the rest of the world, has close relations with other central banks including those in SADC. The BOT exchanges information (through publications) with SADC central banks as well as those in Europe and America.

Apart from being a banker to other foreign banks in facilitating foreign transactions, the BOT also co-operates with other central banks in terms of training and attachments for its staff.

## **13. Publications**

### **13.1 Regularly published publications**

- Monthly Economic Review
- Quarterly Economic Bulletin
- Economic and Operations Report (Annual)(June/July)
- Annual Report on Conference of Financial Institutions - Once in two years

### **13.2 Occasional/special publications published since 1990**

There have been a number of special and occasional papers published by the Bank since 1990. They include the following:

- Explaining Inflation, 1995
- Bank of Tanzania - Its Functions and Monetary Policy Instruments, 1995
- Tanzania Debt Portfolio Review, 1986-1995
- The Role of Central Banking in Economic Development
- Establishment of Rural Community Banks in Tanzania, 1991
- Export Credit Guarantee Scheme - Operational Guidelines & Document
- Report on the Proceedings of the Bank of Tanzania Silver Jubilee Symposium, 1991
- Monetary Policy Statement (published semi-annually)
- Gilman Rutihinda Memorial Lecture (published annually since 1997)
- Third Finance Policy Document (2001)