13. Tanzania: Survey of Financial Institutions

I. General background and marketplace

The aim of this survey is to collect country-specific information on financial institutions (FIs) that are currently or potentially involved in funding CP projects in Tanzania. This involved the Cleaner Production Centre of Tanzania (CPCT) interviewing FIs that provided financed projects in the manufacturing industries in the past five years. This report provides an overview on the type of investments that have been made and the types of funding mechanisms available.

In August 1991, the Tanzanian government passed legislation, which allowed private banks back into Tanzania. By June 1998, several private banks registered with the central Bank of Tanzania. Prior to the financial sector reforms, the institutions operated as state-owned monopolies.

With the Tanzanian banking sector undergoing significant reform, a consequence has been that almost all FIs have stopped providing long-term loans and equity finance in favour of short-term lending. This has led to a shortage of funds available to small- and medium-sized enterprises (SMEs).

Eighteen FIs were considered by the CPCT. Seven institutions were selected for the survey. They are:

- The East African Development Bank (EADB)
- Co-operative & Rural Development Bank (1996) Ltd (CRDB)
- Tanzania Investment Bank (TIB)
- Tanzania Development Finance Company Ltd (TDFL) which trades through Capital Finance Ltd.
- National Bank of Commerce (1997) Ltd (NBC-1997)
- National Micro-Finance Bank[*]
- Tanzania Postal Bank (TPB).

[*]The National Micro-Finance Bank, previously part of NBC, was visited. However, since its establishment, it has neither provided credit nor does it as yet have a credit policy. All previous loans are handled by the NBC (1997) Ltd.

As observed by CPCT, there is no clear bias by the Tanzanian FIs towards financing projects in particular sectors. The main criteria for lending is almost always based on cashflow. Projects, which have secured funding, are from various sectors ranging from manufacturing to food, wood, pharmaceuticals and textiles.

However, a few exceptions were noted. They include:

- CRDB has financed projects mostly in the agricultural sector
- TPB has financed small-scale projects mostly in the food sector

- TDFC and EADB tend to finance the larger scale projects, which could be attributed to their greater ability to mobilise funds.

The majority of investments range from TSh1,000,000 or greater.[1] There is no bias towards new, retrofits or expansion projects. With the exception of TPB, which has financed only new projects, all other Tanzanian FIs surveyed have financed both new and ongoing projects. Also, FIs did not attach any priority towards particular geographical locations within Tanzania.

Various types of funding are provided by Tanzanian FIs. These range from term loans to working capital. Listed below are the types of funding offered by FIs surveyed.

Types of funding	
Company	**Types**
TDFL	• Term Loans • Working Capital • Equity Finance
EADB	• Short-term loans 12-14 months • Long-term loans – term depending on cashflow • Lease of 12,24,36 months – 5 years depending on cashflow • Working capital
CRDB	• Short-term loans – less than 1 year • medium-term loans – 1 to 5 years
TIB	• Short-term loans
TPB	• Short-term loans – less than 1 year • Working capital
NBC (1997)	• Short-term loans – less than 1 year

II. Environmental considerations

In terms of considerations for the environment, interviews conducted by CPCT revealed that not one of the FIs has a clear policy on either the environment or CP, although they are aware of environmental issues. Top consideration is given to the technical feasibility and economic viability of a project with a view to the repayment of a loan. Environmental issues are taken into consideration only if they have a negative impact on future cashflow, which may necessitate further injection of funds and may delay or affect the repayment of a loan.

The FIs regard the environment generally as a Government matter. However, the government has not issued instructions or regulation to the financial sector regarding the environment, as they have stated that it should be left to the discretion of the FIs.

The EADB appears to have the most positive approach towards the environment. The Bank requires a feasibility study, which must include a section on the environment. If there are any discrepancies, the

[1] EIU forecast TSh750:US$1 in 2000.

applicant must seek necessary clearance and licences from the relevant authorities before proceeding with the loan application.

The Bank has also initiated training for senior personnel on general environmental issues. Future plans include strengthening the training programme in order to position loan managers to evaluate environmental impacts when processing loan applications.

III. Conclusions

The Tanzanian FIs that participated in this study indicated that the CP concept is new to them. CPCT received maximum cooperation from the institutions during the interviews, showing willingness for further dialogue about the ways in which CP investments are relevant to their operations. Thus, this initial study may have acted as a catalyst for CPCT to work more closely with Tanzanian FIs.

A challenge for CPCT will be to articulate and disseminate a coherent case for the relevance of CP projects as investment opportunities. Education and professional training is needed to incorporate environmental and CP considerations into investment analysis and decision-making.

There is a need for collaboration amongst highly influential individuals and organisations to establish and gradually expand a network that will stimulate change. Regular dialogue will help to form a shared vision and build a consensus about the best way forward.

Government commitment to change is paramount. Although the FIs interviewed in this survey view environmental issues as a government concern, the CP concept is based on a business efficiency model. The concept focuses on the continuous use of industrial processes and products to increase efficiency, reduce wastes at source and minimise risks. It works on the premise that competitive advantage can be gained through the use of CP technology and techniques.

The Government can support the take-up of CP measures by working with the financial sector. Good policy and regulation can create incentives for FIs to shift funds towards CP investments and, thus, motivate industry to opt for CP measures. Government incentives might include:

- Voluntary agreements with FIs to provide special funding schemes through guarantee mechanisms
- Funding for research to aid in the development of new financial products
- Tax incentives to encourage investment in CP projects, including tax reductions and exemptions on the returns from investments.

One of the most common accusations the FIs are confronted with is their short-term perspective. This is particularly true for Tanzania due to recent banking reforms.

Long-term finance is essential for assisting companies to shift from end-of-pipe to CP solutions. Yet, with the exception of TDL, long term equity finance is not available and special funding schemes do not exist in Tanzania to support this change.