



Financial Resource Mobilization for Industrial Development

By

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Day 1 Panel 2 – Leadership as a Meta Institution

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FINANCIAL RESOURCE MOBILIZATION FOR INDUSTRIAL DEVELOPMENT



Why Mobilize Resource for Industry: Is there a Case?

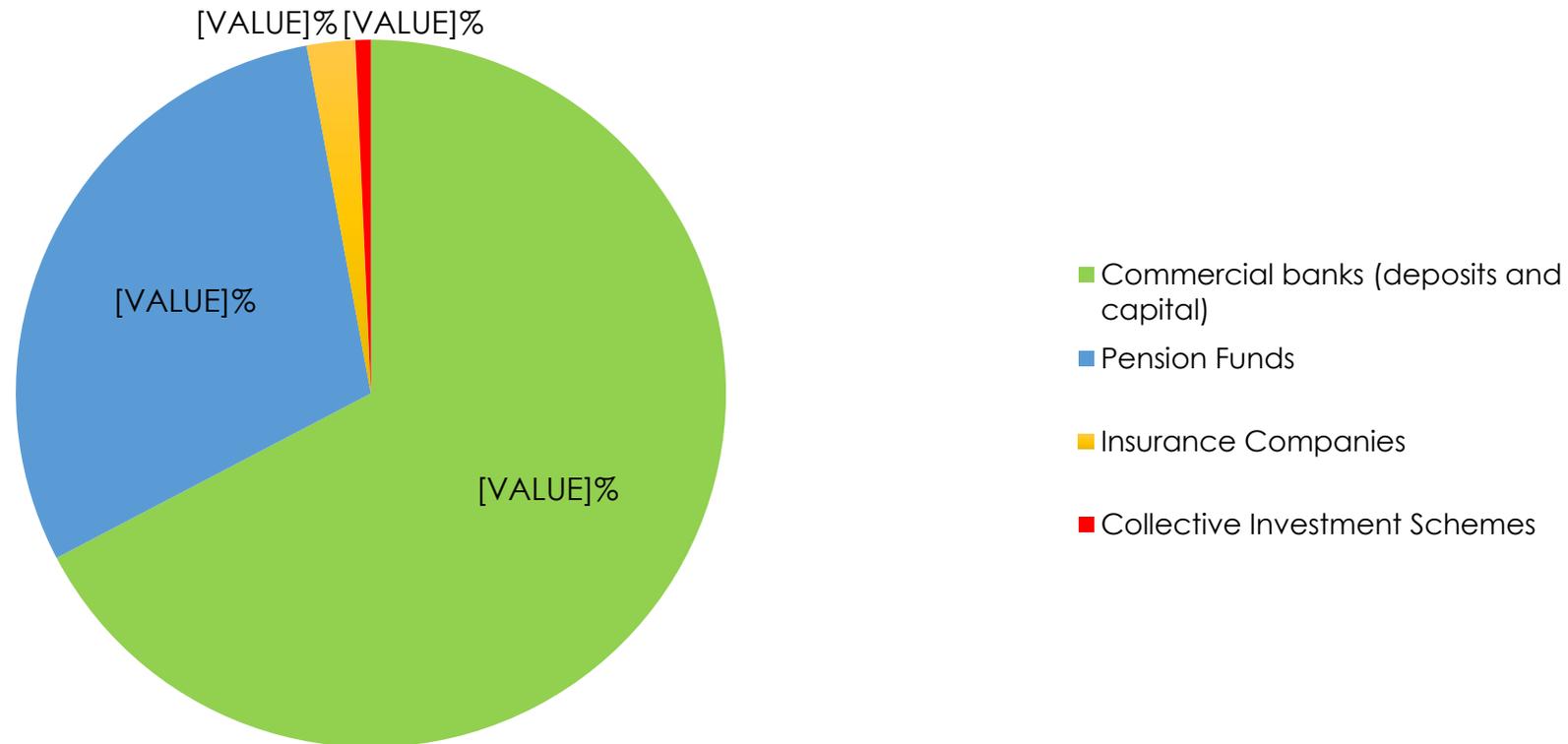
- **Financial Resources are quite scarce, and decision to allocate them to any of the potential sectors will depend on:**
 - Viability/feasibility of projects in the sector
 - Market size—demand and supply of products
 - Competitiveness—domestic and global (determined by domestic factor productivity and cost of doing business etc)
 - Internal Rates of Return relative to projects in other sectors
 - Risk factors (events that may lead to deviations in projected cashflows etc)
 - Fiscal incentives
- Presence of investors (Risk Takers) with adequate equity—Case for PPP
- Clear and irreversible Government Policy on the Sector (the rights and responsibilities of investors in the sector)

Shallow Financial System

- Dominated by commercial banks—Short term financing intermediaries (Money Market institutions): Constraints imposed by Regulatory Authorities and IFRS (IFRS 9?)
- Specialized Financial Institutions, including TIB, TADB have limited sources of loanable funds (+poorly capitalized) and may not be sustainable
- Other Capital Market institutions (providers of longer term financing):
 - Pension Funds
 - Insurance Companies
- Dar es Salaam Stock Exchange for raising Equity: Need to allow foreign participation

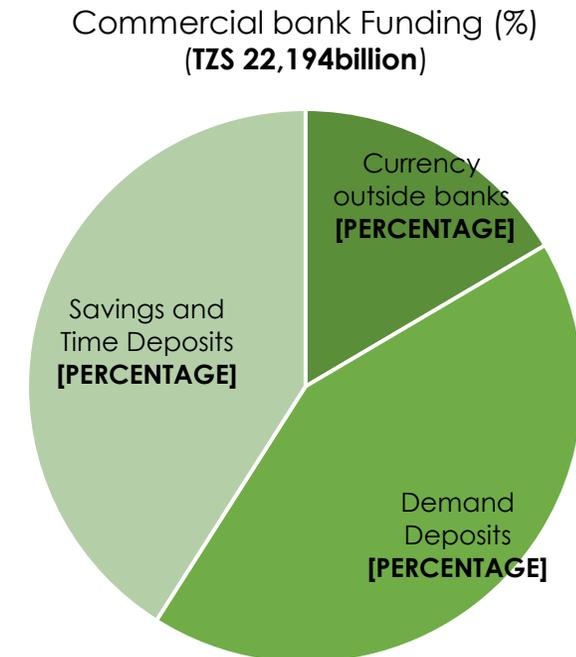
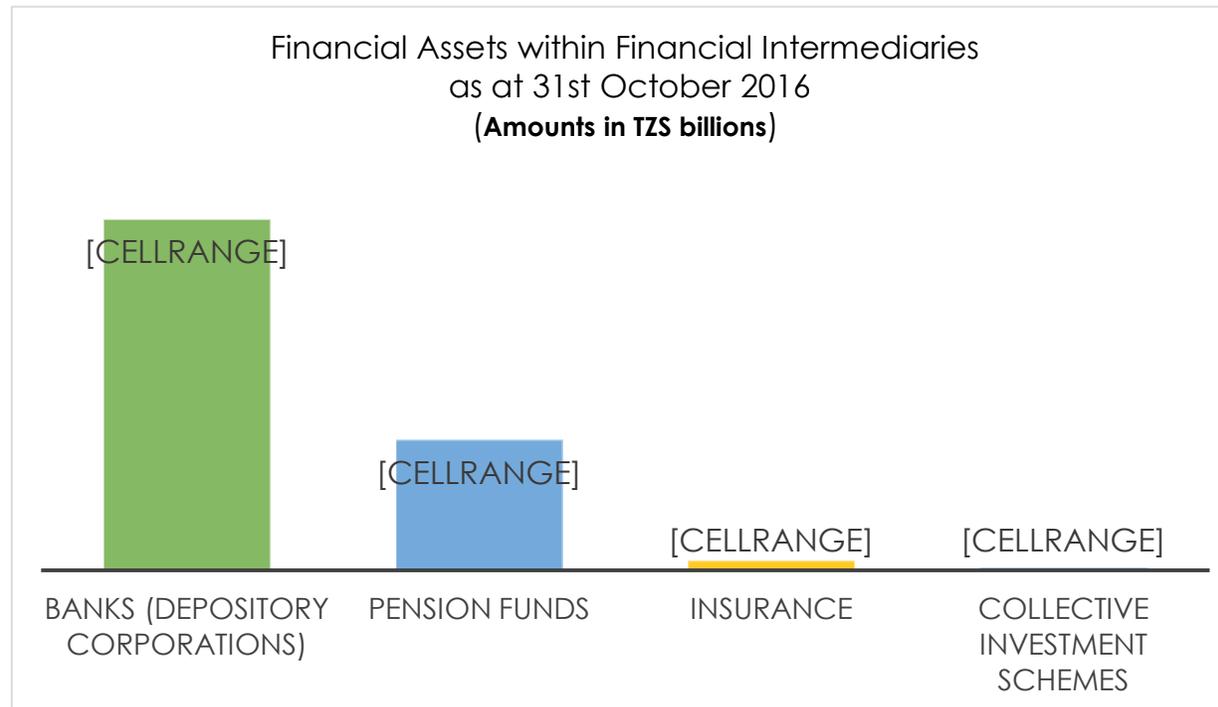
Salient features of Tanzania's Financial System

- Total Financial assets stand at about TZS 32 trillion when we include currency outside the banking system amounting to about TZS 3.7 trillion. These are equivalent of about 35% of GDP
- The composition of total financial assets TZS 27.5trillion (excluding currency outside the banking system) is as follows;



Salient features of Tanzania's Financial System

➤ Resources available with banks and other financial institutions are as follows;



➤ About 70% of all loanable funds are resting with commercial banks; and out of these slightly more than 51% are very short term in nature (demand deposits)

Salient features of Tanzania's Financial System

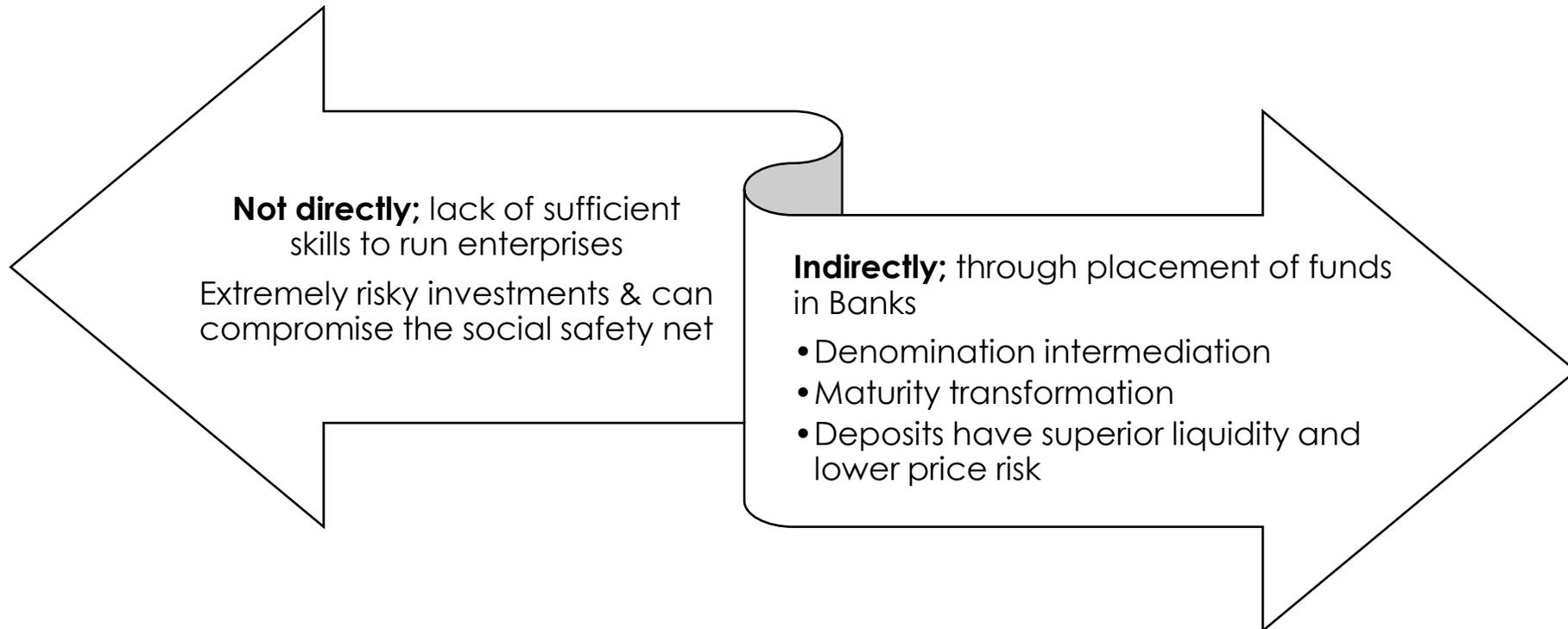
- **Maturity & Denomination Transformation** i.e transforming short term (demand) deposits to long term liabilities & Bulking small savings into a large pool of loanable funds are amongst the key functions of Commercial banks that operate with large and varied numbers of depositors. However only a limited portion of commercial bank deposits (20-30%) is core, i.e available for investment in long term lending. This can be illustrated by the case of CRDB Bank as follows:

| CRDB Bank's Maturity Lending Limits (Internal Policy) | |
|--|-----|
| Up to 1 year | 50% |
| 1-3 years | 25% |
| 3-5 years | 15% |
| Over 5 years (< 10years) | 10% |

- Thus, **on average, only about 50% of commercial bank resources** (US\$ 4.5 billion=50% of commercial bank deposits) can be lent beyond one year, and only about 15% can be lent for a period beyond 5 years which is the period required by investors in manufacturing. CRDB Bank's space, like for any other commercial bank, is more in short-term, working capital financing.



“To what extent can pension funds which amass long-term savings of workers invest in the industry?”



Pension Funds' Investment Options

- As for pension funds which had accumulated US\$ 4 billion by September 2016 (including insurance companies), the policy guidelines for investment call for diversification. Pensions must be invested securely!



- At least 50% should be invested in Treasury securities
- 10% should be in bank deposits to meet member pension payments
- Only 40% (US\$ 1.6 billion) can therefore be invested in industrial or other projects

Investment Financing

➤ Sources of Financing new investments:-

- Repayment of installments by current borrowers
- Cash flows of those enjoying overdrafts (working capital)
- New savings mobilized by financial institutions
- External borrowing (only available to stronger banks)

➤ The key issues in financing new investment are:-

- Low national financial savings in Tanzania
- Availability of Equity: Debt financing is only for purposes of leveraging equity
- Increase in non-performing loans: The increase in default risk will push lending rates to levels that may render borrowing unviable

➤ Financing of Working Capital

- This is the main role of commercial banks

Non-Performing Loans by Sectors



| Industry | % Change | |
|--------------------------------|----------|------|
| | 2015 | 2016 |
| Agriculture | 19 | 25.2 |
| Fishing | 4.4 | 2.3 |
| Forest | 0.4 | 0.7 |
| Financial Insitutions (SACCOS) | 17.8 | 17.0 |
| Mining | 16.7 | 12.4 |
| Manufacturing | 4.9 | 11.6 |
| Construction | 7.8 | 9.8 |
| Real Estate | 1.1 | 10.6 |
| Leasing | 0 | 13.0 |
| Transport | 6.4 | 9.1 |
| Trade | 7.2 | 8.8 |
| Tourism | 8.9 | 17.2 |
| Hotels | 20 | 12.6 |
| Personal | 4.1 | 5.0 |
| Education | 3.7 | 6.0 |

Critical measures to increase national financial savings

➤ The following measures may be taken to overcome the issue of low national financial savings

- **Culture of savings:-** Government should supplement efforts by financial institutions by mobilizing all people to save. According to information from BOT, 60% (TZS 4 trillion) of currency they issued is not in financial system.
- **Provide fiscal incentives to savers:-** e.g. deductibility of savings made in long term saving instruments from tax: reduction of withholding tax on interest income
- **Pushing financial inclusion** by enabling reliable, cost effective financial infrastructure including networks and electronic payment systems
- **Taking measures to improve public confidence in the financial system:-** maintaining confidentiality of financial transactions
- **Taking measures to promote financial widening** especially enactment of enabling regulations, and making it easy for people to understand and create institutions like;
 - Mutual funds
 - Investment banks
 - Venture capital funds
- **Financial literacy:-** implementing the BOT driven Financial Education Framework

Ways to enhance financing of industrialization in Tanzania

Tapping on foreign/external sources of financing through:-

Sovereign bond issue by the government or private placements facilitated by investment banks

Foreign Direct Investment which is promoted by Tanzania Investment Centre

Local banks and other financial institutions

Borrowings by Corporate entities directly from International capital market example Azam, Kagera Sugar and METL



Prerequisites for accessing funds from foreign sources

- **Increasing flow of foreign savings into Tanzania**—Liberalization of capital account of Balance of Payments
- **Sovereign rating** : A good rating will impact on corporate ratings positively. To achieve a reasonable rating, those factors which give us a ranking of 132 out of 190 countries in the Index of “Ease of Doing Business” compiled by World Bank must be addressed through
 - Reduce the corruption perception index which stood at 116 in 2017 (2016:117)
 - Improve the competitiveness index (3.67) and ranking further to achieve a better rank than the 116 (out of 190) assigned to us recently;- an improvement from the previous rank of 120
 - Other factors affecting sovereign rating include macroeconomic stability, debt servicing capacity and political stability
- **Corporate rating**: Banks and non-financial corporate entities wishing to borrow externally need to individually seek ratings by international rating agencies such as **Moody's Investors Service**, Standard & Poor's (**S&P**), and **Fitch Ratings**

*Thank
you*

