DEVELOPING A DEPOSIT INSURANCE SCHEME IN TANZANIA: "ISSUES AND PROSPECTS"

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ABSTRACT

The key to successful financial system in any country is the confidence of the people with the very financial system. A stable and efficient financial system is capable of mobilising resources from various people and channel them to the borrowers in the course of constructing a portfolio of loans.

Mobilisation of these resources requires the greatest level of depositors confidence as regards their savings deposited with the bank. This issue is more crucial in a Tanzanian context because the level of savings is relatively small due to low incomes of the people; the loss potentials in cases of bank failures is high and the savings of the majority tends to disappear. Unless there is a mechanism of safeguarding these deposits, depositors will lose confidence and are likely to change their attitude towards banks and this may have significant effect in the entire financial system.

A Deposit Insurance Scheme in Tanzania forms a basis towards improved depositor protection and hence increased confidence. This is over and above the protection obtained through Bank of Tanzania (BOT) surveillance on banking operations by the Directorate of Bank Supervision in the course of normal prudential regulation of banking operations. Both BOT and Deposits Insurance Fund (DIF) must work hand in hand to attain an effective depositor protection, and hence a viable banking system. Generally, it is considered beneficial to have the Scheme in Tanzania as the benefits are enormous, such as ensuring stable financial system, providing protection to depositors and hence facilitating deposit mobilisation and low protection costs. The public scheme is being proposed initially. This paper discusses the establishment of a Deposit Insurance Fund in Tanzania.

INTRODUCTION

The existence of a Deposit Insurance Scheme in any country has two main objectives; first to cement the stability of the financial system and banks in particular, and this stability is extremely important in the sense that the very existence of the financial system demands the highest level of confidence by the parties involved. That is, depositors and borrowers. Secondly, the Scheme also an Insurance to bank depositors against potential losses that may befall them in the event that a bank collapses.

This article addresses the whole idea of having a Deposit Insurance body in Tanzania. Part I will deal with the genesis of the body, and the need to establish Deposit Insurance Schemes.

Part II will show with the organisational set-up of the scheme. Both private and public schemes will be evaluated as to their merits and demerits. Two schools of thought, that is, American and European, will be given with their merits and demerits. It will address the membership of the scheme.

Part III will discuss the functioning of the scheme, including specific examples of the protection provided by selected scheme in some countries.

Part IV considers the funding of the scheme. A specific example of Tanzania Deposits Insurance Fund will be provided[1]. The merits and demerits of the scheme will be discussed in detail in part V. Part VI will discuss the lessons learnt by Tanzania from experiences of other countries. Part VII will be the conclusion and recommendations on the Scheme.

Deposits Insurance Scheme

A Deposit Insurance Scheme is an explicit depositor protection established and functioning as an Insurance body against Depositors funds held by banks. A scheme is normally established to create the necessary confidence of the depositor in the banking system through insuring depositors savings held by various banks in given country.
Deposit Insurance Scheme have been established in recent years due to significant instability in the banking system of many countries. To protect depositors, such schemes are established and existing banks contribute towards the functioning of the scheme.

The scheme started in the developed countries in 1970's and mid 1980's [2], and it has been widely accepted in developing countries as well. Some of these countries which have already established the scheme include Colombia (1985), Kenya (1985), Nigeria (1989) and the former Yugoslavia (1985). Others include Chile (1981), Turkey (1983), Philippines (1969) and Spain (1977).

The main objective of the scheme is to protect depositors, but lead to the fundamental objective of ensuring stable banking system in the country. It is the interest of the Government to ensure a stable banking system. This goal is partly achieved through Central Bank surveillance of the banking system of protecting depositors which is supposed to work hand in hand with the ordinary on site and off-site Central Bank Prudential regulation of banks. The scheme enhances the extent to which depositors are protected by the Central Bank's regulation. The scheme works as an Insurance cover of deposits held by a financial intermediary in case the said bank faces financial difficulties.

Why Deposit Insurance Scheme?

Deposit Insurance Scheme are established by countries in order to guarantee the nominal value and liquidity of deposits up to a certain size. The guarantee comes in a form of protection of the banking system against possible bank "runs"[3] which can distort the entire financial system, hence affecting the payment systems, intermediation process and consequently affecting the macroeconomic activities.

The bank run comes as a result of a bank failure. Deposit Insurance Schemes also protect small depositors from losses arising from bank failures. Tanzania, being a low saving country, need to protect depositors who are not sophisticated enough [4] Appendix 1 shows the National Savings as a percentage of GDP of 7% in 1993, 16.6% in South Africa for the same period and 15.2% for all Africa. (see appendices 1,2 and 3). This fact calls for effective protection of deposits. The Deposit Insurance Scheme, therefore provides a formal means of handling bank failures in a given country. Hall (1989) argues that the primary reason of establishing the scheme is to protect the depositors. The benefits of financial stability arising from a well-functioning scheme are secondary fortune by- products of the scheme. When the scheme compensate depositors, they are relieved from possible loss of their deposits. This factor eliminates the fear of loss of deposits and hence reduce chances of bank run to occur.

A Deposit Insurance Scheme may be organised as a public or private entity. Public schemes are established and financially supported by the Governments as an explicit system of protecting depositors and the entire financial system. When public schemes are established, the Government may have the reason to protect people having deposits with the failed banks.

Private schemes are established and funded by the banking industry where all banks in a given

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[1] The scheme is still operating as a division in the BOT. When fully set -up it is expected to be independent.

country are members of the schemes.
Creation of a Deposits Insurance Scheme is an explicit depositor protection that must be in place to attain its primary as well as its secondary objective. In a liberalised financial market, there are chances of bank failures to occur due to mismanagement, excessive risk taking or failure to survive competition. These factors may lead to a bank failure. The existence of the scheme assures depositors of a certain degree of compensation in case of a bank failure. It is this assurance, particularly to small depositors that the scheme aims at attaining in order to facilitate deposit mobilisation and consequently an efficient financial intermediation.

European School of Thought

European Union developed interest in Deposit Insurance Scheme in 1985 and set the time limit to establish schemes in member countries by 1st January 1990.

The objective of the European Community (EC) Deposit Insurance Directive are:

1. to protect deposit and
2. to reduce the fragility of the financial sector

The EC set up a cover level that could eliminate moral hazards by ensuring that depositors assume a certain level of bank failure risks in order to encourage them to take interest in soundness of the institution to which they entrust their deposits.

The EC Deposits Insurance Directive puts more emphasis on moral hazards problem than the safety of the financial system.
The protection level suggested by EC is ECU 20,000. EC directive allows co-insurance set at 90% of specified deposit or ECU 20,000 whichever is lower. The EC proposal advocates high level of protection to depositors which reduces the risks borne by depositors. This provides sufficient protection, but encourages depositors not to monitor the institution as their deposits are sufficiently covered. Significant level of risks will have been eliminated, making it unnecessary to monitor banks.
The EC proposal, therefore, reduces the competitiveness of the financial systems, hence the scheme may fail to attain systemic stability.

American School of Thought

The Federal Deposit Insurance Corporation (FDIC) is given credit for the stable US banking system. Established in 1934, the experience shows a significant decline of bank failures.
FDIC offers two types of protection to depositors. The first is the statutory cut-off point set at $100,000(as at 1992) which are formally insured. The second and important one is the protection for uninsured deposits using purchase and assumption transaction in which FDIC replaces bad assets with cash and deposits and other non - subordinated liabilities are assumed by another bank. The protection level provided by FDIC initially created problems in that the level was too high to have lowered deposits ' assessment of banks credit worthiness. As a matter of fact, depositors were indifferent as to which bank to deal with due to the high protection level provided by FDCI. The US current thinking is to curtail the scope of deposit protection with a view of exposing depositors to greater risks than those faced given high protection. [5] The reduction of protection is aimed at imposing financial discipline on the system a prerequisite for financial development in economy, FDIC has also introduce risk-related premium which provide incentive for banks to be

[2] The scheme exists in UK, US, German, Japan and France. These are the major industrialised countries of the world. The scheme was first introduced in the US in 1934 and it is considered to be responsible for the stable financial system in the US(Fry-1995). The UK scheme was established in 1982 after the Secondary Banking Crisis in the UK between 1972-76 (Hall-1989)

[3] Bank run means unrestrained demand for cash by depositors arising from a panic that their deposits in a given bank are not safe.

[4] Tanzania being a low saving country, requires to have a means by which depositors can be protected. This protection may enhance deposits if it is properly articulated by the public at large.

well capitalised. The US Scheme therefore advocates lower protection for financial discipline and competitiveness of institutions achieved by depositors assuming a certain level of bank failure risks.

Organisation of the Scheme

A Deposits Insurance Scheme is organised and funded by member banks. The set-up of the scheme may be private or public. Private schemes are established and funded by member banks as a private body, having little or no influence by the Government. Public schemes are established and sponsored by the Government and as such, it becomes the Government arm to monitor and protect depositors. Member banks participate by funding the scheme.
The current position in Tanzania is characterised by a Government scheme,
established under the Banking & Financial Institutions Act of 1991 which mentioned the need to establish the scheme to protect depositors. The scheme is already in existence under the Bank of Tanzania.

Membership

Membership of the banks to the scheme may be voluntary or compulsory. As an Insurance body, the role of the scheme is to pool banking risks and spread the risks among members.
The Public schemes normally have their membership being compulsory as this eliminates possible problems associated by failure by banks to join the scheme.

These problems may include:

1. Possible transfers of depositors from insured to non-insured banks during good times and vice versa during difficult times. This process disturbs the financial intermediation and may lead to bank runs when the fateful bank fails to honour their customers demand for deposits.

2. Inability of the scheme to attract enough members needed to accomplish the scheme's objectives. With few members, the scheme will not be financially viable.

The Public schemes are prone to the above problems. The action taken by the responsible Governments is to make the membership of the Public Schemes compulsory. Since Private Schemes are voluntarily established, there are good chances that they will eventually be successful as the level of compliance is likely to be higher than the Public ones.

The functioning of a Deposit Insurance Scheme.

The functioning of a Deposit Insurance Scheme is dictated by the extent of protection provided by the scheme to bank customers. One would have expected a 100% protection to be the safest bail out of the scheme to customers in cases of bank failures. But in practice, this is not always the case. The problem is even more severe in cases of a private scheme. Almost all schemes in the world limit the extent of coverage of depositors. In setting up a limit for the coverage, the size of deposits is observed. Normally small depositors should be fully covered by the limit set for covering the deposits. The larger ones are left to be exposed to some risks. This fact creates discipline in the market as the large depositors are normally financially sophisticated, hence they shape the functioning of a financial intermediary.

It can be argued that providing schemes that give 100% protection will amount to detracting from the risky nature of financial intermediation services. By limiting the coverage we attain the following:

1 100% protection of small depositors
2. Banks are to some extent protected from bank runs
3. There is creation of discipline on bank

[5] Depositors virtually borne insignificant risk, leading to their indifference as to which bank they deposit their money

management by large depositors who are fairly exposed, they are financially sophisticated and their withdrawals can affect the liquidity position of the bank. These facts shape the operations of the bank.[6]

100% protection may reduce prudential management role of the banks, which by itself defeats the essential purpose of having the scheme, that is, creating depositors confidence to the system. With lack of good governance, depositors money is at stake, something which may spark off bank runs and consequently bank failures.

The Deposits Protection Fund in Kenya protects depositors to the maximum deposit amount of Kshs. 100,000/= (US $ 1670)[7]. This is a limited coverage of deposits.

In the UK, depositors are protected to the extent of 75% of each deposit amount up to a set maximum amount[8]. In 1989, the maximum limit was 75% of £20,000 or £15,000 (hall 1989). The protection has been amended to 75% of all deposits up to £20,000 for deposits held in the UK. (Goacher 1995).

In Canada, the Canadian Deposit Insurance Corporation (CDIC) covers up to C$60,000 of Insured deposits in banks and trust companies. (Canadian Banker Nov. - Dec, 1994).

The Federal Deposit Insurance Corporation (FDIC) in the US covers up to $100,000 of insured deposits (McKenzie and Khalid 1992). In India, the Deposit Insurance & Gurantee Corporation covers up to 90% of the amount in default (kitchen 1989). The Gambian scheme, known as Capital Development Fund guarantee 75% of bank loans to Small Scale Enterprises (Kitchen 1986). Chilean scheme, known as Complementary Deposit Insurance Scheme cover $5,061 as of 1982. Turkey initially established Bank Liquidation Fund (BLF) in 1960. This was strictly paying off depositors of failed banks up to 100% of all deposits and other general creditors. Later, Saving Deposit Insurance Fund, (SDIF) was set up in 1983. Bank Liquidation Fund was transferred to the new body. The Fund covers all non-commercial deposits, both resident and non-resident, in domestic and in foreign banks. The maximum cover is TL3million per person in each bank. It does not cover interbank deposits. Philipines scheme cover all deposits, including Certificate of Deposits, but excluding interbank deposits. Foreign currency deposits were also covered after 1972. The maximum coverage is P10,000 in 1972, it has been raised to P40,000. Spain scheme known as Deposit Guarantee Fund (DGF) was established in 1977. It covers all deposits of private banks, except for the inter-bank deposits and deposits in foreign branches to the tune of Ptas 1.5million ($10,400). All these are limited coverage of deposit to failed Bank customers.

In Tanzania, the scheme, which is currently operating under the Bank of Tanzania (BOT) covers up to Tshs 250,000/= ($420) of deposits held by the banks. This limit, however, did not apply with the collapse of Meridian Biao Bank 1994, and the Tanzania Housing Bank (THB) in 1995.[9]

The limited coverage approach leaves room for good governance of the bank to be responsible in creating confidence.

The good governance is effected through surveillance measures by the Central Bank and the constant monitoring of bank activities by sophisticated customers who have relatively large deposits with the banks. The threat to withdraw all their deposits and possibly deposit them to other banks insist discipline on the management of the bank as their positions are at stake. However, limited coverage do not bail out customers in full. This may spark off a bank run, particularly by big and sophisticated customers who can learn about bank problems in advance and withdraw their deposits in advance of eventual bank failures. As their deposits are

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6 A full protection may cause laxity in bank'risk management and operation as all depositors are fully aware of 100% compensation should a bank fail. This is also puts the bank Governance at stake

7 The basis of this protection is the ifinacial sophistication level of bank customers in that country. The issue is one does not need to be a specialist banker to have an Acount with the bank. The absence of this knowledge is therefor protected by the fund. (See: The Kenyan Banker-Dec 1996)

8 The UK fund takes coinsurance to achieve a 75% protection. Coinsurance spreads the risk among depositors, which creates an incentive to monitor bank's financial conditions.

substantial, their combined action will create financial problems to the bank and hence lead to a bank failure. As substantial risk bearers, they continuously observe the operations of the bank. To protect large, sophisticated and uninsured depositors, the following can be done. [10]

1. Purchase and assumption of transaction where all deposits of a failing bank are transferred to another bank.
2. Financing merger of a failing bank with another.
3. To provide financial assistance to the failing bank to prevent the failure

Funding of a Deposit Insurance Scheme

Financing of the scheme is of paramount importance because financial resources determine the ability of the scheme to provide cover to the depositors. For public schemes, these normally receive funding from Government. Their ability to meet obligations arising from bank failures is therefore large as the Government will subscribe to any shortfall. Funding scheme also indicates who absorbs the losses in case of a bank failure. Public schemes bear all the costs and losses from bank failures, and those loses are eventually borne by the Government. Private Schemes are funded by member banks and any loss/cost arising from the failure is borne by the banking Institutions in the country. Experience from other schemes indicates that most of the funding comes from member banks by way of premium paid annually to the scheme, based on the level of liabilities.

In Tanzania for instance, banks contribute 1/10 of 1% of all liabilities[11]. The Government contributed Tshs. 1.5bn/= towards the initial cost of setting up the scheme. Chilean scheme is financed by banks at, 0.1% of average insured monthly deposits. The Turkish scheme receives premium from banks at 0.3% of insured deposits at the year end, while Spanish scheme receives 0.1% of deposits and the Central Bank contribute an amount equal to the aggregate of the assessment.

In India, Nigeria and the Philippines where such schemes exists, their respective Governments contributed towards the establishment of the schemes, and they have their won ratio of how member banks should contribute towards the functioning of the fund.

The UK scheme is funded by the contributions of all authorised financial institutions. The contribution is set in relation to authorised financial institutions' deposit balances. (Goacher 1995). The Government contribution enhances the financial ability of the scheme to be able to cope with the obligation, and to function effectively, especially in countries with a big number of banks in operation. In such contries, the possibilities of a bank failure are rather high compared to countries with relatively fewer banks. The funding of the scheme is crucial as this is what makes the scheme financially viable. The Canadian scheme's viability is questionable in the wake of frequent bank failures, and it is being questioned as to whether it is financially sustainable (Canadian Banker 1994).

Advantages & Disadvantages of Deposits Insurance Scheme

A well functioning and an efficient Deposit Insuarance Scheme offers a number of advantages which include:

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[9] In Tanzania, depositor protection is provided for small unsophiticated, unprofessional depositors within the framework of Deposit Insurance Fund established by the Banking & Financial Institution Act, 1991. The blanket 100% protection to the Meridian Biao and THB depositors was granted on account of the infancy to the private banking system and should not be expected to continue in future. (Dr. I.M.Rashidi-Govenor - BOT) For more details, see Govenor's Keynote address to Tanzania Association of Accountants annual workshop on 29/11/96. This cover is estimated to have cost 5% of GDP and it was financed by printing of money. The exercise could take place as DIF is Government owned.

[10] In all these cases, the portion of deposits not covered under part protection is likely to be recovered once the possibility of bank failure is reverted.. The DIF is normally given powers to take over the management of a failed bank, buy bad loans and liquidate them. (Philipe Callier - Financial System & Development in Africa - EDI

1. Protection of Small Depositors- these form substantial basis of bank customers and hence deposit mobilisation. Their total protection enhances their prospects to hold deposits with the banking system. The limited coverage of deposits takes care of a significant number of small depositors whose overall deposits are relatively low.

2. Shifts prevention costs to the banking system when the scheme is established, the premium paid is the cost of protecting the customers. This cost is borne by the regulator, the Central Bank and hence the Government. Ideally, the cost of protecting the system should be borne by the financial system itself.

3. Deposit Insurance Scheme takes over the administration of a failed bank in the form of settling liabilities and selling off assets.[12] The scheme streamline the dispositition of a financial intermediary, thus avoiding the lengthy process to be taken by the regulator the Central Bank. This is so because the scheme had laid down procedures that adopted and can produce immediate results on the basis of these procedures. It is not subjectd to bureaucratic decision- making of the Central Bank.

The drawbacks of the scheme include:

1. Encouraging banks to take unnecessarily high risk ventures in the hope that there is a bail out from the scheme. This problem is more critical in schemes which provide 100% coverage. However, preduntial regualtion will tend to limit the extent to which bank can expose themselves to unnecesarily high risks, (See IFM 1989) [13]

2. A Deposits Insurance Scheme may be costly, especially if the scheme is legally obliged to protect depositors up to a certain limit. A compulsory scheme will be costly to the member banks as the cost will be borne by banks. The implici system gives the Government th mandate on the extent to which th Government can effect the cover, thu giving room for lowering protectior cost. 14

Deposit Insurance Scheme: Lessons for Tanzanain

The decision to establish a Deposit Insurance Scheme in Tanzania is timely and welcome. However, in the course of setting up the institution, we need to address the following issues.

1. With the low level of deposits in Tanzania, the protection level need to be high to encourage savings and sustain depositors confidence in the banking system. The Government decision to provide 100% protection was the right decision in light of the stage reached so far in the financial sector reforms. The decision is considered favourable on account of safeguarding the financial system only. With domestic savings/GDP ratio of 3.3% in financial year 1994, any loss in such a mearge savings by individuals in Tanzania is likely to cause significant damage to the financial system. (See appendices 1,2, &4). The country has 24 financial institutions so far, compared to 20 in Uganda (Ugandan Banker 1996) and 43 in Kenya (Kenyan Banker, 1996). A collapse of a bank will significantly effect the system. There is a need for a

[11] The author interviewed the Manager, Deposit Insurance Fund, BOT.

[12] The DIF is currently working on the Disposition of THB Assets.

[13] Limits to large exposures may counteract this advantage as provided by prudential regulations guidelines by the Central Bank.

higher cover in Tanzania. The need for DIF in Tanzania is to safeguard the banking system through building the confidence of depositors.

2. A Deposit Insurance Scheme should initially be Government owned. This will reinforce the confidence of the society in the system, facilitate 100% (or another significant ratio) protection to depositors and financial viability of the scheme.[15] The THB and Meridian Biao Bank rescue package was possible because of the existence of a public scheme. The public scheme can also support collapse as there are relatively few banks at the moment. In the long-run, private scheme is advocated due to the existence of prudential regulations to take care of irregularities and thus efficient banking system, and less Government interference in the financial markets that may come through public system. Once stability has been attained, an equilibrium cover should be set to enhance competitiveness and further stabiltity of the financial system.

3. The Deposit Insurance Scheme should not be taken as a substitute for BOT supervision. At this juncture, the two should complement each other. The BOT still has the role of supervising the functioning of all financial institutions in the country, irrespective of the role played by Deposit Insurance Fund.

4. The Government, should make Deposit Insurance Fund known to depositors and the general public as regards its existence, functions and its potential benefits to depositors. The knowledge of a Deposit Insurance Scheme is essential towards creating and maintaning the confidence of depositors.[16] . It will also assist in deposit mobilisation which is currently very low. In some countries with the scheme, people know of the existence and potential benefits of the scheme. The knowledge is crucial in Tanzanian environment especially in this era of financial liberalisation where more and more financial intermediaries are opening businesses in Tanzania.

5. A Deposit Insurance Fund should be cost-effective in the wake of the existence of few banks at the moment. In other countries where there are many banks and as such the contribution of individual banks to the fund is therefore minimised. To minimise cost in Tanzanian context requires a highly cost efficient fund to be operated. A cost - efficient financial system is a prerequisite for the development of an economy. It is argued by the leading experts in finance that for the intermediation process to be efficient and effective, there ought to be competition and cost effectiveness in maintaining the system. The factors are responsible for the economic development of countries. This is the essence of the reforms currently taking place in Tanzania. Experience from other countries indicates a significant economic developments recorded by those countries which have implemented the reforms. Indeed, the establishment of DIF in Tanzania is the implementation of the financial reforms.

6. The role of other non-bank financial institutions should be clearly spelt out. Ideally, Deposit Insurance Scheme is a

[14] In some cases, the Government may decide not to pay depositors if they (Government) are convinced that the effect of a bank failure to the financial system is insignificant

[15] This may be misused by Government by printing more money which is an inflationary pressure

[16] It is the author's view that the Deposit Insurance Fund in Tanzania is virtually not known, albeit by a good number of bankers themselves.

scheme for banks and non-bank deposit taking institutions. The Government should make it clear on whether Parastatal Pensions Fund (PPF); National Provident Fund (NPF) Local Government Provident Fund (LGPF) and the National Insurance Corporation (NIC) are contributory to the fund. These Institutions currently do not accept deposits from the public. However, their viability is the primary intention of pensioners in the future as their (pensioners) contributions are held by these bodies. These are not deposit taking institutions investors. Moreover, the employee contributions are a statutory payment, and as such, a significant guarantee exists for the eventual payment of the pension to employees. [17]

7. The Tanzanian banking system need to be changed to accommodate competitive spirit which is currently missing. Competition creates a healthy banking environment, and hence the economic development. The current system is not responsive to economic factors due to inneficiency, mismanagement and customers' previous orientation to misuse of the system for their own benefits. This was at the expense of depositors. [18]

8. Tanzanian banking system has structural problems that need to be addressed for the scheme to be effective. Current financial reforms are geared towards that end. The Deposit Insurance Scheme will funcition effectively when the reforms are over. Infact the establishment of the scheme is the implementation of the very reforms in Tanzania.

9. In establishing the DIF, it suggested that a thorough research be conducted in order to underscore all potentials of the scheme and probably avoid the possibility of the scheme failing within few days of its existence. This research will include finding the information on how long it took some countries to have the same in place.

10. DIF is being suggested to determine the premium on the risk-related basis of the individual banks. This approach is currently being practised in the USA and it has the merit of charging individual banks the premium based on the level of risk assumed by banks. This discourages banks from taking excessive risks.

11. The benefits to DIF of individual banks is based on the fact that properly functioning scheme enhances deposits as it creates stable and efficient financial system. The US financial stability is attributed to the proper and efficient functioning of the US Deposit Insurance Corporation. Financial Intermediaries will have more deposits which will be used to improve banks' financial position and probably pass on this benefit to depositors by way of increased interest rates, or through stable interest rates in the financial markets.

CONCLUSION

The decision to establish the Deposit Insurance Fund in Tanzania is timely and welcome. This is because of the infancy of the new banking system and private banks in particular. The scheme

[17] This guarantee however, should not be taken for granted and hence lead to poor governance of the pension institution. It is expected that once the financial sector reform is over, the pension section will be subject to regulations hence good governance

[18] There have been cases where bank customers took loans knowing from the outset that they will not repay loans. This is not a healthy situation even with DIF in place as it covers deliberate defaulters and hence create an incentive for more borrowing. This anomaly must be eradicated for the success of the scheme.

provides protection to depositors, who are exposed to bank failure risks in this era of competition. It is a fair consideration of the safety of depositors, who provide the necessary funds for banking operations, that is, one part of the financial intermediation process. In establishing the fund, a public scheme is recommended in the early stage of financial reforms. Once the reforms have stabilised, a private scheme should be adopted to minimise Government intervention in the financial system which is counterproductive. The Government support is imperative for a successful launching of the scheme and consequential operating results.

However, the emphasis is placed on the fact that Deposit Insurance Fund in Tanzania should not be a substitute to prudential regulation of financial Institutions. Bank supervision need to be reinforced and hence complementing the role of Deposit Insurance Fund. Infact, an effective supervision of banks will minimise the role of Deposit Insurance Fund and hence lower depositor protection cost, the argument advanced as a lesson to Tanzania in the wake of few banks operation in the country.

Establishing the Deposits Insurance Fund should not mean stopping the regulation of human behaviour, particularly banking operations. However, regulation should not be too much restrictive as this will be counter-productive. The notion that "prevention is better than cure" emphasises the need to have effective supervision, as prevention, rather than leaving every corrective action to Deposit Insurance , as cure for bank failures.

APPENDIX 1: PERCENT OF GDP IN CURRENT PRICES

	FY 81	FY86	FY 88	FY 90	FY 91	FY 92	FY 93	FY 94	FY 81-
GDP at market prices	100	100.0	100	100.0	100.0	100	100.0	100.0	100.0
Resource Balance	-10.0	-13.0	-23.1	-22.1	-25.8	-29.1	-29.2	-28.0	-8.5
Gross Domestic Expenditures	110.1	113.0	123.1	122.1	125.8	129.1	129.2	128.0	108.5
Consumption	80.8	93.7	94.8	85.7	91.2	97.8	96.8	96.7	86.8
Private	68.6	77.5	84.1	78.4	83.8	90.5	88.6	88.4	72.9
Public	12.3	16.2	10.7	7.3	7.4	7.4	8.2	8.3	13.9
Investment (GDI)/1	29.2	19.3	28.3	36.4	34.6	31.3	32.4	31.3	21.6
Private/2	17.8	12.9	16.0	25.8	25.0	21.6	22.8	22.7	13.2
Public	11.4	6.5	12.4	10.6	9.6	9.7	9.6	8.6	8.4
Memo Items:									
Domestic savings/GDP	19.1	6.3	5.2	14.3	8.8	2.2	3.2	3.3	13.2
National Saving/GDP/3	21.0	12.7	18.5	26.1	22.7	19.2	20.7	20.1	15.0
National savings/GDP/4	18.7	11.5	11.3	16.7	15.1	10.3	7.0	8.8	12.8
Current account deficit/GDP/3	10.5	7.8	17.0	19.7	19.5	21.0	25.4	22.6	8.8
Overall budget deficit/GDP/5	13.3	6.4	10.5	5.3	3.2	2.2	10.6	10.2	10.6

1/sharp increase in investment starting from 1987 attributes to higher investment cost in manufactu electricity and water supply construction, and transport and communication due to the appreciatior foreign exchange.

2/ includes stock changes
3/ officially reported
4/ adjusted to the consistent with national accounts and external account.
5/ checks cleared and before grants, and the ratios are in fiscal year (FY) ending June 30

Source: The World Bank: Tanzania, The Challenges of Reforms:

Growth, Incomes & Welfare

May 31, 1996

APPENDIX 2

Japanese Savings as % of GNP

	1984	1985	1986	1987	1988
Government	-1.8	-0.8	-0.3	1.0	2.9
Corporation	-4.9	-6.0	-5.0	-6.3	-8.3
Households	8.9	9.9	9.6	7.7	8.4

Sources: World Development Reports
OECD

Appendix 3

Gross National Savings of Selected Countries % of GDP

	Country	1989	1990	1991	1992	1993	*
1	Botswana	32.6	29.7	30.5	na	na	6.6
2	Kenya	14.4	15.8	16.1	13.5	na	00
3	Nigeria	14.0	20.3	15.6	14.2	16.6	1.2
4	South Africa	22.8	21.1	18.2	16.2	NA	-1.3
5	Uganda	2.0	1.3	1.4	3.5	15.2	2.3
6	All Africa	15.4	15.6	15.3	15.2		-
7	Brazil						0.4
8	Belgium						2.3
9	Dermark						1.3

Source: African Development indicators; 1994-95; World Bank, Washington 1995 from Plan to Market, World Bank Report - 1996.

* GNP per capita; average annual growth - 1985 - 1994 (%)

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