

SUPERVISOR'S REPORT

The supervisor should complete the report below and then give this cover, enclosing the final version of the extended essay, to the Diploma Programme coordinator. The supervisor must sign this report; otherwise the extended essay will not be assessed and may be returned to the school.

Name of supervisor (CAPITAL letters) _

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If appropriate, please comment on the candidate's performance, the context in which the candidate undertook the research for the extended essay, any difficulties encountered and how these were overcome. These comments can help the examiner award a level for criterion H. Do not comment on any adverse personal circumstances that may have affected the candidate.

I have read the final version of the extended essay that will be submitted to the examiner.

To the best of my knowledge, the extended essay is the authentic work of the candidate.

I spent hours with the candidate discussing the progress of the extended essay.

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ASSESSMENT FORM (for examiner use only)

Candidate session number									
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ACHIEVEMENT LEVEL

First examiner	maximum	Second examiner
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General assessment criteria

Refer to the general guidelines.

A Research question	2	
B Approach	3	
C Analysis/interpretation	4	
D Argument/evaluation	4	
E Conclusion	2	
F Abstract	2	
G Formal presentation	3	
H Holistic judgement	4	

Subject assessment criteria

Refer to the subject guidelines.

Not all of the following criteria will apply to all subjects; use only the criteria which apply to the subject of the extended essay.

- J
- K
- L
- M

TOTAL OUT OF 36

Name of first examiner (CAPITAL letters): _____ Examiner number:

Name of second examiner (CAPITAL letters): _____ Examiner number:

NUMBER OF WORDS: 3987

**TITLE: A STUDY OF THE EFFECT OF PRIVATISATION OF THE
COMMERCIAL BANKS IN DAR ES SALAAM TANZANIA**

**RESEARCH QUESTION: HAS THE PRIVATISATION OF BANKS IN
TANZANIA-DARESALAAM IMPROVED BOTH THE BANKING AND
SERVICES PROVIDED TO ITS CUSTOMERS?**

ACKNOWLEDGEMENTS

With special thanks to:

- My supervisor

-This project wouldn't have been completed without your tremendous effort and support.

My parents

-For your continual support and motivation.

ABSTRACT

The Privatization of the national owned institutions in Tanzania to the public and also the investors is one among the major routes chosen in order to improve the economic growth and development in Tanzania. I conducted a research in order to find out whether if *the ideology and introduction of privatization and private owned commercial banks in Tanzania especially in Dar es Salaam has actually improved the banking systems and services provided to their customers as a result of privatization.*

I conducted my research through questionnaires that I provided to the customers of two privatized banks which were first nationalized Standard Chartered Bank and National Bank of Commerce, also by reading the leaflets provided by these banks to their customers I gathered my secondary information through the internet and by reading books for the school library.

I came to a conclusion that the process of privatization of banks improve both the quality of services to the customers and it is beneficial to the bank and even the workers as well compared to the nationalized banks .Thus Privatization can be sued as a way of improving a country's economy but the setbacks that come along with this process of privatization the government must be able to compensate them and also provide means of facing those disadvantages.

NO OF WORDS: 215

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INTRODUCTION

Tanzania embarked on financial liberalization in 1992 aimed at sustaining growth in the real sector by boosting resource mobilization, motivating competition in the financial market and enhancing quality and efficiency in credit allocation. These reforms have changed the direction and quality of financial services offered in the country. New merchant banks, commercial banks, bureau de change, insurance companies, stock exchange and related financial units have been established.

The entry of new banks and non-bank financial institutions has enhanced the competition and improved the quality and type of financial products and services provided. Currently, there are more 20 registered banks and 9 non-bank financial institutions. Each of these institutions plays an important role in financial resource mobilization and in the economic development of the country.¹

I decided to carry out my research and find out if *the ideology and introduction of privatization and private owned commercial banks in Tanzania especially in Dar es Salaam has actually improved the banking systems and services provided to their customers as a result of privatization.*

HOW I CONDUCTED THE RESEARCH

I decided to choose two banks, the Standard Chartered Bank which is fully privatized and the National Bank of Microfinance which are both located in Dar es Salaam one among the cities in Tanzania which has the major economical activities due to its privilege of being on the coast of the Indian Ocean thus making it the most developed city in Tanzania.

I conducted my research through questionnaires, reading the leaflets provided to the bank's customers and research on the net and interviews with some of the main directors of the banks also researched for my secondary data through the internet and different economic books from the school library.

¹ Banking and Finance. Tanzania online

WHAT ACTUALLY IS A BANK?

Bank: A word developed from *banco, desk*, an Italian word used by the Renaissance by Florentines who used to carry out their transactions above a desk covered by a green table cloth.² A bank can also be easily defined as an institution which collects surplus money/funds from the public, protects or safeguard the funds and make sure that they are available whenever needed by the true owner.

For centuries banks have been able to have an impact and influence both the politics and economics sector with three major aims of providing services on processing transactions, depositing of money and lending money. While making its profit from overdraft fees, risky investments, interest from charges from lending and profits from transactions fees on financial services. The basic functions of a bank are as follows:

- (a) Collecting surplus funds from the general public.
- (b) To transfer of funds from one person to another without the funds leaving the bank by means of credit-transfer and cheque systems.
- (c) Safeguarding the funds of the public.
- (d) Lending of the surplus funds not required by the true owners but to other customers who are in need of the funds and in return for interest which is then shared between the bank and the true owners of the borrowed funds.

² <http://en.wikipedia.org/wiki/Bank>

PRIVATISATION

What is privatization?

Privatization (alternately "denationalization" or "disinvestment") is the transfer of ownership from the public sector (government) to the private sector (business). A transfer in the opposite direction could be referred to the nationalization or municipalization of some property or responsibility.³

The term is also sometimes used to refer to government subcontracting a service or function to a private firm. There are three types of privatization⁴:

1. Asset sale privatization
2. Share Issue privatization and,
3. Voucher privatization.

Share Issue privatization: it is the type of privatization in which shares are sold in the stock market and Asset sale privatization is when an entire company or firm is sold to a foreign investor or private companies.⁵

What are the benefits and achievements of privatization in any sector?

- (a) Benefits of the employees:** The employees will be able to work in a firm or company which has straight forward and clear aims.
- (b) Benefits of the customers:** The customers benefit from the wide variety of choices and better services provided to them. Also when the efficiency of the privatization is high the customers benefit lower prices they have to pay for the services that they want which usually comes with different choices. Moreover the services provided

³ en.wikipedia.org/wiki/Privatization

⁴ en.wikipedia.org/wiki/Privatization

⁵ en.wikipedia.org/wiki/Privatization

to the customers are likely to change with regards to the customers demands or needs which is very unlikely in national owned firms/companies.

- (c) **Benefits to the economy:** There are some substantial benefits for other businesses. From the greater/higher returns on the capital in the privatized firms which can no longer forestall resources from elsewhere in the economy but has to battle for funds in the open capital market, as the services and products of the privatized firms strengthen much activity somewhere else in the economy that's when the other business gets their benefits.

DEVELOPMENT OF PRIVATISATION IN TANZANIA

Tanzania got her independence in 1961 where she was able to control all her social and economic affairs under the leadership of J.K. Nyerere. When in power, Nyerere introduced and emphasized on a socialist economic program (announced in the Arusha Declaration⁶ in 1972), also established close relationship with China, and also introduced a policy of collectivization in the country's agricultural system which was known as "family hood" or Ujamaa. In 1976 was the end of the forced collectivization program as the Ujamaa system failed to boost agricultural output in Tanzania.

Tanzania went to largest importer of agricultural products in Africa from being the largest exporter of agricultural products in Africa thus having an increase of deficit in its Balance of payments as its imports were higher than its exports.

With the realization that the Tanzanian economy did not flourish and being unwilling to lead Tanzania using an economic model he did not believe, the model of free market economy, he then willingly announced after presidential elections in 1985 that he would retire, leaving the country to enter its free market era under the leadership of Ali Hassan Mwinyi.

⁶[Http://en.wikipedia.org/wiki/ Arusha-Declaration](http://en.wikipedia.org/wiki/Arusha-Declaration)

To date Tanzania has both private and centrally planned economy (mixed economy). A mixed economy is the one in which there is a combination of free market and centrally planned economic systems with the government co-existing with the private sector

EVALUATION OF PRIVATISATION OF INSTITUTIONS IN TANZANIA

Is privatization really profitable and an easy process in Tanzania?

Since the introduction of privatization in Tanzania, about 95 enterprises went to Tanzanians, and 69 of them to indigenous. 295 firms have been privatized out of 395 earmarked for privatization. The process of privatization in Tanzania is very long and have long inconvenient processes or some wont be able to meet the minimum requirements needed to sign the memorandum of understanding on the sale; or sometimes the acquiring of loans as they have been consulting bankers for loans with no hope that they will be able to acquire them especially the indigenous people is not easy thus making the social costs of privatization in Tanzania is outweighing the benefits that are to be gained from privatization.

The major weaknesses of the privatizing institutions is are that there are difficulties to get credible buyers especially from the local, treatment of retrenches in terms of their benefits, valuation of property and how to assist the local Tanzanians in the whole exercise of privatization are among the problems.

The benefits of privatization in the Tanzania like in many other African countries which are going though privatization are very negligible actually worthless to the indigenous Tanzanians. Since started mid 1980s the economic reform like free market economy also including privatization, the unemployment rate has increased in Tanzania.

While over 700,000 new job seekers join the labor market force in Tanzania every year, only about 30,000 of them get employment. This is due to the fact that the companies are trying to maximize profit by cutting down the cost of production including the salaries or wages of the laborers and a way of doing so is by employing few people in their firms.

Another problem is the bureaucracy and corruption which accompanies the privatization process. One of the controversial privatization is the sale out the giant NBC 1997 Ltd. Which was the formerly know as National Bank of Commerce was split into two banks before it was sold at Tanzanian shillings 15 billion only instead of being sold at Tanzanian shillings 21 billion as it was earlier agreed. A second negotiation was needed and two senior Tanzanian government officials had to go fly to South Africa to re-negotiate the deal again. The Amalgamated Bank of South Africa management which are to date the main share holders to date said the valuation was overvalued and how the money accrued from the sale of national firms is being used remain questionable and not known to the people in Tanzania.

In the year 1999 in the National Assembly it was announced that over Tanzanian shillings. 146 billion have been acquired from the sale of national firms however, how the money has been spent is not known At least some of the money was supposed to be injected in the Privatization Trust Fund to assist indigenous Tanzanians to buy shares in privatized public enterprises which it seems that it is not beneficiary at all to the Tanzanians.

Although all the setbacks and problems associated with privatization there are also some benefits that come along with it. All privatization have led the privatized firm to a significant increase of production and productivity as the labor forces are reduced significantly in large numbers. There is also an improvement in the services provided to the customers during the first few months after privatization but then the services goes back to formerly procedure as a nationalized firm.

For the natural monopoly though the firms that are turned from nationally owned monopoly to a private monopoly such as the communications companies do not turn out to be beneficiary as there are no significant changes of the high price of the services or goods produced.

PRIVATISATION OF THE BANKS IN TANZANIA

In the recent years an ideology of privatization was introduced in the world's economy where many banks, companies and firms which were first nationalized were changed to fully private owned banks with the main aim of maximizing profit and improving the type of services offered to the customers at large. Each of these institutions plays important roles in financial resource mobilization. Until today there are 17 commercial banks in Tanzania working with more than 170 branches.

Privatization been chosen as one of the key routes by routes by the government in Tanzania through promoting an enabling environment for economic growth and development as supported by the private sector. A private bank or privatized bank is a bank which is owned and run by private companies or banks in which the share is divided between the government and the private company while a national bank is a bank which is owned and run by the government.

Tanzania has more than 5 different commercial banks in which some are fully privatized and now owned by the local investors or foreign investors and some the government still has a shares. An example of a privatized bank which was at first a nationalized bank in Tanzania is Standard Chartered and a good example of a bank in which the government still has a share is National Bank of Commerce.

STANDARD CHARTERED BANK

Standard Bank in Tanzania- Dare salaam, one of the very few first private banks to ever be established in Tanzania was opened in December 1993 though it first established its presence in Tanzania in 1917, nationalized in 1967 and after the liberalization of the banking and financial sector in 1991 it then opened its doors towards the public being the first foreign bank to be registered. Standard Chartered Bank- Tanzania is a branch of an international bank Standard Chartered originating from UK which has an experience of more than 150 years and over 500 offices operating all over the world in 55 countries with the Sub Saharan Africa having more than 130 branches employing 5,500 people having two major aims. One of the aims is of supporting the economy of the country and expanding its network in Africa being one of the Standard chartered bank group major aims. Since 1993 having only one branch the bank have managed to open other 6 branches, 3 in Dare salaam, one in Arusha, one in Moshi, and one in Mwanza with an aim of opening one more branch this year having its head quarters in Dare salaam.

Since its establishment in 1993 the bank has managed to be voted as the Best Bank in Sub Saharan Africa in 1998, 1999, and 2000 by the Euro money magazine and on the international front Standard Chartered Group was voted as the Best performing Bank in 1999 by the prestigious Forbes Global Magazine.

The services that are general offered by the bank to its customers are divided into Personal Products Accounting, SME Banking, Tajirika Junior Savings Account which is An account for children under 18 years and Accounting for Corporate Products.

Services provided in the Personal Products Accounting includes

- ❖ Call Account
- ❖ Current Account
- ❖ Executive Account
- ❖ Fixed Deposits

- ❖ Savings Account
- ❖ Young Supersavers Account
- ❖ Cash Deposit
- ❖ Cash Withdrawals
- ❖ Cheque Books
- ❖ Overdrafts
- ❖ Loans

Though these services can also be provided in the nationalized banks because the Standard Chartered is a privatized bank it is able to understand the unique needs of every customer as their needs differ from each other. For example Standard Chartered customizes **Client Solutions** for risk management for example in investments, yield enhancement, liquidity of management and financing debts by providing services such as: ⁷

- ❖ Structured yield enhancement products to match risk appetites and investment requirements of their customers.
- ❖ Solutions for currency and interest rate exposure
- ❖ Asset Securitization

- ❖ Structured trade and export financing for importers and exporters
- ❖ Project financing services
- ❖ Corporate advisory services

Because of the bulk numbers of customers in the nationalized banks it is not possible to meet the demands for each customer. To meet the diverse needs of their customers as the needs of each customer is individual and different; Standard Chartered also offers its customers a broad range of **Foreign Exchange Products and Services**:⁸

- ❖ Money Market Products
- ❖ Interest Rate and Cross Currency Derivatives

⁷ [www. Standard chartered bank.com](http://www.standardcharteredbank.com)

⁸ www. Standard chartered bank.com

- ❖ Foreign Exchange, Forwards and Swaps
- ❖ Money Market Funds
- ❖ Online Electronic Trading Services
- ❖ Global Foreign exchange and Economic Research

Benefits that the customers of Standard chartered in Tanzania are prioritized to acquire due to the International partnership with other countries which most of the customers from nationalized banks are not privileged to acquire.

(a) International Network, Local Presence⁹

With an international network which are established in the major financial centers (New York, London, Hong Kong and Singapore) and also in the world's emerging markets (India, the Middle East, Africa), it is likely or very possible to meet their customers' needs wherever they are in any part of the world which was not a privilege in the past years to the public. If a bank is only nationally recognized and has no network with the banks outside the country it is very hard for customers to manage their funds especially for investment

when they want to invest outside the country and will not be able to achieve their needs when they are abroad.

(b) Innovative clients solutions¹⁰

Standard chartered bank leverage a global perspective to develop creative and effective financial solutions based on their in-depth local market knowledge and understanding of their customers' needs. This will be difficult for national owned banks as the number of customers is very large and no¹¹t every one of them will have a chance to be assisted with their local market knowledge though there are many employees.

⁹ [www. Standard chartered bank.com](http://www.Standardcharteredbank.com)

¹⁰ [www. Standard chartered bank.com](http://www.Standardcharteredbank.com)

¹¹ [www. Standard chartered bank.com](http://www.Standardcharteredbank.com)

(c) One stop Range of products and Services.

This is possible as they have a full range of foreign exchange and risk management solutions to meet the needs of all their clients across the world.

NATIONAL BANK OF COMMERCE

National Bank of Commerce was former known as NBC (1997) Ltd, a company born out of the nationalization in Tanzania of financial institutions and banks in 1967. The major step towards the privatization of NBC (1997) Ltd was taken in 1997 when the bank was split into three entities NBC (1997) Ltd, National Microfinance Bank (NMB) and NBC Holding Corporation. On later April 2000 the NBC1997(Ltd) was privatized to NBC Ltd after being sold to the ABSA Group Ltd of South Africa.

Due to its share holding with the government the NBC Ltd is seen as a partner with the non governmental organization and the government in promoting and improving the socio economic development and flourish of Tanzania.

NBC Ltd is among the developed, widespread and largest commercial Banks in Tanzania having a network of 34 branches within which some are located in retail centers such as Mtwara and Lindi and also in other major towns such as Dodoma and Mwanza and all over across the country. With the unity provided by the ABSA Group Ltd from South Africa NBC Ltd is able to provide a global banking environment to its clients, which is one among the major advantages that is being produced after linking and privatizing of the banks to foreign international investors. The major aim of the NBC Ltd is to create partners with non governmental organizations to promote a sustainable development of the country.

The Share Holding Structure in the National Bank of Microfinance

Share Holder	Percentage of Share
ABSA Group Ltd.	55%
Government of the Republic of Tanzania	30%
International Finance Corporation	15%

An example of the service (Savings Account) offered in National Bank of Microfinance and its interest rates:

Savings Account	
Service Description	Rates
i. 10,000 - 999,999	1.00%
ii. 1.0 million - 4,999,999	1.25%
iii. 5.0 million - 99,999,999	2.00%
iv. 100.0 million - 499,999,999	2.50%
v. Above 500.0 million	Contact Treasury

1. Lending Services

- ❖ Overdrafts
- ❖ Personal loans
- ❖ Advances
- ❖ Bills Discounting
- ❖ Acceptances
- ❖ Loans Syndication
- ❖ Bills Negotiated
- ❖ Term Loans
- ❖ Letter of Credit

- ❖ Guarantees and Indemnities
- ❖ Packing Credit

2. Depositing services includes

- ❖ Fixed Deposits
- ❖ Foreign Currency Accounts
- ❖ Savings Account
- ❖ Current Account
- ❖ Time Deposits

4. Advisory Services concerning how to manage your bank account and profit from your account. Which wont be easily done with a large number of customers found in the state owned banks.

EVALUATION FROM THE CUSTOMERS RESPONSES

From the questionnaires that I had given out to the 50 customers of both the two banks in order for me to carry out my research on whether if the customers are satisfied with the services provided and also the type of service that most of them prefer or think satisfies their needs and got the following results:

<p>1. How long have you been banking in National Bank of Commerce/ Standard Chartered bank?</p> <p>Results: 85% of the customers have been receiving services from the banks for more than 5 years meaning that they are quite satisfied with the services that they get.</p>
<p>2. Is this your first Bank or you have been receiving services from other banks? Are they privatized or not?</p> <p>Results: 75% of them it is their first banks to get services from but also there are some of the customers who have shifted from the state owned banks to these privatized banks.</p>
<p>3. Are there any differences?</p> <p>Results: 85% of the customers agree the fact that there are differences with the services provided in the state owned banks and in the private owned banks especially in the networking and storing of the customers information as it is now computerized making the information very easy to access.</p>
<p>4. Do you think the differences in 3 above makes the bank more profitable and easier to use?</p> <p>Results: 80% of the customers think that the differences in services offered make it</p>

easier and much more profitable and easy to use and acquire the services especially the ATM card service in which the customer has an access to withdraw of his/her money for 24 hours a day. Also depositing of money is free of charge.

5. Are there any banks apart from National Bank of Commerce/ Standard Chartered bank that you are currently using?

Results: The banks that 45% of the customers use are also privatized such as the CRDB bank though some also still use the state owned banks such as National Microfinance Bank (NMB).

6. For the different services provided by the bank which one did you opt for?

Results: 90% of the customers have opted for the Savings account as it is cheaper.

7. Do you think the services provided by the bank have been improving over the past few years? Why not?

Results: The 45% customers are complaining that there are very long queues of people as there are very few workers. Also the problem on very poor security most of the times though some think that actually the services have been improving and changing according to their demands.

CONCLUSION

Whether the private ownership or the public ownership is more efficient than the other is an open question. I make a conclusion that the process of privatization is both beneficial to a country's economic development but it is not a really good method of improving the economic development of countries especially in the third world countries. Privatization has both benefits to the economy and the citizens. Because of privatization the quantity and quality the services have improved significantly in Tanzania especially in Dar es Salaam where there is a very high demand of banking services due to its various activities.

The privatization of banks increase the profit that is gained by the bank as the number of workers is small the total amount of money spent on their salaries is not as huge as the one for the workers in the nationalized banks where the numbers of workers is really high.

The privatization of banks has led to the improvement of the quality offered to the customers by making them more efficient and off a wide variety also making the services to be easily accessed at any time e.g. the ATM card services and also from the response of the customers where 80% of the customers agree that the difference of privatized bank from the nationalized banks makes the more profitable and easier to use. Also the customers of a privatized bank benefit from the wide variety of choices and better services provided to them and these services provided to the customers are likely to change with regards to the customer's demands or needs which are very unlikely in national owned firms/companies.

Though privatization is beneficial it also cause an increase in the rate of unemployment though a bank like Standard Chartered has been able to employ more than 4000 people in all its networks in Africa, always accompanied corruption and improper use of the money that is gained from the sale of the companies. The government should form some strict policies regarding on the sales of the companies or should form a special institution or committee for privatization.

Thus privatization can be one among the good way of improving the quantity and quality of production of any goods or services and can lead to the development of the economy and even economic growth though it has some of its setbacks which includes retrenching workers from their employments which leads to an increase in unemployment the government should be able to save some grants in order to support these workers financially or should provide them with other employments.

APPENDIX**Sample of the questionnaire to the customers of both Banks {Standard Chartered Bank and National Bank of Microfinance**

1. How long have you been banking in National Bank of Commerce/ Standard Chartered bank?

2. Is this your first Bank or you have been receiving services from other banks? Are they privatized or not?

3. Are there any differences?

4. Do you think the differences in 3 above makes the bank more profitable and easier to use?

5. Are there any banks other than National Bank of Commerce / Standard Chartered bank that you are currently using?

6. For the different services provided by the bank which one did you opt for?

7. Do you think the services provided by the bank have been improving over the past few

years? Why not?

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STANDARD CHARTERED WEBSITE