



BANK *Of* ZAMBIA

**SIGINING EVENT OF THE MOMERANDUM OF
UNDERSTANDING ON CURRENCY CONVERTIBILITY AND
REPATRIATION BETWEEN THE BANK OF TANZANIA AND
THE BANK OF ZAMBIA**

SPEECH BY

**DR. DENNY H. KALYALYA
GOVERNOR – BANK OF ZAMBIA**

FRIDAY, 21ST SEPTEMBER 2018

NAKONDE-TUNDUMA BORDER

SIGNING EVENT OF THE MEMORANDUM OF UNDERSTANDING ON CURRENCY CONVERTIBILITY AND REPATRIATION BETWEEN THE BANK OF ZAMBIA AND THE BANK OF TANZANIA, SPEECH BY DR. DENNY H. KALYALYA, GOVERNOR – BANK OF ZAMBIA – 21 SEPTEMBER 2018

SALUTATIONS

- **Regional Commissioner -Songwe, Brig. General Nicodemus E. Mwangela;**
- **Regional Commissioner - Mbeya, Mr. Albert Chalamatila;**
- **Her Royal Highness, Chiefteness Waitwika;**
- **Permanent Secretary – Muchinga Province, Dr. Jobbicks Kalumba**
- **Governor - Bank of Tanzania, Professor Florens D. A. M. Luoga;**
- **Tanzania High Commissioner to Zambia, Hon. Abdulrahman Kaniki;**
- **Zambian HC to Tanzania, Mr Benson K Chali;**
- **DPS, Muchinga Province;**
- **District Commissioner – Momba, Hon. Juma Saidi Irando;**
- **District Commissioner – Nakonde, Mr. Simwinga;**
- **District Commissioner – Isoka, Mr. Evenwell Mutambo;**
- **District Commissioner – Chinsali, Mr. M. Chitambi;**
- **Hon. Members of Parliament;**
- **Chiefs and Chieftaines;**
- **Mayor – Chinsali District, Mr. Thomas Mutale;**
- **Town Clerk – Chinsali District, Mr. Joseph Zulu;**
- **Religious Leaders;**
- **Deputy Governors;**
- **Tanzania Commissioner General for Immigration, Dr. Anna Peter Makakala;**
- **All Government officials present;**
- **Directors and Senior Officials from the Bank of Tanzania and Bank of Zambia;**
- **Members of the Media;**
- **Distinguished Guests; and**
- **Ladies and Gentlemen.**

It is my honour and privilege to join you this morning at this important signing ceremony of the Memorandum of Understanding (MoU) on Currency Convertibility and Repatriation between the Bank of Tanzania and the Bank of Zambia. The idea of this MoU is not new although it is being actualised now. To those who may not be aware, the establishment of MoUs between central banks is an initiative that was born in the 2000s out of the Meetings of the Committee of Central Bank Governors of the Southern African Development Community (SADC - CCBG). Since then, a number of countries have set up such arrangements with each other. The Bank of Zambia has an MoU with the Bank of Mozambique. Similarly, the Bank of Tanzania has similar arrangements with its neighbours from the East African Community.

Ladies and gentlemen, the genesis of this particular MoU dates back to the period around 2009 - 2010 when the two central banks held their initial conversation on this matter. Unfortunately, the discussions stalled along the way. Most importantly, however, the discussions were re-activated last year in September by the Bank of Tanzania. This followed the 6th Joint Meeting of Permanent Secretaries of Zambia and Tanzania held on April 25, 2016, when our two institutions were asked to work together and resolve the problem of informal foreign exchange activities at this border. Consequently, the two institutions formed a Joint Technical Committee to develop workable solutions to this problem.

Ladies and gentlemen, to come up with this MoU, the Joint Technical Committee held its first meeting on September 11, 2017 at the Bank of Tanzania, Mbeya Branch, where a lot of preparatory work was done, including an on-site visit to the border. The Committee established that informal trading of foreign currencies at this border was widespread, resulting in the proliferation of informal money changers. This is despite the presence of registered financial institutions, which at that time included,

six banks and three bureaux de change in Tunduma and three banks and seven bureaux de change in Nakonde.

The informal trading of foreign currencies is conducted mainly through the Zambian Kwacha, Tanzanian Shilling, and the United States dollar. This is because of inconvertibility between the Zambian Kwacha and the Tanzanian Shilling. Convertibility would therefore only occur via the US dollar using the informal money changers. The exchange rates obtaining among informal money changers are highly volatile due to supply and demand conditions for the US dollar as well as speculative behaviour among informal money changers.

Ladies and gentlemen, this practice has led to the re-emergence of parallel exchange rates, thereby negatively affecting the efficiency of trade at this border. This has also led to a practice where traders and travellers cross the border without declaring foreign currency in their possession. These activities have undermined efforts by the authorities in both countries to enhance tax collection.

Ladies and gentlemen, the Tunduma-Nakonde border is a busy business hub linking major cities of Dar es Salaam, Lusaka, and Lubumbashi. The border handles more than 90 percent of cargo from the port of Dar es Salaam. On average, the value of cargo south-bound through the border is estimated at US\$ 1.5 billion per annum. Over the period 2012-2017, the total value of trade between Tanzania and Zambia going through the border averaged about US\$ 180 million per annum, of which Tanzania recorded trade surpluses for most of the period.

The current practice of informal foreign exchange activities violates foreign exchange regulations of both Tanzania and Zambia and as such needs to be addressed. Stand-

alone measures to mitigate informal currency trading have been instituted by the authorities in both countries. These measures have included sensitization of the business community and consumers on the benefits of transacting using legal tender in each country and using registered financial institutions. However, these interventions have not produced the intended results of eliminating informal currency trading.

Ladies and gentlemen, our two institutions therefore found it necessary to integrate the informal foreign exchange activities into the formal foreign exchange market while safeguarding trade and other income generating activities at the border. This will also complement our strides and efforts in advancing the financial inclusion agenda in our respective countries. The Joint Technical Committee came up with a number of possible solutions to this practice. These include the following:

1. Sensitization of the public on the need to use registered financial institutions;
2. Synchronizing operating hours of registered financial institutions with arrival/departure time of public transportation;
3. Facilitating access to adequate amounts of foreign currency at registered financial institutions;
4. Promoting the use of electronic payments for trade and statutory activities;
and
5. Implementing currency convertibility and repatriation between the Tanzanian Shilling and the Zambian Kwacha.

Most of these recommendations have been and continue to be implemented, cutting across many Government Departments and Agencies in both countries.

Ladies and gentlemen, at the start of this exercise in September 2017, the Bank of Tanzania had already implemented an electronic monitoring system for bureau de change transactions. I am pleased to inform you that the Bank of Zambia has now implemented a similar electronic monitoring system for bureaux de change transactions.

We must recognize the significant benefits offered by digital financial services. I am aware that both countries are making efforts to encourage the use of digital financial services to pay for goods and services. The Bank of Zambia is engaged in various efforts that are aimed at promoting digital financial services, both locally and within the region. Zambia, being a member of the SADC, supports regional initiatives to promote integrated payment arrangements, such as the use of the SADC Real Time Gross Settlement System(RTGS) platform. The SADC RTGS platform promotes investment and trade as well as digital financial services in the region. It is my hope that our two countries will soon be able to do business via the SADC RTGS platform.

Ladies and gentlemen, both Tanzania and Zambia have recorded significant increases in the adoption and usage of mobile money. Given the increased access to mobile phones by our citizens, mobile money has presented itself as a game changer for increasing financial inclusion in our countries. However, we are cognisant of the fact that even with the growth of electronic payment platforms, cash continues to be a significant form of making payments. The use of cash therefore poses the risk of counterfeiting, which we must guard against. Let us know our bank notes.

You may wish to note that both the Bank of Tanzania and the Bank of Zambia continuously make efforts to enhance the security features of our respective banknotes. The Bank of Zambia will this year introduce banknotes with enhanced security features. The Bank will therefore conduct currency awareness exercises aimed at sensitizing members of the public on both sides of the border on currency matters and security features

Ladies and gentlemen, with this Memorandum of Understanding that we will be signing this morning, it is our expectation that our currencies will restore their functions for store of value and medium of exchange, with transactions being channelled through registered financial institutions. This MoU will allow those who undertake economic activities in common border areas to make payments for goods and services originating from either country using the currency of each respective home country. In addition, it will establish formal procedures for the repatriation of each other's currency.

It is our hope that this MoU will provide a longstanding solution to informal foreign exchange activities and contribute to financial sector development in our two countries. It is also expected to reduce transaction costs associated with foreign exchange trading through the US dollar. This will in turn enhance trade between our two countries.

Let me end by congratulating our two institutions for undertaking this initiative. I wish to extend my appreciation to the Joint Technical Committee for their commendable work leading to the signing of this MoU.

I urge all stakeholders – traders, travellers, and registered financial institutions from both Tanzania and Zambia – to utilise this arrangement and ensure that trade between the two countries flourishes

I thank you and God bless!