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Microfinance Regulation in Tanzania:

Implications for Development and Performance of the Industry

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Abstract

This study of microfinance in Tanzania looks at how the overall regulatory framework affects the ability of microfinance institutions (MFIs) to become more market-oriented and integrated with the formal financial system, and the set of incentives (or disincentives) for licensed financial intermediaries to move down market to provide financial services for the poor. The study identifies global best practices which might be adapted to the local context, and incorporated in operational support programs to institutional providers of microfinance services such that they are better able to provide their clients expanded access to financial services.

The financial sector reforms set in motion a decade ago included liberalizing interest rates, eliminating administrative credit allocation, strengthening Bank of Tanzania's role in regulating and supervising financial institutions, restructuring state-owned financial institutions, and allowing entry of private banks into the market. Despite progress in the financial reforms, access by large segments of the rural and urban population to financial services has remained stunted. Government, in collaboration with the donor community, acted to facilitate microfinance development -- initiating a microfinance policy formulation process in 1996 with a nation-wide demand study, and the drafting of a National Microfinance Policy document. The Policy was discussed at a stakeholder meeting in May 1999, and gained approval in February 2001. The Policy articulates the vision and strategy for the development of a sustainable microfinance industry as an integral part of the financial sector, specifying the respective roles of the key stakeholders – the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services, and the donor community.

Tanzania has a tiered but relatively new and shallow financial sector, consisting of 20 licensed banks and 11 non-bank financial institutions, and a 17.5% degree of monetization. Most bank branches are concentrated in Dar es Salaam, and only a few have a countrywide network that could be linked to the provision of microfinance services. Three commercial banks have entered into microfinance. The limited-license regional and rural banks are the only banks with head offices located outside Dar es Salaam, but none of these have branch offices and thus have limited outreach to microfinance clients in spite of the lower minimum capitalization required for the banking tier.

Thus, the principal providers of microfinance services are Savings and Credit Cooperatives (SACCOs) and several foreign donor-assisted NGOs. They have preceded the establishment of a microfinance-specific regulatory framework, operating in spite of significant difficulties in several key areas of limited access to external funds and the lack of skilled manpower with banking and financial competence. The regulatory frameworks for microfinance institutions (MFIs) and cooperative financial institutions (CFIs) are still in process of being enacted into pertinent laws and corresponding implementing regulations. There is need for a clearly defined strategy on how to integrate SACCOs and NGOs into the emerging microfinance regulatory framework, and what policy environment, resource and capacity requirements will be required not only by the institutions but also by the regulatory bodies. The gap between requirements for and the supply of manpower with financial skills for banking and microfinance operations is becoming increasingly more apparent as a major constraint to development of sustainable microfinance. Capacity constraints are a major issue, not only for providers of banking and microfinance services, but also for the regulatory agencies (BOT and the Cooperatives regulator. It is also important to understand why, in spite of the lower minimum capital requirements for special-license community banks, none of the larger microfinance organizations have taken steps toward transformation to licensed status.

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Foreword

This country study is one of three being published as part of research on the implications of legal and regulatory structures for the development of microfinance institutions in African countries. This research is a collaborative effort between the World Bank's Financial Sector Operations and Policy Department and the Financial and Private Sector Units of the Africa Region, with funding from the Financial Sector Board and Africa Regional Programs. The published country studies on Benin, Ghana, and Tanzania, together with work on Ethiopia, South Africa, Uganda, and Zambia in Africa, as well as experiences drawn from other regions, will form the basis for a comparative review intended to provide practical lessons and guidance to policymakers and donor agencies on how the structure of legal and regulatory systems may affect (and in turn be influenced by) the evolution of microfinance institutions in different country contexts.

Increasing the access of the poor to sustainable financial services is an important part of the World Bank Africa Region's strategy for supporting the Millenium Development Goals for poverty reduction. Convenient and affordable instruments for savings, credit, insurance, and payment transfers are essential both to cope with the economic fluctuations and risks that make the poor especially vulnerable and to take advantage of opportunities to acquire productive assets and skills that can generate increased income. Microfinance is the application of innovative methodologies that make such financial services available to relatively poor households and microenterprises in small transactions suited to their conditions. Innovative microfinance institutions have had substantial success in making financial services accessible to the poor in many parts of the world, and microfinance is increasingly provided through licensed, commercial financial institutions capable of mobilizing the funds necessary to significantly increase the scale of outreach.

The microfinance sector has evolved and developed according to different patterns and growth paths in various countries and regions. The literature on microfinance identifies the legal and regulatory framework as one factor that influences the emergence of different kinds of institutional providers of microfinance and, especially, their development into self-sustaining, commercial microfinance institutions capable of reaching growing numbers of poor clients, especially in rural areas. These country studies provide an assessment of how the legal and regulatory framework influences the microfinance sector and the benefits and risks of different approaches, providing important lessons for other countries that may be going through a similar process of establishing or modifying the legal and regulatory framework for microfinance.

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List of Abbreviations and Acronyms

AfDB	African Development Bank
AMINA	AfDB Development Fund Microfinance Initiative for Africa
BAFIA 1995	Banking and Financial Institutions Act, 1995
BOT	Bank of Tanzania
BSD	Banking and Supervision Directorate, Bank of Tanzania
CAMEL	Capital adequacy, Asset quality, Management, Earnings and Liquidity measurements
CAS	Country Assistance Strategy
CBO	Community-Based Organization
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency
COASCO	Cooperative Audit and Supervision Corporation
CREW	Credit Activities for Women, an agency of the United Republic of Tanzania
DANIDA	Danish International Development Assistance
DfID	Department for International Development (United Kingdom)
EU	European Union
FIDPII	Financial Sector Project II (World Bank project)
GTZ	German Agency for Technical Cooperation
ICA-ROECSA	International Co-operative Alliance – Regional Office for East, Central and Southern Africa
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LIL	Learning and Innovation Loan (a World Bank product)
MCM	Ministry of Cooperatives and Marketing, United Republic of Tanzania
MEDA	Mennonite Economic Development Association, an international NGO
MFI	Micro Finance Institution
MOF	Ministry of Finance, United Republic of Tanzania
NGO	Non-Governmental Organization
NMB	National Microfinance Bank
PRSP	Poverty Reduction Strategy Paper
PTF	Presidential Trust Fund, a Tanzanian NGO
RMFSP	Rural and Micro Financial Services Project (World Bank project)
SACA	Savings and Credit Association
SACCO	Savings and Credit Cooperative Society
SCCULT	Savings and Credit Cooperative Union League of Tanzania
SEDO	Small Enterprise Development Agency, an agency of the United Republic of Tanzania
SELFINA	Sero Leasing and Finance Corporation
SIDA	Swedish International Development Agency
SIDO	Small Industrial Development Organization
TAMFI	Tanzania Association of Micro Finance Institutions
TFC	Tanzania Federation of Co-Operatives
TPB	Tanzania Postal Bank
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
YOSEFO	Youth Self-Employment Foundation, a Tanzanian NGO

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I. Objectives and Background for the Study

This country study for Tanzania has two main objectives. The first objective is to analyze and evaluate (a) how financial laws and regulations affect the ability of microfinance institutions (MFIs) to become more commercial and integrated with the country's formal financial system, and (b) the incentives (or disincentives) for licensed financial intermediaries to move "down market" into microfinance. The analysis is expected to provide basic information on how global practices have been adapted to the local context and what innovations could be incorporated in operational support programs to improve the licensing, regulation and supervision of MFIs.

The second objective is to assess how business, commercial and tax laws and systems have affected contract enforcement and creation of security interest in collateral, the processes for asset transfer, and how these, in turn have impacted the operation of micro and small enterprises (MSEs) that are clients of MFIs.

Organization of the Country Study. Section II provides a discussion of the key institutional providers of microfinance services and other important stakeholders such as the donor agencies in Tanzania, and highlights the principal organizational, operational and market segment characteristics as well as product/service offerings of each category of institutional provider. Section III presents a detailed summary and assessment of the licensing and regulatory framework for microfinance, including the measures and mechanisms used by the regulatory agencies and authorities in carrying out their prudential regulation and supervision responsibilities. The section includes a discussion of the main features of the Tanzanian environment for business transactions and contract enforcement. Section IV discusses the impact of regulation on the development and evolution of microfinance in Tanzania, synthesizes the main features of the vision and strategy for developing sustainable microfinance, considerations on the institutional capacity, and status of efforts to put in place an appropriate regulatory framework for microfinance. Section V concludes with a discussion of the key outstanding issues for microfinance to become sustainable, and the next steps for the World Bank to take.

A. Introduction

The Government of Tanzania embarked on financial sector reforms in 1991, in order to create an effective and efficient financial system. The lynchpin of the reforms consisted in the Government's commitment to permit banking institutions to operate on a commercial basis, making their business and management decisions free from outside intervention within the norms of prudential supervision. The principal elements of the financial sector reforms included liberalization of interest rates, elimination of administrative credit allocation, strengthening the Bank of Tanzania's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing the entry of local and private banks into the market. These elements of the financial sector reform were embodied in the Banking and Financial Institutions Act of 1991. The Cooperative Societies Act of 1991 provided the basis for the development of Savings and Credit Cooperative Societies (SACCOs) as privately-owned and –organized equity-based institutions.

Despite the progress being achieved in the mainstream banking system, financial services to the poor and low income households in the rural and urban areas have been slow to develop and the access of these large segments of the population to financial services has remained stunted. Government realized that in order to have an efficient and effective financial system, additional focus must be placed on the expansion of financial services to the low-income segment of the population, and that the microfinance sector must be an integral part of the country's financial system. Recognizing the widening institutional gap the Government, in collaboration with the donor community, took action to facilitate the development of the microfinance industry. One of the important actions was initiating the microfinance policy formulation process in 1996 with a nation-wide demand study on rural and microfinance.

A draft National Microfinance Policy document that was the subject of discussions at a stakeholder meeting in May 1999 was submitted to Government for approval, which finally came in February 2001. The National Microfinance Policy articulates a clear vision and strategy for the development of a sustainable microfinance industry, specifying the respective roles of the key stakeholders – the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services, and the donor community. In its statement of the overall microfinance policy, the Government recognizes the microfinance sector as an integral part of the financial sector, which falls within the general framework of its Financial Sector Reform Policy Statement of 1991.[1]

B. Macroeconomic and Policy Context [2]

Structural transformation in Tanzania has been notably limited, and achievements relative to expectations have been marginal. Agriculture still dominates the economy: the share of agriculture (45%), exports (75%) and employment (80%) are lower than levels at independence but higher than in most developing countries. Nonetheless the nondiversified economy hampers the flexibility to withstand shocks when they occur. A striking feature of the Tanzanian growth experience is that when the respective growth trends for key variables are placed side by side, investment and growth hardly seem to correlate. The main factors behind the slow progress in Tanzania's development are primarily inadequate capital accumulation and productivity growth, poor support for the transformation of agriculture, disrupted progress in building human capital, and delayed demographic transition. Gross domestic investment increased from 13 % of GDP in 1964 to 30 % in 1991, then declined sharply to 18 % in 1997. There were significant losses in investment productivity during the 1970s ands early 1980s, reducing the economy-wide rate of return from nearly 30% in the 1970s to nearly 5% in the mid-1980s.

After four decades of independence Tanzania remains one of the 10 poorest countries in the world. Its per capita GDP of US$267 is low, and far less than the averages for Sub-Saharan Africa and East Asia of US$500 and US$970 respectively. Poverty remains widespread and deep, with half of Tanzanians living under conditions of deprivation. Poverty is concentrated in the rural areas where approximately 70 % of Tanzanians live. The main features of the macroeconomic and policy context for poverty and microfinance are summarized in Box 1 after.

1 "National Microfinance Policy", Ministry of Finance, United Republic of Tanzania, May 2000.

2 "Tanzania at the Turn of the Century", World Bank Country Study, April 2001

Box 1: Macroeconomic and Policy Environment

Population, in millions (2000)	33.82 million
Annual growth rate, in percentage	2.61 %
Urban / Rural distribution in percentages	24 % / 76 %
Gross Domestic Product: Tsh. Billion, at current market prices, 2000	Tsh. 7,981.3
US$ equivalent, in billions	US$ 9.0
GDP per capita, in US$	US$ 267
Gross Domestic Savings per capita, in US$ (1998)	US$ 15.26
Poverty: Poverty line	Tsh. 114,187
Percentage of poor households living in rural areas (1999)	92 %
Percentage of households below the poverty line (1991)	51.1%

However, it is worthwhile to note that significant progress has been and continues to be made in the macroeconomic and structural reform program of the government. Especially over the past five years the Government has intensified macroeconomic policy reforms aimed at creating a more stable macroeconomic environment. The Government pursued these reforms with the understanding that macroeconomic stability was indispensable in achieving sustained growth which, in turn is required for reducing the pervasive poverty in the country. The development of an environment of macroeconomic stability has proceeded in lock-step with reorienting the economy to market-based operation and creating space for exploiting the large potential of private sector initiative. Further improvement in the policy environment and a market-friendly institutional framework are critical to scaling up growth and reducing poverty to a significant extent.

Poverty in Tanzania is mainly a rural phenomenon because rural households comprise some 92% of the poor, and rural villages generally lack financial services. As reported in the 1997 World Bank Participatory Poverty Assessment, in Tanzania's rural villages, savings meant putting aside something for emergencies, or for major or special expenses. The survey found that the idea of savings seemed to be widespread and well understood to "help overcome the bad times in a difficult life." If microfinance is to perform its function as one (but not the only) tool in a poverty reduction program, the role of savings and credit in rural village communities – as well as village households' perception of the financial services – need to be clearly understood by providers of microfinance services. The survey addressed several questions, including: (i) what is the prevalence of informal and formal savings and credit institutions?, (ii) what are the preferred attributes of savings and credit institutions?, (iii) how are they used and by whom?, (iv) are there any gender differences, and (v) where are surplus resources saved.

The survey respondents' answers to the last question are quite revealing: (i) buy cattle ("walking bank"), or goats and sheep ("liquid cash"), (ii) buy and keep surplus grain, (iii) keep money in the house, (iv) keep with an *upatu* [3] [a village-based rotating savings and credit association], or (v) with a branch of Postal Bank, CRDB, NMB. The principal barriers to the use of savings bank facilities by rural village households as reported by the survey consisted of high opening and minimum account balances, travel time and transport costs involved in making deposits and withdrawals at the bank branch (in town or market center), and lack of familiarity with bank branch operations and procedures.[4]

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[3] According to the survey report, *upatu* was the most prevalent method of savings and credit in 26 % of the villages, and mostly by women. The usage of *upatu* was most common is the Mtwara, Coast, Tanga, Mara, Mwanza and Kagera regions. *Upatu* involve 10 – 20 members who know and trust each other, in a rotating savings and credit association.

[4] *Voices of the Poor: Poverty and Social Capital in Tanzania*. Deepa Narayan, Environmentally and Socially Sustainable Development Studies and Monographs Series, #20. Washington, D.C.

II. The Microfinance Industry

A. Institutional Providers of Microfinance Services

The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks; savings and credit cooperative societies; and several NGOs whose micro-credit delivery operations are funded and supported with technical assistance by international donors. Table 1 in the page following presents a quick overview of the principal providers of microfinance services in Tanzania, by institutional category

Regulated and Supervised Institutional Providers

Tanzania has 17 commercial banks, 10 non-bank financial institutions, one regional bank and 2 rural unit banks which are subject to licensing, regulation and supervision by the Bank of Tanzania under the provisions of the Bank of Tanzania Act (1995), Banking and Financial Institutions Act (1991), Foreign Exchange Act (1992). The licensed and supervised institutions are also subject to the regulatory guidelines issued by Bank of Tanzania such as the Banking and Financial Institutions Regulations (1997), Bureau de Change Regulations (1996), Foreign Exchange Regulation (1996), and various guidelines specifying mandatory prudential standards to be complied with regarding management of risk assets, capital adequacy and concentration of credit and exposure limits.

Commercial Banks are, like the other institutional providers of microfinance services, fairly new to microfinance compared to other countries in Asia and Latin America, and even to some other countries in Africa. The three commercial banks which have financial services and products aimed at the poor and low income households are (a) National Microfinance Bank, a government-owned bank being prepared for privatization, (b) CRDB Bank, which had been restructured and re-capitalized from the former Cooperative and Rural Development Bank, and (c) Akiba Commercial Bank. The Postal Bank, a licensed state-owned non-bank financial institution, provides a variety of savings deposit services nationwide.

National Microfinance Bank (NMB), together with NBC (1997) Ltd. were created from the restructuring of the National Bank of Commerce which held a monopoly in commercial banking until 1984. NMB has a fairly large base of savings and time deposits: about Tsh 70 billion (US$87.5 million) outstanding savings deposits from 670,000 accounts as of end-1999. [5] The average savings deposit balance is about Tsh 105,000 or US$130 per account. Available data do not provide information about the income-level characteristics of the depositors, so it is difficult to make reasonably accurate inferences about the portion of this customer and deposit base that is rural or from the poor and low-income household segments who are the target clients for microfinance. The arithmetic average of US$130 per account is roughly one-half the level of GDP per capita and 8.5 times the level of Domestic Savings per capita, as of 2000. NMB's microfinance operations presently consist of 5,072 microfinance loans disbursed (since August 2000) with 2,810 loans outstanding to individuals in 17 branches and offices as of end 2001. The microfinance loan portfolio outstanding as of end-2001 is Tsh 907.5 million (average of Tsh. 323,000 per account) against a total of Tsh 2,302 million (average of Tsh. 454,000 per account) in cumulative disbursements. The self-reported portfolio at risk is 2.1% overall. The average loan amount is

[5] Source: "Rural Savings and Credit Cooperative Societies in Tanzania", Report of a Survey carried out by ICA-RECSA for the Bank of Tanzania and several Donor agencies, March 2001 (Draft).

comparable to the loan profile for Akiba and MEDA, while the average deposit amount is 65% of the average member deposit of urban SACCOs.

NMB's immediate plans are to add 16 more branches and offices that can offer microfinance services, which will require sensitizing branch management and staff and having at least one specialized microfinance officer in the branch. With its network of 104 branches and agencies NMB has a physical presence in almost every District and Regional center. The government-approved restructuring program for NMB precluded any new lending – until recently when NMB was permitted to take a strategic stake in the syndicated corporate loan for Kilombero Sugar Company. NMB's strategy is to link the large corporate customer such as Kilombero to microfinance loan customers such as the sugar cane out-growers, and to be able to sell more financial services such as payroll and money transfer services. NMB believes the Kilombero strategy can be replicated to its advantage in the case of two other large corporate customers such as Tanzania Breweries Limited and Coca Cola, which depend on micro and small enterprises to distribute their products. NMB sees opportunities to expand its microfinance market by providing (a) loans to micro and small enterprises for the purchase and inventory and supply of goods, (b) collection and payment services to large corporate clients to/from micro and small enterprises, and (c) add-on services such as money transfers and payroll services to both the large corporate clients and micro and small enterprises.

CRDB (1996) Ltd. is one of the oldest banking institutions in Tanzania, beginning its corporate life as Tanzania Rural Development Bank, changing into the Cooperative and Rural Development Bank and then CRDB (1995) and finally into CRDB (1996) Ltd. It has also gone through a number of changes with respect to the banking services offered. Despite its name, CRDB is not a cooperative financial institution, nor does it provide specialized services solely for cooperatives, even though some cooperative organizations are still significant shareholders. CRDB remains a privately-owned financial institution with the Danish International Development Agency (DANIDA) as one of its single largest share-holders. CRDB has a fairly large network of branches and offices – 22 branches and 2 agencies, of which 5 are in Dar es Salaam – which provides banking services to all types of businesses including both the rural-based and urban-based SACCOs.

CRDB's microfinance operations are carried out through a specialized, dedicated Micro-finance Department which is funded by DANIDA and supported by it with technical assistance. The microfinance program at CRDB is fairly new; it is being piloted in four branches where one microfinance officer is based at each branch, and the microfinance officers are coordinated by a microfinance manager at head office. The strategic mission for the microfinance department is to identify and develop banking relationships with a wide range of MFIs at the branch level; most likely the SACCOs will constitute the single largest type of MFI that will be covered by the program. With the sub-wholesaler approach to providing microfinance services CRDB expects to incur an operating and transaction cost profile comparatively lower than what might encountered in making loans directly to small individual borrowers. CRDB also expects the indirect approach to also control credit risks better as loans will be to SACCOs rather than individual micro and small enterprise borrowers. The resulting demands on the technical skills and training requirements of the microfinance officers will be different because they will be assessing and monitoring the operations and ongoing financial results of institutional entities, rather than individual persons or businesses. CRDB's approach to cultivating a market niche in microfinance deserves closer examination, with respect to two factors. First, as the principal determinant for financial sustainability of SACCOs is the mobilization and intermediation of share capital and deposits from members, access to on-lending funds from an external source like CRDB will serve to blunt a core principle of cooperative self-reliance. A second important consideration is whether, and to what extent the relative financial

health or weakness of SACCOs as an institutional group might have an adverse impact on CRDB's own financial strength.

Akiba Commercial Bank is a relatively new bank which began operations in 1997. Private investors own 47% of the bank, with 31% owned by foreign investors and 22.6% owned by public investment institutions such as Tanzania Development Finance Ltd, National Insurance Corp. and Presidential Pension Fund. Its original mission of specializing in providing financial services to small and medium-size enterprises met stiff competition, and changed in August 1999 to providing a range of banking and financial services to micro and small businesses on a commercial basis. Akiba currently has 3 branches – all in Dar es Salaam. Its microfinance loan offerings include:

- Group Microfinance Loans, from Tsh 50,000 – 100,000
- Individual Microfinance Loans, from Tsh 100,000 – 5.0 million
- Small Business Loans, from Tsh 5.0 million – 10.0 million
- Loans to SACCOs

Table 1: Institutional Providers of Microfinance Services

Type / Name of Institution	Microfinance Products Offered	Market/Area of Operation	Basis for Status as Legal Entity	Main Source of Funds
Registered but Unregulated and Unsupervised Providers of Microfinance Services (Other People's Money)				
FINANCIAL NGOS				
Solidarity/Group-based microfinance loans, such as: Presidential Trust Fund, Poverty Africa, YOSEFO*, PRIDE Tanzania*, CREW, SIDO*, SELFINA*, FINCA	Mandatory savings (except those marked *) & group-based loans	Urban and peri-urban areas; selected rural areas	Societies Act; Trust	Donor funds
Individual microfinance loans, such as: SIDO*, Tanzania Gatsby Trust*, Mennonite Economic Development Association*, Poverty Africa	Mandatory savings (except those marked *) & individual loans	Urban and peri-urban areas	Societies Act ; Trust	Donor funds
VILLAGE SAVINGS & CREDIT ASSOCIATIONS (SACAS)	Individual savings & group-based loans	Rural villages	Societies Act, Ministry of Home Affairs	Donor grants
Registered and Regulated Providers of Microfinance Services (Members' Money)				
SAVINGS & CREDIT COOPERATIVE SOCIETIES				
Urban SACCOs 251 Registered SACCOs	Member loans only	Urban areas	Cooperative Societies Act	Share capital, loans, grants
Rural SACCOs 395 Registered SACCOs	Member savings deposits & loans	Rural areas	Cooperative Societies Act	Share capital, loans, grants
Other (savings-based) SACCOs Number not available	Voluntary savings and withdrawals only	Rural and Urban areas	Cooperative Societies Act	Share capital, loans, grants
Regulated and Licensed Providers of Microfinance Services (The Public's Money)				
COMMERCIAL BANKS				
National Microfinance Bank	Savings deposits	Nationwide	Act of Parliament	Deposits/capital
Akiba Commercial Bank	Savings deposits; Group and individual microenterprise loans	Nationwide	Companies' Act;	Deposits/capital
CRDB Bank	Newly-organized microfinance dept.	Nationwide	Companies' Act;	DANIDA
Tanzania Postal Bank (Licensed as NBFI)	Savings/Fixed deposits	Nationwide	Act of Parliament	Deposits/capital
REGIONAL BANKS				
Kilimanjaro Cooperative Bank	Savings deposits and micro loans	Kilimanjaro Region	Companies' Act; BoT	Deposits/capital from regional SACCO Union and SACCOs
RURAL UNIT BANKS				
Mufindi Community Bank	Savings deposits and micro loans	Mufindi District, Iringa Region	Companies' Act; BoT	Deposits/capital
Mwanga Rural Community Bank	Savings deposits and micro loans	Pare District, Kilimanjaro	Companies' Act; BoT	Deposits/capital

Table constructed by authors from data and information culled from reports and publications and gathered on mission.

Tanzania Postal Bank was created by an Act of Parliament in 1991 to replace the Tanganyika Post Office Savings Bank, and commenced operations in 1992 as a non-bank financial institution licensed by Bank of Tanzania. TPB's main objective has been to mobilize local savings and promote the savings habit among small-scale savers, particularly individuals. As of the end of 2000, it had a network of 4 branches and 15 operating units based in the larger post offices. It provides savings deposit services in all post offices throughout the country, through ordinary savings service passbooks and domicile-quick accounts. TPB is restricted from carrying out new lending, due to high levels of provisioning for delinquent loans. The TPB experience at this stage is similar to that of postal banks in other countries in Africa and elsewhere – the institutions are able to take advantage of their widespread presence in carrying on the traditional business of accepting and safekeeping of savings deposits. However, physical presence alone is not sufficient for carrying out micro-credit business; the postal system does not have, and it would probably be too costly for the entity to acquire the specialized technical staff skills and information and operating systems required to conduct micro-credit business.

Regional Banks and Rural Unit Banks comprise the other institutional providers of micro-finance services which are licensed and supervised by Bank of Tanzania as specialized community banks. Kilimanjaro Cooperative Bank was established in 1997 with marketing cooperatives and SACCOs as primary shareholders and with Rabobank of the Netherlands providing technical assistance. There are 2 licensed and supervised Rural Unit Banks – consisting of Mufindi Community Bank, and Mwanga Rural Community Bank. There are reportedly other rural community banks in the process of being organized and of the initial minimum capital requirement (Tsh 50 million) being raised, but not much additional information is available on these other efforts, except that the capital being saved up and accumulated has been dissipated and reduced.

Other Institutional Providers Not Subject to Prudential Regulation

Tanzania has two categories of institutional providers of microfinance which are not subject to prudential regulation – the Savings and Credit Cooperative Societies (SACCOs) and the financial Non-Governmental Organizations (NGOs). These two categories of institutional providers of microfinance services pre-date the entry of commercial banks into microfinance. The number of SACCOs, their outreach to members and clients, resources generated from members in terms of share capital and savings, and the volume of loans outstanding to member-borrowers far exceed those for the financial NGOs.

SACCOs Available data as of January 2001 indicate a total number about 646 registered societies, of which some 60% or 395 can be classified as rural SACCOs and 40% or 251 as urban SACCOs (mostly wage-based membership). [6] The total membership base is some 130,000 with urban SACCOs accounting for 47,000 and rural SACCOs having some 83,000 members. Total members' funds amounted to the equivalent of US$ 17 million, consisting of US$6.5 million in members' shares and US$ 10.5 million in members' deposits. The bulk of members' shares came from the urban SACCOs (US$4.7 million), as did members' deposits (US$9.4 million). To place these savings and share capital amounts in perspective, rural SACCOs had an average of Tsh 27,500 (US$34) in shares and deposits per member; average deposits per member came to US$14. The profile for urban SACCOs presents a stark contrast – average shares and deposits per member were

[6] This total number of societies is not firm, inasmuch as data for some regions is acknowledged in the ICA-ROECSA Report to have been excluded. Other sources show a total number of societies in excess of 900, but this number very likely includes rural savings and credit schemes (a carry over from earlier rural credit policy regimes) which are reportedly small in membership and size and which have yet to register formally as SACCOs under the current law and regulations on cooperatives.

almost 10 times larger at Tsh 240,000 or US$300, of which average deposits per member amounted to Tsh 160,000 or US$200. This result is not surprising since the membership base of urban SACCOs generally consists of wage- and salary-earners, while rural SACCOs are more likely to have self-employed farmers and smallholder agriculture producers as their membership base. The total of members' loans outstanding was equivalent to about 75% of members' deposits, which underscores the principle of self-reliance that characterizes the financial cooperative movement worldwide.

NGOs. A significant number of NGOs provide microfinance services to the poor and low income households in Tanzania. None of the NGOs are subject to any regulation with respect to the micro credit and financing activities they carry out. The microfinance NGOs are registered legal entities, either as companies limited by guarantee (i.e., non-stock companies) under the provisions of the Companies Act, or as Societies under the provisions of the Societies Ordinance or as Trusts under the provisions of the Trustees Incorporation Ordinance. Two of the largest microfinance NGOs in terms of outreach and client base are the Mennonite Economic Development Association (MEDA) which utilizes the individual lending methodology in catering to about 4,000 microentrepreneurs, and PRIDE-Tanzania (affiliated with the Kenya-based PRIDE Africa) which uses solidarity or group-based lending methodology. One government program, the Presidential Trust Fund (PTF), had been privatized and has been operating as a microfinance NGO. A summary profile of selected NGOs (differentiated by their respective credit methodologies) is shown in Table 2.

Table 2: Profile of Selected Microfinance NGOs

	PTF	MEDA	PRIDE
Area of Operation	Dar es Salaam, Coast, Morogoro Regions	Dar es Salaam, Mbeya Regions	Nationwide (except for 4 Regions)
Number of Offices	5 branches	15 offices in 2 branches (Dar es Salaam, Mbeya)	22 branches
Credit Methodology	Group-based loans	Individual loans	Group-based loans
Microfinance Products	▪ 9-month loans with compulsory savings ▪ Swisscontact credit project in Morogoro – traders associations ▪ Hannasif community-based credit project	8 – 10 month loans with compulsory savings (20% of loan amount as security)	Loans with 6-month to 2-year maturity. Repeat loans thru several cycles, following PRIDE model pioneered in Kenya. Has built up Loan Insurance Fund.
Size of Loans Offered	Data/Info not available	Tsh 250,000 – 3.5 million	Data/Info not available
Target Clients	Youth and women (93%)	Individual owners of micro and small businesses	Owners of micro enterprises/businesses. 80% of client base women
Outreach	Approx. 8,000 clients	Approx. 4,000 clients	**???**
Operational Self-Sufficiency (Self-reported)	124 %	110 % operational; 107 % financial self-sufficiency	96 %
Primary Donor Supporter	AMINA, ADF, SIDA, DFiD	CIDA, DANIDA, Belgian Co-operation, USAID	NORAD, SIDA, PRIDE-Africa

There are also at least two government/public sector institutions involved in microfinance – Small Industries Development Organization (SIDO) and Credit Activities for Women (CREW) Tanzania. The principal characteristics of the microfinance NGOs are summarized in Box 2 below.

Box 2 Characteristics of Microfinance NGOs in Tanzania

- NGOs fall into two categories, based on the microlending methodology employed: (i) individual lending, and (ii) solidarity or group-based lending.
- Operations generally centered around regions selected by the institutions or their donor-supporters.
- None of the NGOs take voluntary savings; some take mandatory savings as security for microloans extended.
- All are dependent on donor support for loan capital and technical assistance in operations.
- None of the microfinance NGOs have entered the threshold for full financial self-sufficiency. MEDA claims full financial self-sufficiency at just over 100%. While a handful may have reached or are on the verge of achieving operational self-sufficiency it is difficult to estimate how many of the microfinance NGOs will survive as financially self-sufficient institutions as donor funding and technical support become less readily available.

An umbrella organization for microfinance has recently been organized and established with considerable support from various international donors, the Tanzania Association of Micro Finance Institutions (TAMFI). The objectives set out for TAMFI – to serve as a central unifying force for the development and expansion of a range of institutions providing financial services to the poor and low-income households, and to be the principal private sector advocacy group for the microfinance industry – are fairly straightforward, and resemble those for similar network organizations that have been set up in other countries in Africa, such as the Ghana Microfinance Institutions Network (GHAMFIN). Having been set up formally and registered only recently, TAMFI and is not yet fully-staffed and operational. As TAMFI makes progress in staffing and operations, and becomes more active, it will be interesting to observe whether and how the more numerous institutional providers of microfinance services -- the SACCOs and their own network organization, the Savings and Credit Cooperative Union League of Tanzania (SCCULT) will become an integral part of TAMFI.

B. Donor Funding and Technical Assistance to Providers of Microfinance Services

The international donor agencies provide not only substantial financial resources to serve as loan and investment capital for microfinance NGOs but, even more importantly, technical assistance for staff capacity building and technology transfer of regional and global best practice in microfinance to an even broader range of institutional providers of microfinance services. In this context they comprise a significant and influential stakeholder group in Tanzanian microfinance.

The list of recipients include Bank of Tanzania, the High Court and Commercial Court, The Ministry of Cooperatives and Marketing, the 2nd-tier and 3rd-tier organizations for cooperative societies as well as the primary SACCOs, the commercial banks – NMB, CRDB, Akiba and Tanzania Postal Bank which have involved themselves in microfinance as a service/product line, the regional and rural unit banks providing microfinance services such as Kilimanjaro Cooperative Bank, Mufindi Community Bank and Mwanza Rural Community Bank, as well as the numerous microfinance NGOs including the newly established NGO network organization – Tanzania Association of Microfinance Institutions. Appendix Schedule B summarizes the activities and programs of various donors.

An important item that needs to be properly recognized by the Tanzanian microfinance industry is that continued reliance and dependence on donor funds and assistance is not viable, and that this particular resource is more likely to dwindle down and be exhausted at an earlier period rather than later. While it may be true that, in a comparative sense, microfinance under private initiative is a relatively new development in Tanzania (in comparison to other countries), it may be prudent for the different stakeholders in the private sector, in government and among the donor

community to take on a sense of urgency with respect to putting into action the different components that are available to place microfinance development on a sustainable path. For instance, advisers and consultants can assist in the construction and crafting of a legal and regulatory framework for microfinance but the primary responsibility for understanding the requirements and incorporating these into the design of the framework must belong to local stakeholders, and cannot be assigned to advisers and consultants.

Given the large number of international donors and their microfinance-oriented programs and projects, the Canadian International Development Agency was asked to take the lead in monitoring and coordinating donor programs and projects. Establishing effective coordination will be good, not only for the international donors but for the several microfinance institutions themselves. Without coordinated efforts, there will continue to be instances of NGOs changing and shifting their focus so as to fit donors' goals, and of scarce resources becoming less productive.

C. Commercialization of Microfinance

Tanzania has a tiered structure of licensed and prudentially regulated and supervised financial institutions through different entry requirements in terms of required minimum capitalization, which are differentially applied to regular commercial banks, regional banks, rural unit banks and non-bank financial institutions. The tiered structure makes it possible for non-regulated institutional providers of microfinance services, e.g., MEDA, PTF or PRIDE, to become formally-licensed and prudentially regulated financial institutions if their organizers were to determine that taking the transformation approach is necessary for growth and expansion on a sustainable basis. Transformation into a licensed and prudentially regulated institution is one approach to commercializing microfinance, and the other approach is for licensed commercial and other specialized banks to focus all or part of their operations on financing micro and small enterprises.

The microfinance commercialization experience in Tanzania thus far has consisted of the establishment of a microfinance-oriented commercial bank (National Microfinance Bank) from the restructuring and re-capitalization of a government-owned commercial bank (National Commercial Bank). Another restructured and re-capitalized privately-owned commercial bank (CRDB) entered the microfinance market using an approach that differs from that of NMB – becoming a sub-wholesaler to down-market based microfinance institutions such as SACCOs which have the direct and primary relationship with individual owners of micro enterprises, small businesses and agriculture-based production units. A third commercial bank, Akiba, has decided to re-focus its business thrust towards microfinance, and is gearing up to provide microfinance banking services to individuals and group-based microfinance clients, to microfinance institutions such as SACCOs and NGOs, and to small businesses as key features of its redefined corporate thrust. A state-owned non-bank financial institution, Tanzania Postal Bank emphasizes the mobilization of savings and servicing deposit requirements of low-income and poor rural and urban households in Tanzania, providing payment transfer and remittance services, as well as providing a loan guarantee facility to top off security shortfalls of borrowers.

Compared to the Tsh 1.0 billion (US$ 1.25 million) required minimum capital at entry for commercial banks, the minimum capital requirements for regional banks and rural unit banks are low: Tsh 200 million (US$ 250,000) for regional banks and Tsh 50 million (US$ 62,500) for rural unit banks. However, only one regional bank and two rural unit banks have so far been established and the indications are that these banks have been established principally to address the requirements for banking services of community-based microfinance institutions and organizations – the SACCOs and other non-financial primary cooperative societies

There are a handful of financial NGOs with noticeable outreach, which have reached operational self-sufficiency levels (on a self-reported basis). These include MEDA, FINCA and PRIDE. MEDA was established in 1987 as a registered company limited by guarantee (non-stock) with a start-up capital of US$ 300,000. With an operational self-sufficiency level of 110% and financial self-sufficiency at just over 100%, the 8,000-striong client base and the urban-based market segments serviced by MEDA may be too limited to warrant conversion into a licensed and prudentially regulated microfinance institution under existing laws (i.e., as a regional community bank or a rural unit bank but not as commercial bank or non-bank financial institution). Moreover, if the limited license specialized bank format is not suited to MEDA's operations and objectives, no other alternative can be considered, at least until the contemplated microfinance law provides clear directions and options. MEDA shares with other NGOs and microfinance institutions in Tanzania a major obstacle – the shortage of skilled professional management and financial skills. This is just one of the significant obstacles that need to be overcome for microfinance to get onto a commercialization mode.

III. Licensing and Regulatory Framework for Microfinance

A. Financial Sector Reforms and Development of Microfinance

Tanzania has been implementing financial sector reforms since 1991, within the framework of its Financial Sector Reform Policy Statement of 1991. The reforms started with the enactment of the Banking and Financial Institutions Act, 1991 (BAFIA, 1991) which, among other things, permitted the establishment of private sector-owned banks and provided for a structure for regulation and supervision of the financial sector. The reforms have had an appreciable impact in the development of the financial system. The entrance of private banks has resulted in more competition and the development of financial markets with new and more efficient financial services. State-owned banks have had to be restructured in order to enable them to comply with the more demanding prudential requirements and to be able to face competition in the market. The reforms also brought about recognition of the need for autonomy of the central bank, not only in the formulation of monetary policy, but in the regulation and supervision of the financial sector as well. This led to the enactment of the Bank of Tanzania Act, 1995.

However, this progress has been relevant only to the mainstream banking system and its clients. The latter make up less than 20% of the Tanzanian population. For the low-income population concentrated in the rural areas, it is questionable whether the closure of rural branches of the country's largest and state-owned commercial bank and the discontinuation of directed credit had an adverse impact on the delivery of financial services to the poor and the rural areas. The latter was channeled to large farms from bank head offices, or to small farmers through cooperatives which originated their loans at banks' head offices.

Government Initiatives. Government realized that in order to have an efficient and effective financial system, additional focus must be placed on the expansion of financial services to the low-income segment of the population, and that the microfinance sector must be an integral part of the country's financial system. Recognizing the widening institutional gap the Government, in collaboration with the donor community, has taken action to facilitate the development of the microfinance industry.

One of the Government's significant initiatives was initiating the microfinance policy formulation process in 1996 with a nation-wide demand study on rural and microfinance. The study conducted by K-REP of Kenya was based on a participatory approach to ensure that the views at the grassroots level would be taken into account. All major stakeholders at a rural and microfinance dissemination workshop discussed the K-REP study, and a joint government/multi-donor review mission followed the workshop. The K-REP study, the reports of the stakeholders' workshop and the joint government/multi-donor mission formed the basis for the policy drafting exercise.

As part of the policy formulation process, study tours and training for stakeholders such as policy makers, bankers, practitioners and government officials, lawmakers and members of the policy drafting team were conducted. The study tours to Indonesia and Bolivia aimed at enabling participants to observe microfinance best practices in the field. A seminar for members of parliament was organized in order to expose the lawmakers to microfinance concepts and to share experiences with those that did not participate in the study tours. A draft National Microfinance Policy document that was the subject of discussions at a stakeholder meeting in May 1999 was submitted to Government for approval, which finally came in February 2001.

National Microfinance Policy. The National Microfinance Policy articulates a clear vision and strategy for the development of a sustainable microfinance industry, specifying the respective roles of the key stakeholders – the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services, and the donor community. In its statement of the overall microfinance policy, the Government recognizes the microfinance sector as an integral part of the financial sector, which falls within the general framework of its Financial Sector Reform Policy Statement of 1991.[7]

Lead Government Agencies. Insofar as the Government agencies are concerned, the policy identifies the Ministry of Finance as the agency having the overall responsibility for government finances, the development of the financial system and oversight for all official donor assistance. Because the Bank of Tanzania (BOT) has responsibility for oversight of the entire financial sector, the policy places on the BOT the overall responsibility to coordinate the implementation of the national microfinance policy. As microfinance appears in various policy and strategy documents issued by government ministries as an element in their programs, these other government agencies and entities are required to coordinate and consult with the Bank of Tanzania to ensure that the design and implementation of their programs are consistent with best practices and the principles laid out in the policy statement.

Coverage of the Policy. The policy covers the provision of financial services to households, small holder farmers, small and micro enterprises in rural areas as well as in the urban sector. It covers a range of financial services including savings, credit, payments, and other services which clients use to support their enterprises and economic activities as well as their household financial management and consumption needs. For purposes of policy, financing for all types of legal economic activity is included, e.g., commerce, trade, manufacturing and agriculture, and the definitions of small and micro enterprise are not tied to arbitrary limits or bases such as the number of employees, or the value of assets or sales. Thus the policy focuses on financial services for low-income families and their enterprises that have lacked access to financial services from mainstream financial institutions.

World Bank Involvement and Support

The World Bank support for the development of a sustainable rural and microfinance system with wide outreach to small-scale rural and urban clients has been through a US$2.0 million Learning and Innovation Loan (LIL) project in late 1998.[8] The objective of the LIL – the Rural and Micro-Financial Services Project -- is to develop a common policy framework made up of four main elements which would provide a structure for the development activities of both Government agencies and donors active in the rural and microfinance sector. Tanzania was recognized as the first country to create such a framework, based on an approach which emerged from a process of extensive research and participatory reviews involving all the major stakeholders in the sector. The LIL is intended to finance the development of the following four main elements of the common policy framework:

a. An approved national policy for Rural and Microfinance based on internationally recognized best practices;

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[7] "National Microfinance Policy", Ministry of Finance, United Republic of Tanzania, May 2000.

[8] "Tanzania – Rural and Micro-Financial Services Project", Project ID No. TZ-PE-50441, World Bank, Report No. PID6672 (May 15, 1998),.

b. A modified regulatory and supervisory regime which is more appropriate for the distinguishing features of rural and microfinance institutions;

c. A set of operational guidelines or standards, operationalizing principles and best practices, for government and donors seeking to facilitate the development of the sector; and

d. A Government focal point to coordinate development of the policy framework, to coordinate government and donor activities and to learn from various experiences in the country through rigorous monitoring and evaluation of ongoing microfinance programs.

The World bank's Rural and Micro Financial Services project was the first of its kind to address the legal and regulatory framework issues for microfinance, to assist a client country in establishing a coherent and focused approach for sustainable financial services for the poor. As such the LIL project has been a concrete way of demonstrating how agile the World Bank's response can be to helping countries address key obstacles to developing sustainable microfinance development, especially in the Africa region.

The main factors which contributed to the delays in the project were (i) delayed date for effectiveness of the approved loan; and (ii) significant delays in procurement process -- due to the Directorate of Microfinance's lack of experience with IDA procurement guidelines, a poor response from potential contractors, and the innovative nature of the work.

While the Rural and Micro Financial Services (RMFS) project has encountered many delays, the overall assessment is that progress on the implementation is continuing satisfactorily. The focal point in Government for coordinating the development of the policy framework is the Microfinance Directorate at the Bank of Tanzania. The National Microfinance Policy was finally approved by Government in February 2001. A Task Force of microfinance stakeholders has been constituted to review the legal, regulatory and supervision framework for microfinance. With respect to a modified regulatory and supervisory regime which is more appropriate for the distinguishing features of rural and microfinance institutions, this task is moving towards the hiring of consultants who will carry out the regulatory framework studies and prepare the design of the regulatory standards. The work to be undertaken will include the set of operational guidelines or standards, implementing principles and best practices, for government and donors seeking to facilitate the development of the sector. There is ongoing parallel work to develop a regulatory framework appropriate to cooperative financial institutions.

B. Structure of Legal and Regulatory Framework

The National Microfinance Policy recognizes the institutions providing microfinance services as the real driving force behind the achievement of the ultimate goal of development of sustainable microfinance. Banks and non-bank financial institutions, SACCOs and NGOs are free to develop microfinance services on the basis of their own internal objectives – whether profit, poverty alleviation, self-help or other motivations. The Government expects the institutions that decide to become microfinance service providers to fulfill their responsibility to learn best practices and to apply sound financial principles in the delivery of their services, particularly with respect to pricing, loan delinquency control, financial reporting and information management, appropriate techniques and products, gender equity and governance.

In regulating and supervising microfinance operations, Bank of Tanzania is mandated to apply the same fundamental principles that it applies to other parts of the financial system – principally, the protection of depositors and of the financial system through the application of prudential financial standards. Nonetheless, adjustments in regulations are anticipated to be required to recognize and accommodate the special characteristics of microfinance operations:

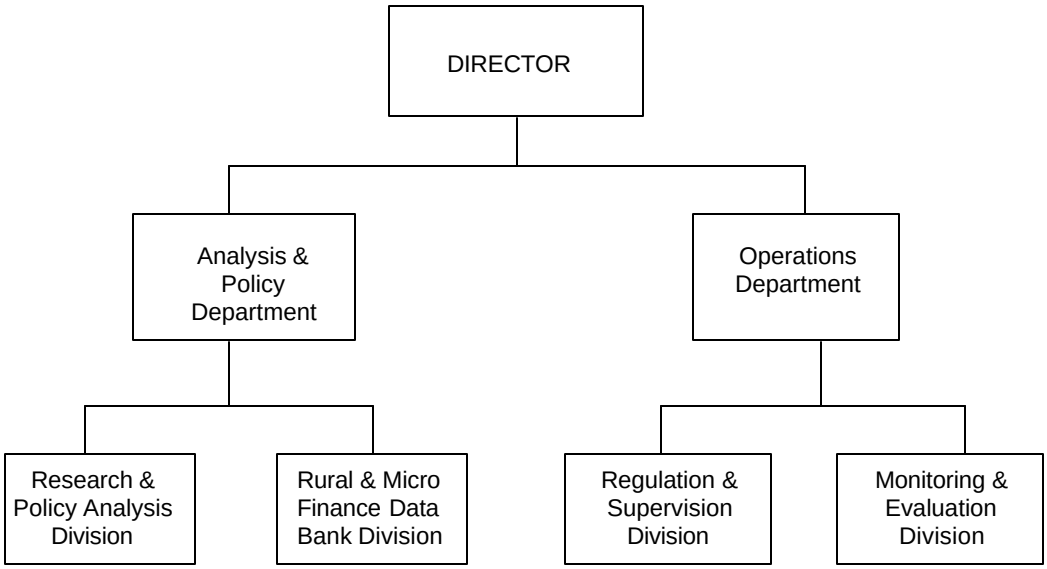
- Institutions such as credit-only NGOs which do not mobilize deposits from the public or other financial institutions may not need to be subject to prudential regulation and supervision.
- Prudential regulation and supervision will be applied only to those membership-based cooperative financial institutions above a certain size, as may be determined by the Bank of Tanzania.

Bank of Tanzania

- Bank of Tanzania exercises prudential oversight on the licensed banks currently providing microfinance services (National Microfinance Bank, Akiba, Kilimanjaro Cooperative Bank, Mufundi Community Bank and Mwanga Rural Community Bank) in the form of savings deposits and microfinance loans directly to individuals and households, and indirectly through SACCOs. Up to the end of 1993, the organization structure of the Bank of Tanzania was a reflection of multiple-policy targets and control functions, which were a consequence of the role that the state had assumed in the economy. For example, one objective was to achieve rapid growth in the agricultural sector, resulting in the establishment of a Directorate of Rural Finance. Commensurate with Tanzania's transition to a more market-oriented economy, the Bank moved away from multiple-policy targets to a single-policy target, i.e., Price Stability, leading to a drastic change in the Bank's organization structure, with effect from January 1994. Organization units, which were carrying out developmental functions (e.g., the Directorate of Rural Finance) and control functions (e.g., the Directorates of Exchange Management and Import Licensing), were dissolved.
- The Bank of Tanzania organization structure is built around the primary and the subsidiary functions of the Bank. In accordance with this new framework, there are eleven Directorates, i.e., Banking, Bank Supervision, Economic Policy, Finance, Financial Markets, Management Information Systems, Personnel and Administration, Training Institute and Secretary to the Bank. Others are National Payments Systems and Microfinance.
- The highest decision making body of the Bank is the Board of Directors, which consists of the Governor, the Deputy Governor, the Permanent Secretary to the Union Treasury, the Principal Secretary to the Zanzibar Treasury, and six other Directors. The Board is responsible for determining the policy of the Bank, for the approval of its budget, and for any other functions that are conferred on it by the Act or any other law. The Board meets on a regular basis, but not less frequently than once every two months. Top Management consists of the Governor and the Deputy Governor who are responsible for overseeing the implementation of the Board's decisions and the management of the Bank of Tanzania's operations.

- The Directorate for Microfinance has well-defined communication and reporting lines to the overall management of the Bank of Tanzania, as well as a clear organizational structure for the Microfinance Directorate itself (see organizational chart below [9]).

Microfinance Directorate:
Organization Structure



- The number of staff in the Directorate has grown from four at its initial establishment to 15 staff members at the present time. Work on an appropriate regulatory framework for microfinance itself as well as the underlying study have not yet started. However, the selection of external consultants who will carry out the work has been finalized . Likewise, there has been no overall policy decision yet whether and under what circumstances cooperative financial institutions (which are more numerous than the donor-dependent financial NGOs) will be subject to the jurisdiction of a proposed regulatory framework, pending the study and recommendations of the consultants to be hired.. The number of staff in the Microfinance Directorate highlights its visibility even though no substantive outputs may be forthcoming until after work on a legal and regulatory framework and the underlying study for it have been completed by external consultants. This situation leads to questions about whether or not the Microfinance Directorate is currently top-heavy and cost-effective, and whether or not there has been a "rush to regulate" whose adverse effects might be minimized.[10] While these considerations raise important questions about the importance of sequencing and timing, it should also be recognized that, for many segments of the microfinance sector in Tanzania, much importance is attached to "process".
- As the regulatory framework for microfinance has yet to be drawn up, finalized and passed into law there are no activities nor institutions that the Directorate can regulate or

[9] Source: "Bank of Tanzania Organisation Structure", Bank of Tanzania Internet Website: http://www.bot-tz.org/

[10] These and related issues are discussed at length in the CGAP paper of Robert Christen and Richard Rosenberg, "The Rush to Regulate", CGAP, 2000.

supervise. One of the major items that the Microfinance Directorate and the management of the Bank of Tanzania will need to address is whether supervision and examination of microfinance institutions (once the regulatory framework legislation is passed) will be carried out by staff of the Microfinance Directorate, or ceded to the staff of the Directorate for Supervision and Examination.

Prudential Standards and Requirements for Licensed Banks

Organizational Format. Licensed banks are required to be organized as limited liability corporations and registered with the Registrar of Companies under the Companies Act. National Microfinance Bank and the Postal Bank are exceptions to this rule, because they owe their charters to Acts of parliament.

Minimum Capital Requirements.Commercial banks – such as National Microfinance Bank, Akiba Commercial Bank and CRDB Bank -- with nationwide operations have to meet a minimum capital requirement of Tsh. 1.0 billion (approximately US$ 1.25 million), and maintain a capital adequacy ratio for core capital equal to 6% of risk assets. The BAFIA, 1995 follows the Basle Accord and mandates that each bank and non-bank financial institution maintain a minimum total capital equivalent to not less than 8% of its total risk-adjusted assets plus off-balance sheet risks. For banks there is an additional requirement to maintain a core capital level equivalent to not less than 6% of total risk-adjusted assets plus off-balance sheet risks.[11] The minimum capital requirement for non-bank financial institutions is Tsh 500 million (about US$ 625,000). Regional banks – such as Kilimanjaro Cooperative Bank – whose operations are limited to a geographical area, are required to meet a lower minimum capital requirement of Tsh 200 million (about US$ 250,000). Rural unit banks – such as Mufindi and Mwanga – have an even lower minimum capital requirement of Tsh. 50 million (US$ about 62,500). The adequacy ratio for core capital with respect to risk assets of regional banks and rural unit banks is similar to that for commercial banks – 6%.

Key Prudential Standards

Loan Classification and Provisioning. The Bank of Tanzania's mandatory guidelines for aging, classification and provisioning for loans follow international standards and practice. *The Management of Risk Assets Regulations, 2001* came into effect on May 1, 2001 and repealed "The Guidelines on Management of Risk Assets, Classification of Loans and Other Risk Assets, Provisioning for Losses and Accrual of Interest" which were issued on October 18, 1991.The objectives of these Regulations are generally to provide prudential guidance on management of risk assets and bases for providing for losses on loans and other risk assets. Following international practice, loan accounts are periodically subjected to aging and classified with respect to the number of days that classified loans have been delinquent in payment of principal and/or interest. The typical account classifications according to number of days of delinquency, and the corresponding specific provisions that are required to be made are shown in Table 3 below.

[11] Core capital (Tier 1 capital) is defined as permanent shareholders' equity (issued and fully paid-in shares of common stock) plus all disclosed reserves, less goodwill and/or any other intangible assets. Supplementary capital (Tier 2 capital) consists of general provisions which are held against future, currently unidentified, losses and are freely available to meet losses which may subsequently materialize, and any other form of capital as may be determined and announced from time to time by BOT. *Source of information: World Bank, Financial Sector Report, 2001*

Table 3: Loan Classification and Provisioning Guidelines for Licensed Banks

Risk Classification	Days Delinquent / Non-Performing	Rate of Provisioning (% of Loan Amount)
Standard or current	0 to 30 days	---
Loans Especially Mentioned (not fully secured, etc.)	31 to 60 days	5 %
Sub-standard	61 to 90 days	25 %
Doubtful	91 to 180 days	50 %
Loss	181 days or more	100 %

Source: World Bank Financial Sector Report, 2001; and Bank of Tanzania Management of Risk Assets Regulations 2001 from BOT website.

All loans that are past due and those classified as substandard, doubtful or loss are required to be placed on non-accrual basis. The guidelines issued by the Bank of Tanzania also require licensed banks and non-bank financial institutions to maintain a general reserve for possible loan losses equivalent to 2% of its total outstanding loan portfolio, and to make the required specific provisions on a quarterly basis. These are included in the periodic reports submitted by licensed banks and non-bank financial institutions to the Bank of Tanzania.

Ceiling on Unsecured Loans. Bank of Tanzania imposes a ceiling on unsecured lending by banks such that the unsecured loans to a single borrower may not exceed 5 % of a licensed bank's capital. The general perception among banks is that acceptable or eligible collateral, with respect to this prudential guideline, is limited only to cash or near cash securities. This perception may very well be due to the existence and emergence of a number of severe restrictions on the ability of banks to accept real estate as acceptable collateral, and the general bias that the legal framework has in favor of borrowers and against lenders. Because most microfinance loans are *not* properly secured in the conventional sense, this prudential ceiling on unsecured loans is likely to have an adverse impact on the wholesale lending by licensed banks, including regional banks and rural unit banks, to microfinance NGOs or SACCOs . For instance, a regional bank with its required minimum capital of Tsh. 200 million would only be permitted to make an unsecured wholesale loan of not more than Tsh 10 million, while a rural unit bank with its required minimum capital of Tsh 50 million can only make an unsecured loan not exceeding Tsh. 2.5 million

Ceiling on Fixed Assets. Under current prudential guidelines, licensed banks are mandated to limit their investment in fixed assets to no more than 10% of capital. This is a major and serious constraint particularly on the ability of smaller banks to be properly and adequately equipped for efficient banking operations. For instance, a rural unit bank which has a Tsh. 50 million minimum capitalization level, is confronted by a ceiling of Tsh 5 million (about US$ 6,250) for office equipment, vehicles, computers and communication equipment – a truly binding constraint.

Single Borrower Limit. Tanzanian banks are seeking some relief and flexibility from the current single borrower's limit which prohibits licensed banks from lending to a single borrower an amount in excess of 25% of the bank's capital. This prudential restriction is fairly standard and universal among many countries, and is designed to prevent undue concentration of a bank's loan portfolio to a few borrowers. A related prudential guideline is on the process for approval of, and the limits on lending by licensed banks to their own shareholders, directors and officers – normally limited to an amount not exceeding the value of shares and the deposits owned by a shareholder, director or officer and, in the aggregate, 25% of the bank's core capital. This prudential restriction is intended to prevent and minimize the practice of "insider lending". The licensed banks which might possibly have difficulties with this prudential regulation might be the regional banks and rural unit

banks whose shareholders – SACCOs and SACCO unions – also make up the principal client base of the banks.

Prudential Guidelines on Liquid Assets and Loans-to-Deposits Ratios

Bank of Tanzania's Circular No.4 specifies the levels of Required Minimum Liquid Assets (20% of demand deposit liabilities) and Maximum Ratio of Loans to Deposits (80% of total deposits), which requires banks and financial institutions to maintain adequate liquid assets for meeting normal operations and the demands of depositors and creditors. The Circular has been converted into *The Liquid Assets Ratio Regulations, 2000.*

Non-bank Providers of Microfinance Services

SACCOs. As of January 2001, there were about 646 SACCOs registered with the Ministry of Cooperatives and Marketing. SACCOs are subject to little effective regulation and supervision by external (i.e., government) agencies because the Cooperatives Development Department does not have adequate technical staff and resources to monitor activities of cooperative financial institutions, and the SACCOs themselves have weaknesses in operating and administrative management, especially in the area of accounting and internal control systems. These are crucial factors, because the 1991 Cooperatives Law runs to about 50 pages of principles and provisions, plus an additional 60 pages of implementing rules and procedures. In addition the basic principle established by the 1991 Law is autonomy (from government interference) and self-regulation.

Regulatory Structure for Cooperative Organizations

The 1991 Cooperative Societies Act applies to all cooperative societies, whether with a financial operational objective, such as SACCOs, or non-financial operational objective, such as services, production or marketing. Cooperatives are under the administrative jurisdiction of the Ministry of Cooperatives and Marketing. Although the Minister has extensive discretionary powers under the provisions of the Act, the basic principle established under the law is volunteerism and self-regulation. To ensure compliance with the provisions of the Act as well as with a cooperative society's own by-laws, the Ministry avails of two principal instruments: (i) field inspection and examination of individual SACCOs by district cooperative officers, and (ii) examination of externally-audited financial accounts by the Registrar of Cooperatives. This second function is exercised by regional cooperative officers in their capacity as Assistant Registrars .

Tanzania's cooperative sector has a four-tier structure: (i) primary cooperative societies at the community level, e.g., the SACCOs; (ii) cooperative unions at the district or regional level, e.g., the Kilimanjaro Native Cooperative Union established in 1936; (iii) apex organizations based on activity specialization, e.g., (a) the apex organizations for cooperatives involved in the sugar, coffee or tobacco production sector, or (b) the Savings and Credit Cooperative Union League of Tanzania (SCCULT) which is the representative, apex organization for SACCOs[12]; and (iv) the Tanzania

[12] SCCULT was re-established in 1992 and has 425 member SACCOs, most of which are salary-based societies, and about 90 rural SACCOs; membership in SCCULT is not mandatory. Its principal services to members are training, bookkeeping services and a package of standard bookkeeping forms, and access to the Central Finance Program which is funded from members' deposits and grants from donors.

Federation of Cooperatives (TFC) which is the national-level umbrella organization for all kinds and tiers of cooperative societies[13].

Support and Self-Regulation Mechanisms

The Cooperative College and Cooperative Audit and Supervision Corporation (COASCO) are surviving parastatal remnants of the monolithic structure of the former state-run cooperative system. There is currently no available data for making a reasonable assessment of the relative benefits/advantages (knowledge capital and capacity building aspects, for the Cooperative College) versus the (avoidable) burden and high costs to SACCOs of meeting what still remain as the external audit procedures of COASCO. Thus, in addition to the inspection and examination of accounts at the district level and the examination of audited financial accounts at the regional level, SACCOs have to deal with COASCO.

The support and regulation considerations for SACCOs are further impacted by administrative decentralization and autonomy which local government have gained, with respect to the regulatory structure for cooperatives. Regional cooperative officers have been administratively detached from the Ministry of Cooperatives and Marketing and now are constituted as regional cooperative advisors to respective Regional Secretariats, and considered as employees of the Ministry of Regional Administration and Local Government. District Cooperative Officers are now employees of the District Councils. With this important change in the administrative status and employment basis, together with the more parochial concerns of local government officials, wide variations in local approaches to cooperative development, promotion and regulation are inevitable. This is perhaps an area and aspect of decentralization and devolution of government authority that had not been anticipated and prepared for. Remedial measures will need to be designed and implemented in Tanzania, and will provide important lessons for other countries as well as the international advisers and proponents of extended local government autonomy.

Financial NGOs. The donor-dependent financial NGOs are similarly virtually unregulated, even though a number of governmental authorities are involved in the registration of both international and local NGOs:

a. The Registrar of Societies under the Societies Ordinance registers some, Cap. 37.
b. Others are registered with the Administrative General under the Trustees Incorporation Ordinance, Cap. 375; and
c. Others are incorporated and registered with the Registrar of Companies under the Companies Ordinance, Cap. 212.
d. As various authorities in the country are involved in the theoretical regulation of NGOs the standards used are likely to vary depending on the respective statutes, and it is very difficult to maintain uniform standards. The financial NGOs can be classified according to the microlending technology they utilize: (i) solidarity or group-based lending, and (ii) individual loans. However, none of the financial NGOs in the country have attained financial sustainability, even though there are a few who are working

[13] TFC's membership presently consists of four apex cooperative organizations dealing with major traditional cash crops such as tobacco, cashew nuts, cotton and coffee; two national cooperative unions of cooperative organizations in small industries and savings and credit (SCCULT). Services to TFC members presently consist of cooperative education and training; advocacy, liaison and representation; printing of stationery and forms; and loan insurance (credit risk insurance for loans at the primary level).

towards the transition from traditional credit-delivery programs to business-oriented institutional microfinance programs.

The legal and regulatory framework that currently govern the activities of different categories of providers of microfinance services is summarized in Appendix Schedule A at the end of the Report.

C. Business and Contract Enforcement Environment

Impact of a transplanted legal and judicial system on enforcement capacity

As an heir to the common law tradition, Tanzania has enjoyed significant historical advantages in developing a legal and regulatory framework for the financial sector as a whole. The legal system is modeled after that of the UK and many of the country's laws have been adapted from the UK. However, the import of regulatory structures from other larger and more mature markets appears to have entailed costs as well: the development of the country's legal and regulatory framework and structure has been supply-driven, rather than demand-driven, and it has not developed in response to the needs of the marketplace nor the requirements of Tanzanian society. This approach to legal and regulatory development has provided Tanzania with a regulatory framework that is in accordance with international standards, but one that appears to be far more complex and expensive than what Tanzania needs at present or the immediate future.[14]

Business activities and enterprises in Tanzania's emerging private sector face a number of significant constraints and impediments. Foremost among the administrative constraints are bureaucratic red tape (faced by investors and exporters, for example), weak enforcement of property rights, corruption, and a lingering culture of non-repayment of loan obligations among borrowers. Non-transparent policies and laws governing property ownership, labor and immigration laws that hamper the mobility of labor, and the still limited availability of mechanisms for the expeditious settlement of commercial disputes in a fair and transparent manner [the Commercial Court has only recently been set up and needs to establish regional branches] compound the challenges faced by private investors and business firms. The legal framework has largely lagged behind the process of reforms and can hardly support the requirements of the increasingly market-oriented economy.[15] To cite some important examples, there is as yet no credit bureau or loan default registry system in Tanzania, although the World Bank's Financial Sector Project (FIDPII) is intended to assist BOT in putting in place these systems.[16]

Impact of taxes on the costs of commercial and financial transactions.

Bank of Tanzania's requirements and procedures for asset classification and the provisioning for delinquent loans follow international standards. However, the current tax regime does not permit provisions for possible loan losses to be recorded as an allowable expense in a bank's Statement of Income and Expenses for tax purposes. Thus, banks face a major disincentive to comply with Bank of Tanzania prudential standards and internationally accepted sound banking practice by setting aside adequate reserves to protect against anticipated loan delinquencies. This inconsistency between permitted tax treatment vis-à-vis sound risk management practice assumes greater importance

[14] World Bank, Financial Sector Assessment Report, (date?),
[15] World Bank, "Tanzania at the Turn of the Century", April 2001.
[16] Source of information: World Bank, Tanzania Financial Sector Supervision Mission Back-to-Office Report (May 05, 2002) and Aide Memoire (April 29, 2002).

because of the major difficulties and delays that banks face in taking possession of pledged collateral and realizing adequate value on a timely basis to cover the amount of a defaulted loan.

Financial Contracts and Dispute Resolution

Tanzania has taken significant steps to modernize and improve the legal system and judicial processes for resolving commercial disputes, as illustrated in Box 3 below. Tanzania's approach to unclogging the heavy load of cases brought before the High Court is a clearly innovative approach that can provide illustrative lessons for other countries in the region and elsewhere.

Box 3: Facilitating Dispute Resolution through the Commercial Court

Tanzania recently established a separate commercial court under Rule 580 of the High Court Registries Rules of 1999. The court's objective is to ensure the efficient processing and timely resolution of commercial disputes. By avoiding procedural bottlenecks, the court can settle disputes expeditiously and efficiently for the benefit of all parties involved. There is no fixed definition of a commercial case. Broadly, it covers the liabilities of a business person, commercial organization or individual arising out of commercial or business activities. It also involves the structuring or payment of commercial debt by or to a business person, commercial organization or individual. Cases handles by the court range from Tsh. 10 million to 300 million.

The court's mandate includes streamlining procedures, to facilitate quick resolution of commercial disputes. Alternate Dispute Resolution was introduced in Tanzania some time ago and remains available to the commercial court; mediation and other forms of settlement avoiding trials are promoted. These options were introduced because of congestion and excessive delays in the disposal of court cases.

The commercial court has three judges, one registrar and deputy registrar positions among the total of 43 staff members. Although it enjoys a degree of autonomy in financing and staffing, the court is constitutionally an integral part of the High Court of Tanzania, and its staff members are employees of the judicial system. Both parties to a case are required to pay court fees when documents are filed. The fee, determined by the relevant rules of the court, is significantly higher than that payable in the ordinary High Court, and currently ranges at 3 % of the amount of the claim. Bankers and members of the business community expressed appreciation of the commercial court and are satisfied with its performance, as most cases were resolved within a period of 3 months. In the year 2000, 104 cases were decided. In 2001, 185 cases were filed and the court has already decided 110 cases during the first seven months.

Source of information: Tanzania Financial Sector Report 2001

Impediments to Becoming a Legal Entity

As in other developing economies in Africa and elsewhere, informality appears to be a defining characteristic of economic activity in Tanzania, but there is scope for the Government to offer a regulatory environment that encourages voluntary formalization of business enterprises whether large or small, and to consider measures to make business registration a priority area for reform. The Tanzanian experience parallels, for instance, the experience in Peru: reacting to the impossibility of complying with the existing excessive and inappropriate regulatory apparatus, owners of micro and small enterprises in the informal and semi-formal sector reach the rational conclusion that formality is not in their best interests.[17] A higher degree of voluntary formalization

17 With the World Bank's assistance, Peru introduced the Unified Business Registry system. It reduced the number of days needed to obtain a business license from 171 - 300 days to only one day. Instead of visiting 14 different agencies at the national and municipal government levels, a specialized one-stop "registration shop"

can bring a number of benefits (including those listed below) and, while the additional costs associated with formalization could be looked upon as disincentives, informal organizational formats for legitimate business activities invite continued harassment from local authorities.

- With protection under the law, registered businesses can carry out their activities without fear of intervention from the government or harassment from its agents, and enter into stable relationships with suppliers and customers. Harassment thrives when regulations are unclear or their implementation discretionary.
- Potentially, the government could receive higher tax revenues and, with more comprehensive information about the private sector, be able to improve formulation of policies.
- Employees of registered businesses are more likely to enjoy social security benefits, a safer work environment and more stable employment conditions.
- Consumers and society in general would benefit through improved adherence of legally registered businesses to minimum product, health and environmental standards, as well as from the expansion in the establishment of more registered businesses.

D. Supervision and Monitoring Mechanisms

Existing legislation unequivocally places the responsibility for prudential supervision with the BOT; thus, the scope of its authority and autonomy are clearly spelled out and it can autonomously issue prudential regulations without approval from any other body. This is in line with international guidelines. BOT has been able to operate without undue political pressures, as demonstrated by its track record of interventions in problem institutions[18]. Supervisory staff have immunity from prosecution or civil lawsuits arising from acts legitimately performed in the course of their duties. As a supervisory agency BOT is endowed with a wide range of powers including the authority to: i) license and withdraw bank licenses; ii) issue prudential regulations and standards; iii) obtain periodic returns in its preferred format and periodicity; iv) conduct on-site inspections; v) take corrective actions; vi) take emergency action; vii) close and initiate liquidation of banks; viii) take over the bankruptcy of banks. Nonetheless, there are limitations on the ability of BOT to exercise its powers fully [19].

Off-site Surveillance and Monitoring Reports

Off-site surveillance relies on the continuous analysis of statistical and other returns submitted weekly, monthly, quarterly and annually reports financial institutions. Each bank is assigned an on-site staff to join the off-site staff in monitoring. Off-site staff often participate in on-site bank examinations. Monthly reports are produced with the findings and updates of any recent on-site visit.

To determine the overall condition of financial institutions, off-site staff directly evaluate capital adequacy, asset quality, earnings and liquidity. This analysis produces an Early Warning

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showed how efficient and cost effective the process could be. The cost of securing a business license was slashed from about US 1,200 to US$ 174. Thus, between 1991 and 1997, over 670,000 businesses were legalized, and these generated more than 550,000 new jobs.

[18] Meridien Biao Bank Tanzania , Trust Bank, Greenland Bank

[19] For example, a bank that has been closed down by BOT may make an appeal to the Minister of Finance, whose subsequent decision is final and binding on both the bank and BOT.

Report (EWR) which contains prudential ratios including the capital adequacy ratio, profitability ratio, reserve requirement ratio, liquidity ratio, foreign exchange exposure and fixed assets ratio. The EWR has a rating system for banks with respect to liquidity, capital, foreign exchange exposure and income and deposit trends.

The EWR is, however, not standardized and the performance of individual banks is not systematically analyzed against trends and peers. This omission prevents the identification of deviant behavior by banks. Also, while ratings are assigned to individual components of the Capital Asset Management Earnings Liquidity (CAMEL) evaluation system, no overall rating is currently carried out for each bank.

Another problem is that BOT's information technology is not compatible with banks', preventing electronic submission of most returns and limiting the capacity of the off-site unit to process the information collected from banks. Other shortcomings relating to the supervisory process include: i) overcrowding in offices and insufficient space for filing; ii) low computer literacy of supervision staff; iii) irregular exchange of information with other supervisory agencies (insurance, pensions and capital markets).[20]

Monitoring Reports

All banks and NBFIs must publish quarterly balance sheet, income statements and cash flow statement (form and content as prescribed by the Banking and Supervision Directorate of the BOT) in newspapers of general circulation in Tanzania, within 45 days after the end of the quarter. Audited versions of these accounts must be published annually in newspapers within 15 days after approval of the board of directors, but not later than 105 days after the end of the financial year. The Banking and Supervision Directorate must receive copies of all statements and information on where publication is to be made. There is a penalty charge of Tsh 1 million per day for non-compliance and BOT reserves the right to impose more serious penalties including suspension from lending and restrictions on other forms of banking activities. In the preparation and presentation of financial statements, banks are guided by the standards of the National Board of Accountants and Auditors (NBAA), whose guidelines are based on relevant International Accounting Standards (IAS). Independent auditors are mandated to ensure that statements of accounts prepared by banks are in line with these standards.

Since there is as yet no specific regulatory framework for microfinance activities which would identify the providers of microfinance services which would be subject to registration, licensing and prudential supervision, the only institutional providers of microfinance services covered by existing laws and regulations are the National Microfinance Bank, Akiba, CRDB, Postal Bank, Kilimanjaro Cooperative Bank, Mufindi Community Bank and Mwanga Community Rural Bank. Neither the SACCOs nor the financial NGOs are covered by the existing regulatory and supervisory framework.

On-site Supervision and Examination

Operationally, the BOT is largely independent in pursuing its prudential supervision responsibilities, exercising its powers through Banking Supervision Directorate (BSD), which has the mission of promoting and ensuring stability of the financial system. The Director of Banking Supervision, who reports directly to both BOT's Deputy Governor and Governor, heads the

[20] Source of information: World Bank, Financial Sector Report, 2001, Chapter I. The Central Bank, p.8

Directorate. BSD is organized into two departments, banking institutions and non-bank institutions, each under a Deputy Director. Each department has off-site surveillance and on-site examination divisions. The BSD currently has 51 professional supervisors (including 3 members of the Directorate's management) plus 8 support staff: 29 supervisors are in the banking department (9 in off-site and 20 in on-site), while the non-bank department has 22 supervisors (9 in off-site and 13 in on-site). These staff are assigned to various duties including licensing, examination, and analysis. On average, supervisory staff have over 10 years of experience.

On-site examination of banks supplements and complement off-site surveillance. An attempt is made to visit the head office of every financial institution at least once a year. Branch offices are selected for examination on a sample basis. In planning examinations, off-site surveillance reports are used to determine priorities for allocating resources and off-site surveillance staff usually join the examination team. There is a new, detailed Examination Manual for examiners covering key areas such as pre-exam planning and documentation standards. On-site inspections attempt to determine the overall condition of the financial institution by conducting a full-scope examination covering CAMEL components. Supervisors also attempt to verify compliance with laws and regulations.

Currently, on-site examinations are not risk-oriented or proactive, as there is an unduly heavy emphasis on compliance and controls. BOT may not be focusing enough attention on banks' internal management systems and processes such as strategic planning and formally adopted policies. These systems ensure that financial institutions keep risks within manageable bounds. BOT should focus on them to ensure that banks and other financial institutions are run safely and soundly and help reduce the probability of an institution running into trouble in the future, even if its current condition shows no cause for concern[21]. Also, on-site examinations are still largely manual and labor intensive, with examiners lacking computers to do their work.

Monitoring and Regulating Nonbank MFIs

The only institutional providers of microfinance services whose activities and operations are subject to monitoring by government agencies other than the BOT, and/or by private sector organizations are the SACCOs. The activities and operations of SACCOs are subject to mandatory monitoring by and submission of reports to the Ministry of Cooperatives and marketing, as well as by the SACCOs' apex organization, SCCULT. The Cooperatives Audit and Supervision Corporation (COASCO) is also involved in monitoring and examination because of their mandate to conduct the external audit for cooperatives. There are no clear indications of the benefits received by SACCOs in general relative to the additional administrative burdens and expenses that are borne by the cooperative financial institutions, in terms of the enhanced development of capacity and sustainability of SACCOs as a class of microfinance institutions.

[21] The recent adoption of a comprehensive Examination Manual should bring some improvements in this area although the skills available to carry out such activities are severely underdeveloped.

IV. Impact of Regulation on Microfinance

A. Overall Impact of Regulation on Microfinance

Tanzania has a relatively new financial sector, which consists of 20 licensed banks and 11 non-bank financial institutions established after the implementation of reforms for the financial sector in 1991-92. The financial sector is also relatively shallow – the degree of monetization of the economy (M2 as a percentage of GDP) stood at 17.5% at the end of 2000. Most of the branches of these banks and financial institutions are concentrated in Dar es Salaam, and their services are neither accessible for rural households and microenterprises nor for urban low-income households. Only three banks have a countrywide branch network that might potentially be linked to the provision of microfinance services. The specialized limited-license banks such as Kilimanjaro Co-operative Bank (KCB), Mufindi Community Bank and Mwanga Rural Community Bank are the only banks with head offices located outside Dar es Salaam, but none of these banks have branch offices and thus have limited outreach to microfinance clients. The principal providers of microfinance services have been the Savings and Credit Co-operatives (SACCOs) and several foreign donor-assisted NGOs.

The emergence and evolution of semi-formal microfinance providers (NGOs and SACCOs) outside the changing regulatory framework have preceded the construction and establishment of laws and regulations for microfinance activities and operations. This emergence and evolution have taken place in spite of significant difficulties involved in becoming a legal entity, increasingly limited access to external funds, and the lack of skilled manpower with banking and financial competence. The improvements and changes in the regulatory frameworks for microfinance institutions (MFIs) and cooperative financial institutions (CFIs) are still in process of being enacted into pertinent laws and corresponding implementing regulations. It is hoped that the new frameworks will include measures to install and strengthen the linkages that will enable these institutions to link up more effectively with the formal payments system which is available currently only to licensed banking and financial institutions. With respect to CFIs which are likely to remain outside the ambit of the contemplated microfinance law, a (self-funded) deposit protection system similar to what other financial cooperative organizations in other countries around the world have structured should be considered by policy makers and donor institutions.

Insofar as the legal framework is concerned, it would be useful to focus attention on several aspects of the legal system and processes, which presently generate inordinate additional cost burdens to Tanzanian organizations in general, and microfinance-oriented institutions in particular. These consist of the following:

- Tanzania's labor laws need to be carefully reviewed and reformed. At present it is virtually impossible to terminate the employment status of an employee, even for just cause such as fraud. Needless to say, this is a substantial deterrent to progressive employment and personnel development programs and practices.

- Under present tax regulations, it does not make economic nor business sense for banks and financial institutions to observe sound banking practice and comply with mandatory prudential guidelines by setting aside provisions for possible loan losses. In order to comply with prudential standards, reserves for delinquent loans are usually included as an item to be expensed in a bank's income statement, which would reduce its net operating

profits and taxable income. The tax regime does not recognize such provisioning for possible loan losses as an eligible expense for income tax purposes.

B. Vision and Strategy for Sustainable Microfinance

The National Microfinance Policy clearly articulates the vision for developing a sustainable microfinance industry. As a strategic blueprint for sectoral development, the Policy can be advanced a step further by defining more clearly how the SACCOs and financial NGOs will be integrated into the emerging microfinance regulatory framework, and the role that the industry organizations for SACCOs and financial NGOs are expected to perform. Two detailed sectoral studies on the SACCOs have recently been completed by the ICA ROECSA and by Desjardins groups, although the latter covers only the SACCOs in the Dar es Salaam region. The findings of these two studies need to be fed into the ongoing stakeholder dialogue and efforts for the new cooperative law and for the overall regulatory framework for microfinance institutions.

Recent discussions in the field give the impression that the private sector stakeholders in the financial cooperatives sector did not consider the sector as being actively and fully represented in the deliberations of the Task Force on the microfinance regulatory framework, since the representative for the cooperative financial institutions in the Task Force is an official of the Ministry of Cooperatives and marketing. A new law on cooperatives is reportedly being drafted together with its implementing regulations, but it is not clear that the government agency with the mandate for moving the national microfinance policy forward through the drafting of the microfinance regulatory framework, namely, the Micro-finance Directorate at Bank of Tanzania has been engaged to provide inputs to a new cooperatives law.

C Assessment of Institutional Capacity

There does not seem to be readily available organized information on the operations of the NGOs providing microfinance services, other than the data included in the ICA ROECSA and Desjardins studies. The organizational characteristics, size and scale of operations, characteristics of the respective client bases of the various NGOs, and the relative strengths and weaknesses of the microfinance methodologies they employ need to be understood much better and more clearly. Based on the current situation and visible trends, it does not seem likely that most of the NGOs providing microfinance services will be able to sustain their operations without continued donor support for funding and technical assistance. Nonetheless, a better understanding is needed about the efficiency and cost effectiveness of Tanzanian NGOs in delivering micro-credit services, as well as what can be done to improve their ability to tap into sources of commercial funding such as may be available from the commercial banking sector. As the Tanzanian Association of Microfinance Institutions has only been recently established and is still too new to be a relevant force in the institutional development of the microfinance sector, the task of commencing to build a relevant database on microfinance is being taken on by the Microfinance Directorate at BOT, under assistance from the capacity-building component of the World Bank's RMFS project.

The Tanzanian microfinance industry needs to recognize that extended dependence on donor funding and assistance is not viable. As in other countries this particular resource has begun to shrink and is more likely to be exhausted at an earlier period rather than later. It would be prudent for the different stakeholders in the private sector, in government and among the donor community to take action on putting microfinance development on a sustainable path, with the various components that are available. Because of the general tendency of NGOs to recast their operations to fit donors'

priorities and given the large number of donors and the variety of support programs, there is urgent need for a well-defined coordination protocol. CIDA has taken a lead role in improving coordination among donors.

Another sub-sector that is not easily understood consists of the specialized tier of licensed banks – the regional banks, such as Kilimanjaro Cooperative Bank and the rural unit banks, such as Mufindi Community Bank and Mwanga Community Rural Bank. Unlike its immediate neighbors, Tanzania's banking law permits the establishment and operation of licensed banks with lower minimum capitalization requirements, albeit with limited geographical area of operations. Why have not more lower-tier banks been established, and have any of the larger financial NGOs considered this institutional and organizational format? There are indications that the three lower-tier banks have been established with primary cooperative societies and secondary-level unions as shareholders. There is also anecdotal information that two other community banks have been planned but the SACCO promoters and investors have not yet been able to accumulate sufficient funds for the minimum capital required. This is not surprising, because these community-based member-owned entities need much more time to generate the surplus required for investing in the equity of a community bank – as demonstrated by the well-documented and long experience of the cooperative rural banks in the Philippines, which are owned and organized by primary-level cooperative organizations.

On a more general level, the capacity-related shortcomings and inadequacies of Tanzania extend throughout its entire financial sector, where even the larger commercial banks and financial institutions have to confront the constraints posed by what appears to be a pronounced shortage of available staff with the required professional and technical skills in financial operations and administration. Thus, the shortages and inadequacies tend to be more pronounced in the smaller banks and microfinance organizations.

Compounding the shortage of technical and managerial skills for finance in general and for microfinance in particular, the practical application of accounting methods and standards appear to be increasing lagging significantly behind the needs of a dynamic and modern financial sector such as what is emerging in Tanzania. Without universally understood and applied accounting methods and practices used in the preparation of financial accounts and reports, the regulatory framework whose core consists of compliance with prudential standards cannot be effectively applied and implemented. A further adverse impact of the current situation on accounting standards, methods and practices is that the preparation of required reports both for internal governance and to meet external requirements may be more costly than necessary.

V. Conclusions and Recommendations

The more notable characteristics of Tanzania's microfinance industry are (a) the existence of a specialized directorate for microfinance in the country's central bank, (b) a regulatory framework for microfinance (which should inform the activities of the specialized directorate and govern the operations of microfinance intermediaries), which still needs to be drafted by outside consultants, and (c) a very thin and fragmented microfinance sector whose main players – the SACCOs and NGOs (at least until NMB and the commercial banks with microfinance programs are able to reach critical mass in their microfinance operations) – might not even fall within the ambit of the regulatory authority, even though the BAFIA 1991 gives the Bank of Tanzania the discretion to subject SACCOs to the same regulations as those [licensed deposit-taking] institutions of similar size and offering similar activities in order to ensure a level playing field.

As the regulatory framework for microfinance is still in the process of being designed, a basis for assessments of a regulatory framework does not exist. Many of the different stakeholders in Tanzanian microfinance universally place significant importance and heavy emphasis on the process for formulating policy and for establishing a regulatory framework, even though to outsiders such a process appears to have been a lengthy one. Nonetheless, the various stakeholders and principal policy formulators have accumulated a considerable quantum of observations and issues to be addressed by the regulatory framework and related implementing regulations to be established.

A. Outstanding Issues

- The National Microfinance Policy is a clearly-articulated document, but will not be sufficient to guide semi-formal and unregulated providers of microfinance services in assessing which institutional transformation processes need to be considered until the appropriate microfinance regulatory framework is put in place and becomes operational.
- The gap between requirements for and the supply of manpower with financial skills for banking and microfinance operations is becoming increasingly more apparent as a major constraint to development of sustainable microfinance. Thus, capacity constraints are a major issue, not only for providers of banking and microfinance services, but for the regulatory agencies (BOT and the Cooperatives regulator) as well.
- While the relevant banking and financial laws and regulations clearly permit the establishment of licensed specialized regional and community banks oriented to rural and micro finance, there have only been three such institutions established. The reasons and factors underlying this significant development need to be identified and better understood by policy makers, stakeholders and practitioners, to make appropriate adjustments in the regulatory framework.
- There is need for a clearly defined strategy on how to integrate SACCOs and NGOs into the emerging microfinance regulatory framework, and what policy environment, resource and capacity requirements will be required not only by the institutions but also by the regulatory bodies.
- While not specific to the rural and micro finance sector only, the practical application of accounting methods and standards appear to lag significantly behind the needs of a dynamic and modern financial sector. Similarly, the tax regime's treatment of loan loss provisions has an adverse impact on the application of sound banking practice and compliance with prudential standards

- A related obstacle arises from Tanzania's labor laws, which make it virtually impossible to terminate the employment status of an employee even for just cause such as fraud.
- Current BOT guidelines limit licensed banks' investment in fixed assets to no more than 10% of capital, presumably to minimize the amount of non-earning assets supported by capital. This is a binding constraint on smaller banks' ability to be properly and adequately equipped for efficient banking operations.
- Two other areas that require attention and appropriate policy action because of their impact on the growth of micro and small enterprises and of institutional providers of microfinance services are (i) the reporting requirements (and associated time and resource costs) for legal entities and (ii) the impact of the structure for business and local taxes and impositions that make the cost of transactions much higher or impede the application of and compliance with prudential banking standards.

B. Further Steps for the World Bank

It is important to note that the Rural and Micro Financial Services project is being carried out in the context of a larger undertaking to modernize Tanzania's financial sector, and thus the regulatory framework for microfinance is being structured not in isolation of overall financial sector development and regulation. What seems to be needed at this point is to accelerate the processes for putting in place the contemplated microfinance regulatory framework. It should be kept in mind that an operative legal and regulatory framework for sustainable microfinance consists of several components: (i) the microfinance law itself, (ii) implementing administrative regulations, (iii) related laws and regulations, and (iv) properly staffed and organized executing administrative agencies. Because the LIL is such a flexible and quick-response instrument, cataloguing the reasons and factors underlying the delays in implementation will provide invaluable lessons for improving the effectiveness and timeliness of the LIL as an instrument for other applications in Tanzania and in other countries. One of the most valuable lessons from the LIL and the Tanzanian experience is that developing and establishing an orderly framework for microfinance is not a simple but a complex process involving parallel reform efforts in other areas.

The World Bank can be instrumental in supporting and accelerating the efforts to establish a practical protocol for coordination in which the Canadian International Development Agency has taken the lead role. Among the priority areas that the attention of the World Bank and other donors need to be focused on are the need to quickly establish a consistent and timely database of information on the operations, outreach, funding sources and market focus of financial NGOs and of the cooperative financial institutions. At present, relevant information needs to be updated, or is hard to come by. Putting together a comprehensive, timely and easily accessible database on the microfinance sector and its institutional players is one of the major tasks of the BOT Microfinance Directorate. Additionally, as TAMFI -- the private sector national network organization for microfinance makes progress in its organizational and institutional development, the Microfinance Directorate and TAMFI can assist each other in further developing and maintaining the microfinance industry database.

As pointed out earlier, a major deterrent to expanding micro and small enterprises (as well as businesses in general) in Tanzania is the substantial administrative burdens and additional costs borne by registered businesses through the large number of periodic reports and forms that must be prepared and submitted to various government agencies. A great deal of simplification in reporting requirements by means of the reduction in the number and frequency, and elimination of mandatory

reports appears to be called for and can be expected to yield significant benefits within a short period of time. The key questions on this aspect of formally registering a business start up are: (i) how many steps are needed in registration, (ii) how many different offices and agencies have to be visited, (iii) how many days are involved in securing formal registration, and (iv) what is the total cost of formal and informal fees collected. The answers are very likely to be surprising. The World Bank's Financial Sector Project (FIDPII) reportedly includes the development and establishment of a credit information bureau and loan default registry system for Tanzania. Looking at the experience in other countries, these support components for the financial sector will need to be preceded by or include reforms in the process for formal business registration.

Appendix A: Summary Schedule : Providers of Microfinance Services in Tanzania

Type / Name of Institution	Microfinance Products Offered	Organizational Format	Basis for Status as Legal Entity	Registration Authority	External Regulation	Licensing/Prudential Supervision	Minimum Capitalization	Main Source of Funds
COMMERCIAL BANKS								
National Microfinance Bank	Savings deposits	Stock corporation	Act of Parliament	Companies Registrar; BOT	Companies Registrar; BOT	Bank of Tanzania	Tsh 1.0 billion [*Note*]	Deposits/capital
Akiba Commercial Bank	Savings deposits; Group and individual microenterprise loans	Stock corporation	Companies' Act; BoT	Companies Registrar; BOT	Companies Registrar; BOT	Bank of Tanzania	Tsh 1.0 billion	Deposits/capital
CRDB Bank	Newly-organized microfinance dept.	Stock corporation	Companies' Act; BoT	Companies Registrar; BOT	Companies Registrar; BOT	Bank of Tanzania	Tsh 1.0 billion	DANIDA
Tanzania Postal Bank	Savings/Fixed deposits	Stock corporation	Act of Parliament	Companies Registrar; BOT	Companies Registrar; BOT	Bank of Tanzania	Tsh 1.0 billion	Deposits/capital
REGIONAL BANKS								
Kilimanjaro Cooperative Bank	Savings deposits and microenterprise loans	Stock corporation	Companies' Act; BoT	Companies Registrar; BOT	Companies Registrar; BOT	Bank of Tanzania	Tsh 200 million	Deposits/capital
RURAL UNIT BANKS								
Mufindi Community Bank	Savings deposits and microenterprise loans	Stock corporation	Companies' Act; BoT	Companies Registrar; BOT	Companies Registrar; BOT	Bank of Tanzania	Tsh 50 million	Deposits/capital
Mwanga Rural Community Bank	Savings deposits and microenterprise loans	Stock corporation	Companies' Act; BoT	Companies Registrar; BOT	Companies Registrar; BOT	Bank of Tanzania	Tsh 50 million	Deposits/capital
SAVINGS & CREDIT COOPERATIVE SOCIETIES								
Urban SACCOs	Member loans only	Coop Society	Coop Societies Act	Min of Coops and Marketing	Min of Coops and Marketing	None	No minimum	Share capital and donor grants
Rural SACCOs	Member savings deposits & loans	Coop Society	Coop Societies Act	Min of Coops and Marketing	Min of Coops and Marketing	None	No minimum	Share capital, deposits & grants
Other (savings-based) SACCOs	Voluntary savings and withdrawals only	Coop Society	Coop Societies Act	Min of Coops and Marketing	Min of Coops and Marketing	None	No minimum	Share capital, deposits & grants
VILLAGE SAVINGS & CREDIT ASSOCIATIONS (SACAS)	Individual savings & group-based loans	Coop Society	Societies Act	Home Affairs Ministry	None	None	No minimum	Donor grants
FINANCIAL NGOS								
Solidarity/Group-based microfinance loans	Mandatory savings & group-based loans	Non-profit trust; Co. limited by guarantee (NGO)	Societies Act; Trust	Companies Registrar	None	None	No minimum	Donor funds
Individual microfinance loans	Mandatory savings & individual loans	Non-profit trust; Co. limited by guarantee (NGO)	Societies Act ; Trust	Companies Registrar	None	None	No minimum	Donor funds

Appendix B: Schedule B - Donor Programs in Tanzania Microfinance

DONOR	Local Counterpart	Program Amount	Region	Program Description
African Development Bank (AfDB)	Local NGOs and Community Based Organizations (CBOs)	$ 10.8 million	Coast Region, Mtwara, Lindi, Morogoro, , Singida	Small Entrepreneurs Loan Facility (SELF)
AfDB African Development Fund – Microfinance Initiative for Africa (AMINA)	SIDO, Poverty Africa, SCCULT, CREW, PTF	$ 20 million, among 10 countries	Counterpart MFIs have differing coverage of the entire country	Capacity building for MFIs, Policy dialogue with Government agencies, Coordination with other donors
Belgian Co-operation	Local MF NGOs working with Mennonite Economic Development Association	$0.8 million	Nationwide	National Income Generation Programme Umbrella Credit Project – capacity building, training, technology transfer, financing
	Local MF NGOs	$0.5 million	Kagera Dodoma Region	Belgian Micro Intervention Programme: group-based microcredits to support house-hold-based income generating activities.
Canadian International Development Agency (CIDA)	Huduma ya Maendeleo (HYM)	$2.8 million	Dar es Salaam, Mbeya (Urban areas)	Mennonite Economic Development Association Microenterprise Business Development Program – capacity building, training, financing
	To be identified	$0.35 million	Dodoma, Iringa, Mwanza, Dar es Salaam, Shinyanga, Morogoro	CARE Canada Imara – capacity building, marketing, financing
	Gov't. of Tanzania – Ministry of Agriculture	$ 50,000	Tabora (Nzega)	World Vision Soft Loan for Food Security – capacity building, marketing, training, financing
	SACCOs Needs Assessment for BOT Donor Microfinance Update Survey for use by BOT	$ 70,000		Microfinance Related Studies – capacity building, technology transfer, training, financing, studies
Danish International Development Assistance (DANIDA)	CRDB Bank	$ 15 million total for BSSP	Dodoma, Iringa, Mbeya, Morogoro	Business Sector Support Programme – Microfinance Component targeted at households, smallholder farmers and small and micro enterprises through CRDB Bank
	High Court of Tanzania		Nationwide	Business Sector Support Programme – Commercial Court
Department for International Development (DfID)	Microfinance Capacity Building Programme in Africa (AFCAP)	$ 6.6 million total for multi-country program		Microfinance Capacity Building Programme in Africa (AFCAP), a joint initiative with CGAP for capacity building of MFIs in East, Central and Southern Africa
	Micro Save Africa	$ 0.660 million		Micro Save is a joint initiative with UNDP, to provide TA to organizations to strengthen their development of savings services
	SCCULT, Ministry of Coop-eratives & Marketing, BOT,	$ 40,000		Study of Rural Savings and Credit Cooperatives (SACCOs) in Tanzania

Department for International Development (DfID)	FINCA Tanzania	$ 2.2 million		FINCA Village Banking Network micro-finance program for low-income women entrepreneurs
	Akiba Commercial Bank	$0.312 million		TA to build institutional capability for banking services to micro and small enterprises
	Small Enterprise Development Agency (SEDA)	$1.4 million		TA to build institutional capacity for self-managed sustainable provider of financial services to women microentrepreneurs
	Sero Leasing and Finance (SELFINA)	$0.772 million		Increase access to financial services of women operating small businesses.
European Union (EU)	SNV Health Projects Abroad, AFRICARE	$3.0 million	Dodoma, Singida, Kigoma, Tabora	Micro Project Programme covers capacity building, training, technology transfer and financing assistance to communities
	Kilimanjaro Cooperative Bank CRDB Bank, Postal Bank	$1.5 million	Nationwide coffee areas: Kagera, Kilimanjaro, Arusha, Mbeya, Ruvuma, Kigoma, Lushoto	Capacity building, training, technology transfer and financing assistance to coffee farmers through the three banks' network of branches and offices.
Finland Embassy	District Cooperative Office	Not indicated	Masasi, Nachingwea, Ruangwa	Support to SACCOs in training cashiers & other management staff at the district level
	District Agriculture & Livestock Extension Staff	$ 75,000	Lindi and Mtwara	Goat-raising Loan Credit Scheme for low-income women
German Agency for Technical Cooperation (GTZ)	Small Industrial Development Organization	$6.8 million	All districts nationwide	Improve capacity of SIDO to effectively deliver, on a sustainable basis, business development services to micro and small enterprises in the informal economy
International Fund for Agricultural Development (IFAD)	Government of Tanzania	$15.82 million, of which $5.94 million is credit	Iringa, Mbeya, Rukwa and Ruvuma	Southern Highlands Extension and Rural Services Project: Microcredit services to marginal and landless farmers, and capacity building for SACCOs
	Government of Tanzania and Belgium Survival Fund	$14.37 million	Serengeti, Tarime, Musoma Rural and Bunda, all in Mara Region	Farmers Initiative Project: Credit and marketing services to the poorest farmers (Southern Highlands), food security (Mara Region)
	Government of Tanzania, Belgium Survival Fund, and OPEC	$14.8 million	Biharamulo, Bukoba, Karagwe, Muleba, Ngara (Kagera Region)	Agricultural and Environmental Management Project: Credit and marketing services to improve household food production and income of poorest farmers in Kagera Region
	Government of Tanzania, World Food Programme and Irish Aid	$17.05 million	(A) Mwanza, Shinyanga, Arusha, (B)Tabora, Singida, Dodoma	Participatory Irrigation Development Project: improve capacity of smallholder farmers to develop irrigation in the marginal areas of wealthier regions (A) and the poorer regions (B)
	Government of Tanzania	$25 million	Southern Highlands, pockets of the marginal areas, Northern Regions	Rural Financial Services Programme (Project in preparation, co-financiers being explored)

Netherlands Embassy	Akiba Commercial Bank	$0.425 million	Dar es Salaam, Lake Zone, Arusha, Mbeya, Kilimanjaro	Akiba Commercial Bank (I and II) Expansion Project: capacity building and technology transfer program to improve outreach to micro, small and medium entrepreneurs
	Netherlands Development Cooperation (SNV), CRDB	$0.895 million	Arusha	Finance & Advice Development Assistance - Small Enterprise Promotion (FAIDA.SEP), to provide credit guarantee scheme for small and microentrepreneurs
Norwegian Embassy (NORAD)	Pride Tanzania	$6.3 million	Arusha, tanga DSM, Morogoro, Dodoma, Iringa, Mwanza, Shinyanga, Mbeya, Songea, Musoma, Singida, Tabora, Kigoma, Zanzibar	Pride Tanzania: capacity building, training and credit funds to microentrepreneurs who can be assisted to develop their enterprises into financial viability and sustainability
	Pride Tanzania and Pride Africa	Arusha	$0.490 million	REDI Arusha: microfinance capacity building and training for NGOs, specifically Pride Tanzania and Pride Africa.
Swedish International Development Agency (SIDA)	Government of Tanzania			GOT/Multi-Donor Mission: Review of Rural and Micro Finance in Tanzania
	Pride Africa	$0.53 million	Tanzania and Uganda	Research and development to improve the Pride microfinance model in 2 countries
	Bank of Tanzania	$ 120,000		Supervision and regulation of microfinance, Financial Sector Assessment -- in World Bank's comprehensive Rural and Micro Financial Services Project
	Presidential Trust Fund	SEK 11 million		TA for capacity building and institutional support to develop self reliance for PTF
	Tanzania Association of Microfinance Institutions	SEK 4 million		TA for capacity building and institutional support to develop self reliance for TAMFI
	SACCOs	$1.0 million	Lake Victoria Region	TA for capacity building and institutional support to SACCOs through Swedish Cooperative Center with FISEDA and HUMACO
United Nations Development Programme (UNDP)	Government of Tanzania	Not indicated	Coast Region, Dodoma, Kigoma, Lindi	Community-Based Initiatives (CBI) for Poverty Eradication: funds for on lending
	Government of Tanzania	Not indicated	Dar es Salaam, Arusha, Mwanza, Zanzibar	National Program of Action for Sustainable Income Generation: support for income generation projects in agriculture, micro-enterprise, infrastructure sectors
United Nations International Development Organisation (UNIDO)	Confederation of Tanzanian Industrialists (CTI), Tanzanian Chambers of Commerce Industries and Agriculture (TCCIA), Small Industrial development Organization (SIDO), The Planning Commission	Not indicated		Non-financial business support services to microfinance administrators for informal sector development, in computers, information and communications technology, opportunity studies, marketing

United States Agency for International Development (USAID)	Various Local and Regional entities and Institutions		Mwanza (FINCA), Dar es Salaam (AMINA, The Business Centre, Tanzania Venture Capital Fund, Regional Chamber of Commerce, Bank of Tanzania	USAID support is directed towards private sector development through business promotion intermediaries such as FINCA (Mwanza), AMINA, The Business Centre (Dar es Salaam), Tanzania Venture Capital Fund (TVCF), Training Assistance to Bank of Tanzania.
African Development Foundation (ADF)	Youth Employment Foundation (YOSEFO)	$143,153	Temeke (DSM)	Revolving loan fund for microcredit
	Tanzania Microentrepreneur Association	$148,328	Mwanza (urban)	Revolving loan fund for microcredit; micro-entrepreneur training/capacity building
	Credit Activities for Women (CREW)	$50,000	Zanzibar	Grant for capacity building, training, microcredit loan fund.
	Presidential Trust Fund	$233,539	Dar es Salaam, Kibaha and Mlandiz (Coast)	Dar Women and Youth Credit project – Grant for capacity building, training, microcredit loan fund.
	Arusha Credit Shop	$161,500	Arusha – Urban and Rural	Grant for capacity building, training, microcredit loan fund.
	Tanga Credit Shop	$194,346	Tanga – Urban and Rural	Grant for capacity building, training, microcredit loan fund.
	Dar Credit Shop	$168,142	Dar es Salaam	Grant for capacity building, training, microcredit loan fund.
	Moshi Informal Sector Credit Shop	$201,557	Kilimanjaro (Moshi)	Grant for capacity building, training, microcredit loan fund.
	Kondoa Self-employment Credit Project	$175,165	Dodoma (Kondoa)	Grant for capacity building, training, microcredit loan fund.

Source: Microfinance Donor Survey Update, for the Bank of Tanzania with Technical Support of Canadian International Development Agency, Final Report, April 2000

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