

Country Survey:

TANZANIA



Key Facts : Microfinance in TANZANIA				
By CGAP ¹	No. of MFIs	No. of Borrowers	Borrowers Population ^a	Borrowers/Poor ^b
	13	197,000	1%	1%
By MIX ²	No. of MFIs reporting (2009)	No. of Active Borrowers	Gross Loan Portfolio (USD)	Average Balance per Borrower (USD)
	7	233,341	591.3 million	187.1
By MFT ^c	No. of MFIs (2010)	No. of Active Borrowers	Gross Loan Portfolio (USD)	% Products with a Flat Interest Rate
	14	437,411	190.9 million	97%

Country Overview

Tanzania is located in on the eastern coast of Africa boarded by Kenya and Uganda to the north, Rwanda, Burundi and the Democratic Republic of the Congo to the west and Mozambique to the south. Mount Kilimanjaro, the highest peak in Africa, lies in the northeast region of the country, bordered by three of the largest lakes on the continent including Lake Victoria. Shortly after gaining its independence from Britain, Tanganyika and Zanzibar merged to form the United Republic of Tanzania in 1964³.

Tanzania is home to over 41 million people and ranks as the 31st most populous nation in the world. The majority of citizens live in rural communities concentrated along the coast and islands and in the Lake Victoria region. Dar es Salaam, the former capital, is the most populous city and the major industrial center of Tanzania. In 1996 the capital was moved to the more centrally located Dodoma⁴, where parliament and other government buildings are located.

The life expectancy at birth in Tanzania is 59 years⁵. This takes into account the excess mortality due to AIDS, a disease which impacts an estimated 1.4 million people, or 6.2% of the population⁶. The average adult attends school for 5.1 years and the overall literacy rate is 72%⁷. Culturally diverse, Tanzania has roughly 120 communities representing several of Africa’s main socio-linguistic groups. The first language typically learned by a Tanzanian is that of his or her tribe, with Swahili and English learned thereafter.⁸

^a MFI borrowers as a percentage of the country’s overall population

^b MFI borrowers as a percentage of the poor population based on national poverty rates

^c This row of the table is populated with data from MFTransparency’s Transparent Pricing Initiative in Malawi

Political Overview

On April 26, 1964 the recently independent Tanganyika and Zanzibar signed the Union Agreement to form the United Republic of Tanzania. Under the Agreement Zanzibar was given extensive autonomy from mainland Tanzania – it has its own President, legislature and bureaucracy. Although Zanzibar accounts for only 3% of the population, it is guaranteed 15% of seats in the Union Parliament⁹. All union matters, including foreign affairs, national defense, and police are legislated by the Tanzanian Union and are valid in Zanzibar.

The most recent elections in Tanzania were held in October 2010, becoming the fourth multi-party elections since independence. The political party Chama Cha Mapinduzi (CCM) maintained an absolute majority with 80% of the seats in Parliament. Voter turnout was surprisingly low with only 42% of registered voters casting a ballot, compared to a historical 70% rate of voter turnout¹⁰. Unlike the peaceful elections in mainland Tanzania, every election in Zanzibar has experienced irregularities and occasional violence. This is beginning to change however, and last year the main opposition party, Civic United Front (CUF), and the ruling party were able to reach a power-sharing agreement, leading to the first peaceful elections in Zanzibar's history.

Since the 1960's, Tanzanian leadership has actively supported the efforts of other African nations to gain independence from colonial powers. The most influential leader in forming Tanzania's diplomatic policies was its first president, Julius Nyerere. Nyerere championed the Organization of African Unity (OAU) and served as chairman from 1984 to 1985. He also played an active role in anti-apartheid and was one of founding members of the Non-Aligned Movement. Tanzania has strong relationships with neighboring nations and has emerged as a leader in solving chronic conflicts, especially in the Great Lakes region. Tanzania has a notable history of supporting refugee populations and in 2009 granted citizenship to 169,000 Burundi refugees. From 2005 to 2006, Tanzania was a non-permanent member of the UN Security Council and participated in UN peacekeeping missions including operations in Lebanon and Sudan¹¹.

Macroeconomic Overview

Tanzania is one of the poorest countries in terms of per capita income, ranking 202nd in the world for purchasing power parity¹². After achieving independence in 1961, the newly formed Tanzanian government implemented a socialist economic system. The following two decades saw severe economic decline. Exchange rates and pricing policies were artificially controlled using non-market mechanisms, causing low exports and high inflation. These policies also crippled agricultural production, the mainstay of Tanzania's economy, creating widespread shortages. In 1986, the country began taking steps to liberalize the economy, most notably in the agricultural marketing system and in domestic prices. Financial reforms were initiated. Nonetheless, economic growth remained sluggish until much more aggressive steps were taken in 1996¹³. With the support of the IMF, Tanzania formed a strong Ministry of Finance in 1996, which was pivotal in accelerating fiscal reforms¹⁴. In the late 1990's, real Gross Domestic Product (GDP) growth was less than 5% but in the last seven years it has averaged above 6% annually. This growth also translated to a 40% increase in GDP per capita between 1998 and 2007¹⁵.

Tanzania is considered to have achieved a reasonable growth performance, having relatively low underlying inflation, an adequate level of monetary reserves and plans to tackle external and domestic debt sustainability. However, Tanzania’s economy is still heavily dependent on donor assistance – nearly 30% of the budget is provided by outside donors¹⁷.

GDP and Inflation				
Year	GDP (PPP)*	GDP Growth	Inflation	GNI Per Capita (PPP)
2007	14.14	7.4%	6.4%	1,060
2008	20.72	7.4%	10.1%	1,310
2009	21.37	6.0%	7.4%	1,370
2010	23.06	7.0%	7.7%	1,430

*Billion USD, 2010 figures, Source: World Bank¹⁶

Tanzania enjoyed moderate inflation over the last decade, but it is now struggling to combat the current inflation rate. Tanzania has an external debt of \$7.9 billion and the servicing of this debt absorbs about 40% of total government expenditures¹⁸. In an effort to restructure many of its state-owned enterprises, the government separated from them. By 2006 it had divested from 335 out of approximately 425 entities¹⁹. Tanzania has also qualified for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. The IMF’s most recent Debt Sustainability Analysis of Tanzania indicates that debt relief under the HIPC combined with sound macroeconomic policies place it at low risk of debt distress. Public external debt service was approximately 1% of GDP in 2009 and is expected to remain so for 2010 and 2011.

Agriculture is the backbone of Tanzania’s economy, accounts for approximately 29% of GDP and 80% of

GDP – composition by sector:	
Agriculture	28.8%
Industry	24.3%
Services	46.9%
Annual Trade:	
Imports	7,081
Exports	2,664
Source: 2009 figures World Bank ²⁰	

employees. The vast majority of export earnings are dependent on cash crops including coffee, tea, cotton, cashews, sisal, cloves and pyrethrum²¹. Although the volume of cash crops has increased in recent years, large amounts of produce fail to reach the market. High food prices have persisted since the price spike in 2008, being contributed to a rise in inflation. Price fluctuations and unreliable cash flow continue to frustrate the region’s already struggling farmers. Tanzania’s industrial sector is one of the smallest in Africa (24.3% of GDP) and is mostly concentrated in Dar es Salaam²².

Manufacturing is hindered by a number of factors including the poorly maintained electricity infrastructure and foreign exchange shortages.

Zanzibar’s economy is dominated by the production of cloves, although it has taken steps to promote its growing tourism industry. The island’s manufacturing sector is limited mainly to import substitution industries, such as cigarettes, shoes, and processed agricultural products. Many new resorts and hotels are sprouting up on popular islands, signaling the promising growth of the tourism sector. However, a prolonged electricity shortage from December 2009 to March 2010 had a severely negative impact on tourism as well as commodity prices, further damaging Zanzibar’s already fragile economy²³.

Tanzania’s record of political instability and socialist economic policies has discouraged substantial foreign investment. The most common complaint of investors, foreign and domestic, is the hostile bureaucracy and the weak judiciary system. Tanzania’s current government has a favorable attitude towards foreign direct investment and has begun taking steps to improve the business climate. These include redrawing tax codes, floating the exchange rate, licensing foreign banks and creating an investment promotion center. The greatest potential for foreign direct investment is in Tanzania’s mineral resources as well as its largely untapped tourism sector.

Poverty in Tanzania

After four decades of independence Tanzania remains one of the poorest countries in the world. Its GDP is less than the averages for Sub-Saharan Africa and East Asia. Although Tanzania’s economy has grown dramatically by 5% to 7% annually in the past decade, this has not translated into significant quality of life improvements for the majority of citizens. According to the 2007 Household Budget Survey (HBS), the absolute number of poor had increased by 1.3 million since 2000. The National Bureau of Statistics confirms that the number of Tanzanians surviving on \$1.10 a day or less has risen by one million to 12.7 million in the last six years. Researchers have largely attributed this to an annual population growth of 2.6 percent. The United Nations Human Development Index, which measures a range of social and economic indicators, ranks Tanzania the 152th poorest nation out of 197. For comparison, Kenya and Uganda, Tanzania’s immediate neighbors, ranked 143th and 161th respectively²⁶.

Key Poverty Figures	
HDI	0.466
GINI	37.6
GNI per capita (PPP \$)	1,328
Pop. below \$ 1 a day	58%
Pop. below \$ 2 a day	90%
Sources: Human Development Report 2011 ²⁴ and Earth Trends ²⁵	

The Millennium Development Goal (MDG) set by the United Nations aims to reduce the incidence of poverty by 50% between 1990 and 2015. In 1991, 39% of Tanzanian households were living below the basic needs poverty line. In order to meet the MDG target, this proportion needs to be reduced to 19.5% by 2015. Data from the HBS 2000 and 2007 show a limited decline in income poverty levels over

the period in all areas²⁷. Poverty indicators also show a growing disparity in poverty between urban and rural areas. Approximately 38% of rural households are considered to live below basic needs, compared with 24% of urban households and 16% in Dar es Salaam. With such low reductions in poverty, Tanzania is unlikely to achieve MDG poverty reduction targets²⁸.

Microfinance Industry of Tanzania

Introduction

The microfinance industry in Tanzania is relatively young and limited in scale. The World Bank estimates that less than 20% of Tanzania’s working population – approximately 13 million people – has access to mainstream banking services²⁹. In an attempt to address this, many banks have recently begun targeting the poor by extending collateral-free and low interest microcredit and loans. Due to lack of skills and experience within the market these efforts are not widespread and mostly favor borrowers in urban areas, leaving the rural areas largely underserved. Of the estimated 800 institutions providing financial services to low-income borrowers in Tanzania, most are reluctant to move into rural areas due to the poor national infrastructure, perceptions of high risk and due to the higher expense of operating costs.

Since 2003, there have been positive developments in Tanzania’s microfinance industry as numerous banks and financial institutions have provided increased funding either directly to beneficiaries or through intermediary institutions. Despite this progress, it is estimated that microfinance service providers have a combined outreach of approximately 500,000 clients, which is only about 5% of the estimated total demand.

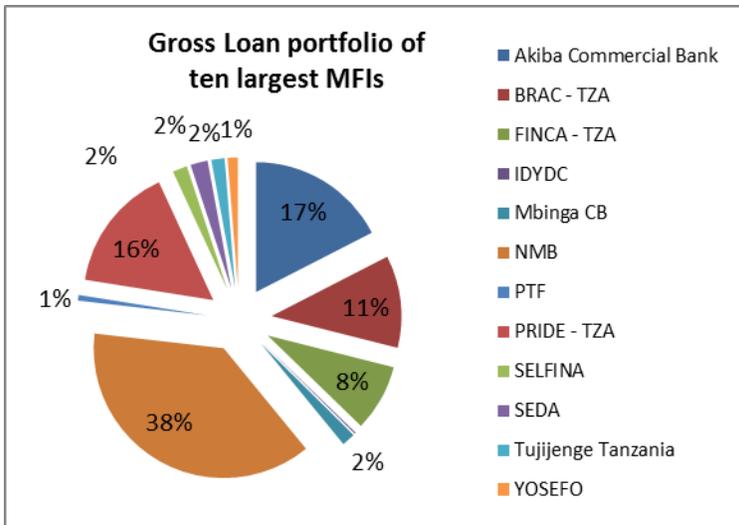
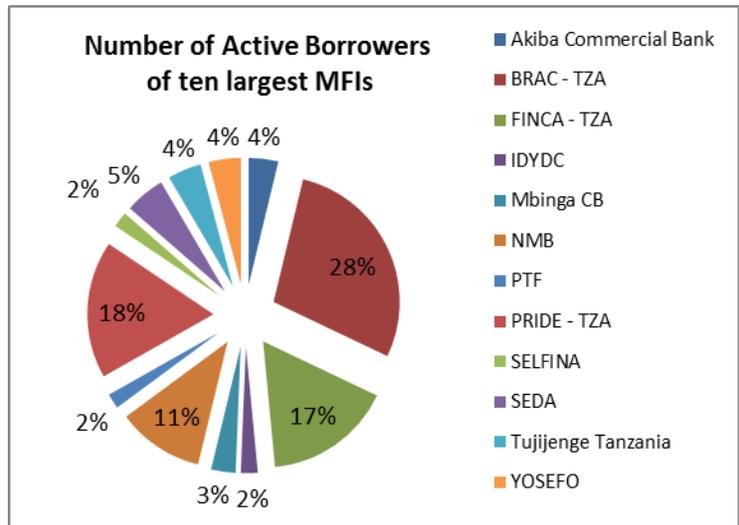
Microfinance Institutions

There are three main categories of microfinance institution (MFI) in Tanzania, the first being non-governmental organizations (NGOs). The most prominent NGOs include PRIDE TZ, FINCA, SEDA and PTF. Banking institutions also offer a range of microcredit products. The largest banks are the National Microfinance Bank (NMB), CRDB bank and Akiba Commercial Bank (ACB). There are a few regional and community banks, namely Dar es Salaam Community Bank, Mwangi Community Bank, Mufindi Community bank, Kilimanjaro Cooperative Bank, Mbinga Community Bank and Kagera Cooperative Bank. Lastly, cooperative based institutions (SACCOS and SACCAS), which are not regulated by the Bank of Tanzania, provide financial services that are predominately savings based. Examples include Small Industries Development Organization (SIDO), YOSEFO, SELFINA, Tanzania Gatsby Trust, Poverty Africa and the Zanzibar based Women Development Trust Fund.

The market share in terms of both loan portfolio and numbers of active borrowers of the largest ten MFIs in Tanzania are displayed in the diagrams below.

Microfinance Institution	Number of Active Borrowers	Gross Loan portfolio (national currency)	Reports to MIX (2009)	Participated in MFTransparency Pricing Initiative (2011)
Akiba Commercial Bank	15,638	48,100,616,000	Y	
BRAC - TZA	117,261	31,677,570,729	Y	Y
FINCA - TZA	68,020	22,944,389,027	Y	Y
IDYDC	8,918	436,681,600	Y	
Mbinga Community Bank(Mbinga CB)	12,963	4,600,000,000	Y	Y
National Microfinance Bank (NMB)	46,000	104,000,000,000	Y	Y
Presidential Trust Fund (PTF)	7,983	1,934,424,523		
PRIDE - TZA	72,977	43,066,352,000	Y	
Sero Lease and Finance Limited (SELFINA)	8,243	5,000,000,000		Y
Small Enterprise Development Agency (SEDA)	21,347	5,900,000,000	Y	
Tujijenge Tanzania LTD	17,827	4,529,260,138		Y
Youth Self Employment Foundation (YOSEFO)	17,135	3,516,132,881		Y

Source: MFIs according to MFTransparency data 2011 & MIX data 2010



Source: MFIs according to MFTransparency data 2011 & MIX data 2010

Another noteworthy group of Tanzanian microfinance service providers consists of non-institutional actors who generally operate in the informal sector. These include rotating savings and credit groups, rural savings and credit schemes, and moneylenders. Although there are numerous providers in this field, there are no reliable statistics on their lending patterns. These providers operate informally and offer valuable, but limited and often expensive microfinance services.

National Microfinance Networks

Tanzanian Association of Microfinance Institutions (TAMFI)

Comprised of 41 member groups including 2 commercial banks, 3 community banks and 36 NGOs, TAMFI is the umbrella organization for microfinance institutions operating in Tanzania.³⁰ TAMFI is an open forum devoted to

strengthening the microfinance sector by promoting cooperation and collaboration among its members. Through lobbying and advocacy, TAMFI aims to create and maintain a strong regulatory framework for Tanzania's microfinance industry³¹. TAMFI also carries out research relevant for MFI development in Tanzania and provides viable suggestions to member organizations. Membership is voluntary and open to all institutions involved in microfinance activities, including commercial banks and financial institutions, community banks, NGOs and SACCOs.³²

Tanzania Federation of Cooperatives (TFC)

Tanzania Federation of Cooperatives is the national umbrella organization for cooperative-based institutions. It promotes and coordinates the development of all cooperative-based institutions³³. Founded in 1994, TFC is an autonomous, non-governmental and non-partisan body that is member owned and managed. The founding members consist of five National Cooperative apexes from tobacco, cotton, coffee, cashew and cereal and other produce industries; two specialized Unions (Savings and Credit Cooperative Union of Tanzania – SCCULT, and Tanzania Industrial Co-operative Union) and six Cooperative Unions.³⁴ TFC replaced the then Cooperative union of Tanzania (CUT) following the enactment of the new Cooperative Act in 1991, which rescinded the political association of the current ruling party. The Cooperative Act of 1991 stressed the importance of an autonomous cooperative body with member empowerment, resulting in the formation of the TFC. Currently, the cooperative movement comprises of about 6,000 Cooperative Societies having about 700,000 members.³⁵

Savings and Credit Cooperatives Union League of Tanzania (SCCULT)

SCCULT is National Association of SACCOS in mainland Tanzania and was formed in 1992. It was registered on 19th October 1992. SCCULT is governed by an elected nine member Management Board. Currently SCCULT has 671 members SACCO affiliates. The role of SCCULT is to promote, develop and strengthen SACCOS in Tanzania by providing diverse financial services in a competitive environment. The goal of these efforts is to assist individuals in alleviating poverty, commanding respect and dignity, and promoting equity and justice.³⁶

The Community Banks Association (CBA)

The Community Banks Association was founded by Tanzania Gatsby Trust (TGT) in liaison with all community banks in Tanzania in the year 2005. The Association was registered under the Societies Ordinance of 1954 (rule 5) with Registration issued on 1st day of February 2006. The association is an instrument for Delivering Financial and Non-Financial Services to Community Banks which serves the micro, small and medium sized enterprises, considered to be the true engines of economic growth. The CBA's Mission is *“to mobilize resources so as to maximize value and economically empower community banks in Tanzania by offering financial and non-financial resources efficiently and effectively for mutual benefit of all parties”*³⁷

Savings and Credit Cooperatives (SACCOs)

Savings and Credit Cooperatives were first established in Tanzania in the 1920s and have since played a vital role in the country's economic and social development. The principle behind cooperatives is that they are owned and

controlled by their own members in the community. Figures from 2006 showed that there were 1,507 registered SACCOS with 217,418 individual members in Tanzania, although only 761 were listed as active SACCOS. The cooperatives serve an estimated 130,000 clients, most of whom are savers. There are nearly twice as many SACCOS based in urban areas than rural – 415 versus 242 cooperatives respectively.³⁸

Tanzanian cooperatives provide a valuable service to low-income borrowers, offering a safe place to make savings and access loans. In 2006, almost 700 SACCOS were affiliated with SCCULT, accounting for 92,687 individual members. However, the SACCOS in Tanzania have been accused of being “unable to cope with modern realities”, their image having been tarnished by poor administration, poor leadership, unreliable business practices, and corruption³⁹.

Tanzanian cooperatives need to undergo a comprehensive transformation and refocus attention on their founding principles in order to survive. To be successful, cooperatives must be sustainable, viable business enterprises that maintain the trust of their communities. A number of significant steps have been taken in the last ten years to help revive this sector, including the 2000 Special Presidential Committee on reviving cooperatives and the new cooperative legislation of 2004. These efforts culminated in the writing of a key strategic document, The Cooperative Reform and Modernization Program 2005-2015. This is a home grown initiative and was produced with the direct involvement of Tanzanian cooperatives, rather than by external consultants. A number of important issues were identified. These included concerns about poor management, inappropriate cooperative structures, a lack of working capital, a lack of cooperative democracy and education, weak supporting institutions, and some instances of corruption and embezzlement. The Program is now working towards establishing economically strong cooperative societies that are capable of facing competitive challenges, and an empowered membership with good governance and accountability. The aim is to develop a network of cooperatives that has an efficient and cost effective structure, and is able to respond easily to the needs of its members.

The program is a part of a larger effort on behalf of the Tanzanian government to promote economic development, including MKUKUTA – the National Strategy for Growth and Reduction of Poverty adopted in June 2005⁴⁰. In October 2010, Tanzania also invited the World Council of Credit Unions (WOCCU) to develop a stronger regulatory framework for the credit union sector. Additionally, WOCCU hopes to address the scarce liquidity and long waiting periods to obtain a loan with SACCOS. Many of these organizations are volunteer-run and despite efforts taken by the Bank of Tanzania, regulation and supervision have been virtually non-existent in rural areas of the country. This is particularly important as the number of financial cooperatives in Tanzania has exploded in recent years, increasing over 50% in only three years. Despite the proliferation of SACCOS, no single entity provides centralized financial or statistical information on the institutions. As the SACCOS sector continues to grow, it faces an increasing need for central oversight to ensure appropriate the financial discipline needed to protect member savings.⁴¹

Funders and Donors

The international donor agencies provide not only substantial financial resources to serve as loan and investment capital for microfinance NGOs but they also technical assistance for staff capacity building and technology transfer of best practice in microfinance⁴². 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 second tier and third tier organizations for cooperative societies as

well as the primary SACCOs, the commercial banks, 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 Institutions⁴³.

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 will at some point be exhausted. Microfinance under private initiative is a relatively new development in Tanzania when compared to other countries, and the industries stakeholders have been encouraged towards placing microfinance development on a sustainable path. External advisers and consultants can assist in the construction and crafting of a legal and regulatory framework for the sector but the primary responsibility for incorporating these into the design of the framework must belong to local stakeholders. Establishing effective coordination will be beneficial, not only for the international donors but for the microfinance institutions themselves⁴⁴. Without coordinated efforts, there will continue to be instances of NGOs changing and shifting their focus so as to fit donors’ goals, and of the scarce resources becoming less productive.

Microfinance Regulation

Central Bank

In 1995 the Bank of Tanzania (BoT) moved away from its former multiple-policy objectives to focus on a single-policy objective – establish monetary conditions conducive to price stability. The BoT Act of 1995 states,⁴⁵

“The primary objective of the Bank shall be to formulate and implement monetary policy, directed to the economic objective of maintaining price stability, conducive to a balanced and sustainable growth of the national economy of Tanzania”

By increasing uncertainty in future prices, inflation adversely affects decisions related to consumption, saving, borrowing, and capital investments. Excessive inflation can also drastically impede economic development, as it adversely affects interest and exchange rate stability – two pivotal aspects of Tanzania’s Financial and Economic Restructuring Program. The Bank of Tanzania is committed to combating the critical inflationary situation in the country and has declared inflation to be the nation’s “*economic enemy number one*”. To achieve this objective, the BoT plans to implement initiatives around a refinancing policy, minimum reserve policy, open market policy, foreign exchange interventions and other instruments.

National Microfinance Policy

The Tanzanian government has voiced concern over the alarming state of poverty and is actively involved in programs focused on stimulating poverty alleviation. The government views microfinance institutions as a powerful weapon in combating poverty and to this end has been keen to improve and develop the microfinance industry. It has established a fully-fledged Directorate of Microfinance within the Bank of Tanzania, which has spearheaded several influential programs, including the formation of the National Microfinance Policy.⁴⁶ Established in 2002, the National Microfinance Policy provides the legal, regulatory and supervisory framework for

microfinance activities. The entire process to write the comprehensive legislation, from policy formulation to the development of legal, regulatory and supervisory framework, was highly participatory involving all the stakeholders in the industry including MFIs. It aims to serve the low-income segment of society by building an efficient micro financial system, thereby making banks more effective in poverty reduction. This policy focuses on serving households, small holder farmers and small micro-enterprises in rural as well as urban areas⁴⁷.

The legislation was concluded in 2003 by an amendment of the Banking and financial Institutions Act 1991, Bank of Tanzania Act 1995 Cooperative Societies Act 1991, and other related statutes. This gave the BoT the mandate to license, regulate and supervise deposit taking equity-based microfinance companies⁴⁸. The legislation also empowers the BoT to regulate and supervise cooperative based institutions whose sizes are above a certain threshold. Under the framework, MFIs could now be licensed to take public deposits and hence carry out financial intermediation just like banks. Under the legal framework, the credit only NGOs are not subjected to prudential norms but are required to abide by non-prudential guidelines and supervision under the Ministry of Finance.

Supervisory Framework

The National Microfinance Policy has been amended over time to give the BoT the mandate to license, regulate and supervise deposit equity-based microfinance institutions⁴⁹. Furthermore, the policy gives the BoT regulatory oversight over cooperative based institutions that are above a certain size. The law has established a tiered system of regulation to supervise microfinance institutions, as outlined below:

Supervisory Authority	Institutions to be supervised	Responsibilities
Bank of Tanzania	<ul style="list-style-type: none"> Commercial Banks Financial Institutions (including MFCs) FICOS 	<ul style="list-style-type: none"> License MFCs License FICOS Review microfinance operations of commercial banks and other financial institutions (whose core business is not microfinance) through segmented financial reporting Conduct on-site and off-site examinations Review external audit reports and conduct random examinations of audit firms
Registrar of Cooperatives	SACCOS	<ul style="list-style-type: none"> Register SACCOS Conduct on-site and off-site examinations of SACCPS Review external audit reports and conduct random examinations of audit firms
Ministry of Finance	NGOs	<ul style="list-style-type: none"> Review external audits prior to authorizing disbursement of funds provided by Government or donors Grant accreditation to NGOs as “Micro-credit Institutions-MCIs” In coordination with NBAA review external audit report and conduct random examinations of audit firms monitoring the respective NGOs

The Rural Finance Services Strategy (RFSS)

Rural Tanzanians have little access to financial services. Nearly one third have no access at all; 29% use non-monetary means to transact and 28% use informal financial service providers. Only 4% use semiformal providers, while just 8% have access to a bank account or insurance policy⁵⁰. The Rural Financial Services Strategy (RFSS) is an action plan to enhance the provision of financial services to Tanzania's rural areas. It was developed to try and resolve some of the complexity caused by the existing rural finance policy framework, stemming from the multiple policy efforts intended to streamline microfinance and rural finance. The RFSS was developed with the financial support of the FSDT. The RFSS is still waiting to be formally endorsed by the Ministry of Finance and Economic Affairs.⁵¹

The central element in the RFSS in the medium term is development of SACCOS, since they have a strategic presence in the rural areas already and are relatively low cost structures. The strategy recommends the creation of an enabling environment within which rural financial markets are encouraged to develop, the improvement of financial literacy for users of financial services, the increased skills development for private enterprise development, and the assistance in development of better products and services from SACCOS. The RFSS foresees the establishment of integrated networks of SACCOS.

Banking Standards and Requirements

The Bank of Tanzania imposes a ceiling on unsecured lending by banks which prevents a single borrower from taking an unsecured loan that exceeds 5% of the bank's total capital⁵². 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 rural unit bank with its required minimum capital of Tsh 10 million can only make an unsecured loan not exceeding Tsh 5 million (about \$3,500 USD). Licensed banks are also 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 operations⁵³. Rural banks are often confronted with ceilings that prevent them from making loans for more expensive capital equipment, such as office equipment, vehicles and computers. Tanzanian banks are seeking some relief and flexibility from the current single borrower's system as well. A single borrower cannot take a loan in excess of 25% of the bank's capital – a fairly prudent restriction that is almost universal among many countries. However, regional banks whose shareholders – SACCOS and SACCO unions – also make up the principal client base of the banks are sometimes burdened by these restrictions.

Consumer Protection

Although Tanzania has taken major efforts to reform the banking and financial institutions sector over the last two decades, the issue of consumer protection has remained virtually untouched by the reforms. This situation has led to increasing abuse of good business practices by many of the financial institutions and banks, as well as a lack of transparency in dealing with customers.⁵⁴

Only one institution, the Tanzania Consumer Advocacy Society, is in process of building foundations for consumer protection efforts. This is a private voluntary, non-partisan and nonprofit making organization that was registered

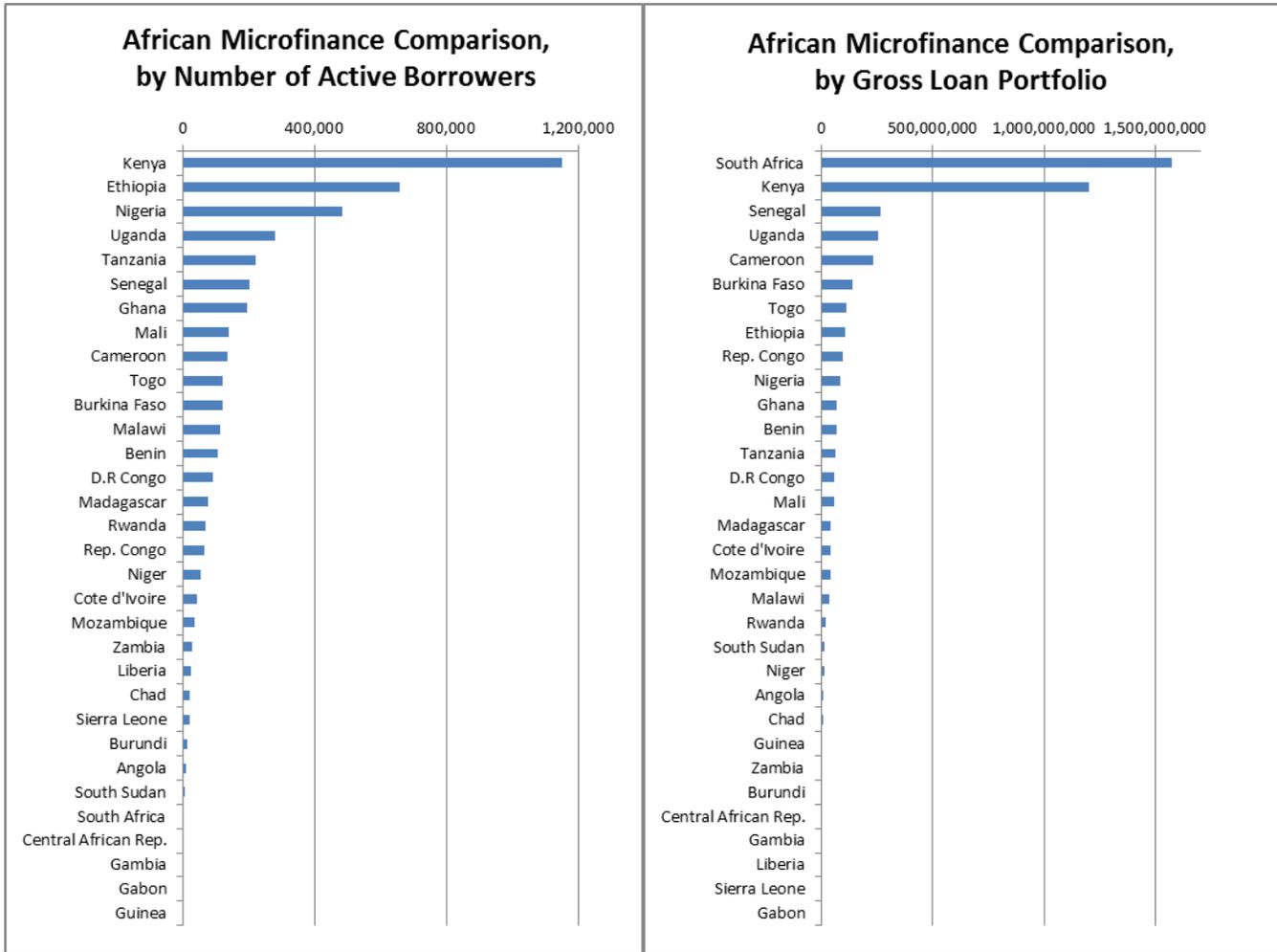
as a company limited by guarantee in July 2007 under the Companies Act of 2002. The Society has been providing an advocacy platform that would allow consumers' voices to be heard, raise consumers' awareness of their rights, and build consumers' ability to claim their rights, as well as make markets accountable and more responsive to consumers' needs and interests⁵⁵. The Bank of Tanzania, which has the mandate to supervise the banking and financial industry as a whole, has no straightforward consumer protection guidelines.

Mobile Banking

Mobile banking was started in Tanzania in 2009 with the launch of ZAP, a mobile banking partnership between Standard Chartered Bank and Airtel. ZAP is a payment system that allows Airtel customers to deposit, transfer and withdraw money at their convenience through their Airtel handsets, at any place where mobile coverage exists. The introduction of mobile banking in Tanzania has helped extend banking facilities to both the banked and unbanked community. Vodacom M-pesa is now Tanzania's leading mobile payment services provider.⁵⁶ M-pesa enjoys widespread influence with over TZS. 17 billion monthly transactions and 4 million subscribers served by 4,700 M-pesa agents and Vodashops around the country. Other providers offering mobile money services include Zain's Zap, Tigo Cash and Zantel Z-pesa. Mobile phone users can use their phone to make deposits, withdrawals, check balances, transfer, pay utility bills, purchase airtime etc. The uptake of mobile payment solutions in Tanzania has been a bit slower than in neighbouring Kenya.⁵⁷ This is partly due to technical differences (e.g. M-PESA in Kenya is technically more user-friendly) and partly due to weaknesses in the communication and marketing strategies. Nevertheless, as supported by evidence from Kenya, mobile banking is expected to revolutionize microfinance – and the financial sector at large.

Tanzania and Microfinance in Africa

Data from The Mix Market in 2010 showed the African microfinance sector as having 4.5 million borrowers and a gross loan portfolio of \$4.6 billion⁵⁸. In terms of scale Tanzania ranks as the fifth largest in terms of number of active borrowers and a significantly lower thirteenth largest in terms of gross loan portfolio.



Source: Mix Market 2010

MFI Ratings & Reporting

Ratings by external rating agencies are still comparatively rare in Tanzania’s relatively young microfinance industry. The Bank of Tanzania has approved 13 auditors to supervise the country’s financial institutions. Non-regulated institutions may choose any auditor, while SACCOs must undergo an annual audit formally conducted by COASCO. However, these audits are often late and many times do not occur at all due to the auditor’s limited knowledge and experience with the microfinance industry. In 2004 a Credit Information Bureau was established for the commercial banking sector with the Tanzania Bankers Association. However its implementation is still in process and its development has been hampered by the lack of a national ID-system.

Thirteen Tanzanian microfinance institutions had reported their data to the MIX by 2010⁵⁹, and fourteen institutions reported their pricing data to MFTransparency’s *Pricing Initiative* in 2011. Many of these institutions have also undergone thorough ratings checks of their financial and operational performance. All three of the major rating agencies in the microfinance industry have worked in the Tanzanian microfinance market. Several MFIs have also undergone social performance ratings. The following table lists the MFIs with their respective rating score.

MFI	Rating Agency	Rating	Report Date (most recent)
Financial & Operational Ratings			
SEDA Tanzania	MicroRate	Y+	2007
Presidential Trust Fund	MicroRate	Y+	2006
FINCA Tanzania	MicroRate	β-	2005
Tujijenge Tanzania	Planet Rating	C-	2010
Belita	MicroFinanza Rating		2009
ECLOF-Tanzania	MicroFinanza Rating		2011
Mbinga Community Bank	MicroFinanza Rating	CCC-	2010
MuCoBA	MicroFinanza Rating	B	2011
Pride Tanzania	MicroFinanza Rating		2009
Wedac	MicroFinanza Rating	B-	2008
YOSEFO	MicroFinanza Rating		2009
Social Ratings			
Tujijenge Tanzania	Planet Rating	1+	2010
YOSEFO	Planet Rating	2	2010

Challenges for the Tanzanian Microfinance Industry

The microfinance industry of Tanzania faces several important challenges in its development. These include the endeavors to become financially sustainable, the development of suitable products, and the various capacity building and technical assistance needs. Similar to other developing countries in Africa, economic activities in Tanzania are usually conducted in the informal sector. Tanzania is beginning to take steps to create a regulatory environment that makes it easier to voluntarily register a business and formalize business activities, hoping to clear some of the impediments caused by unclear regulation and discretionary enforcement. Regardless of these there has been a continued emergence of semi-formal microfinance providers (NGOs and SACCOs) outside the changing regulatory framework. Unless these bodies are included under the Tanzania’s supervisory umbrella, they will continue to operate without regard for the laws and regulations that govern the country’s microfinance activities.⁶⁰

Microfinance in Tanzania also faces negative coverage in the local media. In July 2010, Tanzanian MFIs came under attack by the Daily News for charging deceptive interest rates to borrowers. The tendency for microfinance companies to advertise very low interest rates, sometimes as little as one or two percent, was labeled as a “*calculated gimmick*”, often causing clients more harm than good. The Assistant Commissioner of the Policy Section in the Ministry of Finance and Economic Affairs responded to these attacks by outlining basic conditions underlying the problem, including insufficient regulation and lack of financial literacy. According to Mr. Mwakipesile, “*the majority of microfinance companies take advantage of the existing vacuum as there is no specific body to regulate their operations. Borrowers are undoubtedly lured by money lenders who talk sweetly to them, setting low interest rates of between two and five per cent. No one remembers that five per cent a month is equivalent to 60 per cent annually.*”⁶¹ Several internationally recognized initiatives, such as MFTransparency, are working to help the sector address these issues and to promote a more responsible form of microfinance in Tanzania.

About the Country Survey

The Country Survey resources are comprehensive literature reviews that outline the country-specific context for the data collected during the Transparent Pricing Initiatives. Each country has a unique set of circumstances defining the state of its microfinance market. The macroeconomic conditions, the political history, and the level of financial inclusion in a country are important factors characterizing the origins and future development of its microfinance market. An awareness of the country-specific regulatory environment for microfinance, as well as the involvement of other industry actors and industry challenges, is a valuable backdrop when considering a market's pricing data. Country Surveys are prepared by a team of talented interns working for MFTransparency, and should be viewed as a resource offering general contextual information for the Transparent Pricing Initiative in each country.

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