



## Rural Finance Policy Development in Eastern and Southern African Countries: Contribution of IFAD-Supported Rural Finance Programmes

### Annex 6. Country report for the United Republic of Tanzania



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# Contents

Acknowledgements .....	4
Chapter 1. Introduction .....	5
1.1 Background to the study .....	5
1.2 Purpose of the study .....	5
1.3 Target organizations for the study .....	6
1.4 Data collection methods and tools .....	6
1.5 About this report .....	7
Chapter 2. Study findings .....	8
2.1 Rural finance policy initiatives and positive developments .....	8
2.2 Role and contribution of IFAD rural finance programmes .....	13
Chapter 3. Emerging issues / challenges and recommendations .....	18
3.1 Harmonizing laws and policies .....	18
3.2 Institutional framework for rural finance .....	18
3.3 Micro-finance policy development .....	19
3.4 Co-operative policy and reforms .....	19
3.5 Increasing and intensifying interventions of NBE in rural finance .....	20
3.6 Micro Insurance regulation and development .....	21
3.7 Informal agencies and bank linkage .....	21
3.8 Institutional capacity building for policy research.....	21
3.9 Board-basing credit reference bureaus .....	21
3.10 Enacting Consumer Protection laws .....	22
3.11 Rural finance forum .....	22
3.12 Islamic MF – Regulatory Framework .....	22
Appendices .....	23
Appendix 6.1. Study questionnaire .....	23
Appendix 6.2. References .....	27
Appendix 6.3. Institutions visited and persons consulted.....	29

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## Chapter 1

# Introduction

### 1.1 Background to the study

In the backdrop of IFAD's effort to improve livelihoods by enhancing access to financial services among rural communities, the Rural Finance Knowledge Management Partnership (KMP) carried out a study to find out how IFAD-supported rural finance programmes contribute to policy development in the Eastern and Southern African region. The focus of the study was on countries with active rural finance programmes and components—Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia—where IFAD has been increasingly engaged in policy dialogue with a view to influencing policy. The IFAD programme also seeks to influence policy to minimize adverse effects of global trends and maximize incentives and opportunities for the rural poor. Apart from challenges in the area of rural infrastructure, capacity of financial service providers and clients, other factors such as legislative, regulatory, supervisory and overall policy constraints often stand in the way of delivery of need-based financial services in the rural area. IFAD has been supporting capacity building of policy-making bodies, development of appropriate decentralized policy and practices, evolving market-oriented research/studies and dissemination of learning.

Considering the critical importance of creating finance policies that are appropriate to rural settings, KMP proposed to undertake a region-wide *Study of Rural Finance Policy Development in the Eastern and Southern African (ESA) Countries—Contribution of IFAD-Supported Rural Finance Programmes*, and to determine the way forward to addressing the key constraint—insufficient skills in information technology and insufficient exposure to skills required for good information management—mentioned above. The study covered all the eight ESA countries where IFAD had been active. For the study, KMP identified a consultant, Biswa Bandhu Mohanty, on account of his expertise and wide experience in rural finance.

### 1.2 Purpose of the study

The study was undertaken with the following overall objective: To produce a KM document for use by the stakeholders of RF programmes being implemented by IFAD in the eight selected ESA countries. The specific objectives of the study were to:

- Identify major policy issues in ESA countries which IFAD projects have enabled to sort out/address during the course of implementation in the countries;
- Bring out successful strategies adopted/institutional mechanism used to influence policy issues, leading to fulfilment of programme objectives;

- List out country-specific policy issues in ESA, which have regional and global implications/impact;
- Suggest sustainable institutional mechanisms that have to be put in place for policy exploration, research, debates and discussions for sharpening and furthering poverty reduction, access to financial inclusion, livelihood promotion and inclusive growth; and
- Suggest ways and means for enhancing knowledge management, sharing of experience/best policy solutions among the IFAD programme managers, partners and stakeholders for better programme implementation and speedier/effective policy development.

### 1.3 Target organizations for the study

In the 8 selected countries (Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia) the study targeted public and private institutions that have national responsibility for, as well as commercial interests in, rural development. They included Central Banks; Insurance Regulatory Authorities; Co-operative Regulatory Authorities; Ministries of the National Governments including Ministry of Finance (MOF), Ministry of Agriculture/Cooperatives (MOA); MF Associations, Co-operative Unions/Alliances; Apex Development Banks; Policy Research Agencies; and leading Civic Society Organizations (NGOs, CBO, etc).

### 1.4 Data collection methods and tools

Three main methods or tools were used in gathering data.

(i) A questionnaire was designed to solicit views/inputs from the concerned IFAD officers at the project level in all eight countries targeted for the study. The questionnaire is shown as Appendix 6.1.

(ii) Interviews and consultations were used through face-to-face meetings and by e-communication. The consultant visited the capital cities of five of the target countries from 23 June to 9 July 2014; they, included Lusaka (Zambia), Dar es Salaam (Tanzania), Kampala (Uganda), Addis Ababa (Ethiopia) and Nairobi (Kenya). The visits facilitated interviews and discussions with officials of the institutions targeted in those countries. During the short period of two to three days at each centre, 84 persons from these select institutions were consulted. The list of institutions visited and persons met and consulted through face-to-face interviews in Tanzania is given in Appendix 6.2.

(iii) Intensive literature survey was used to collect information at country/institutional as well as regional and global levels. Documents spelling out regional, national and institutional RF policies, strategies and programmes were studied. In the case of Tanzania the list of documents consulted is given in Appendix 6.3.

### 1.5 About this report

This report focuses on the study findings with respect to RF development efforts, the contributions of IFAD RF programmes and the emerging policy issues and



challenges and recommendations for addressing them for furtherance of rural finance policy in Tanzania. Although presented as a standalone report, it is intended that this report be read alongside the main study report which addresses RF issues that prevail regionally and globally.

It is also envisioned that the reader will seek to benefit from the following Case Study Reports attached to the main report as appendices: MFI Supervision Directorate (MFSD) of the National Bank of Ethiopia (Appendix 7), Association of Ethiopian MFIs (AEMFI) (Appendix 8), Micro Finance Forum in Uganda (Appendix 9) and Developing Rural Finance Policy and Strategy in Zambia (Appendix 10). For the sake of comparison and regional learning, the reader should also seek to benefit from *Country Reports* for other ESA countries which constitute an important output of this study. The full list Country Reports includes Federal Republic of Ethiopia (Annex 1), Republic of Kenya (Annex 2), Kingdom of Lesotho (Annex 3), Republic of Mozambique (Annex 4), Kingdom of Swaziland (Annex 5), United Republic of Tanzania (Annex 6), Republic of Uganda (Annex 7), and Republic of Zambia (Annex 8).

## Chapter 2

# Study findings

## 2.1 Rural finance policy initiatives and positive developments

### 2.1.1 Socio-economic environment

#### HUMAN DEVELOPMENT SCENARIO

United Republic of Tanzania is an emerging economy with high growth potential. While per capita of GDP stands at US \$ 500, the economy has been accomplishing strong and consistent growth since the year 2000, with an average 6% per annum. It is projected that Ethiopia, Mozambique, United Republic of Tanzania and Zambia would be among the 10 fastest growing economies in the world by 2015. Agriculture contributes about 45% of the total GDP, employs about 74% of the labour force and accounts for 60% of the country's foreign exchange. At present, nearly 85% of the poor live in rural areas. Among the rural dwellers, 38% are classified as poor while 20% are extremely poor.

#### FINANCIAL SECTOR SCENARIO

*Transition to market economy:* During the last 40 years, the United Republic of Tanzania has gone through transition from a colonial system to a market economy. The structural adjustment and restructuring programmes have been led by the Government with the help of a coalition of donors. The recovery has made the country a trend-setter in Africa in terms of adapting to new ideas, dismantling tribalism and maintaining the balance between market economy and social justice. Increasing focus on the poor has been reflected in the Poverty Reduction Strategy, Vision Plan 2025 and Agricultural Development Strategy/Rural Development Strategy.

*Financial sector reforms:* The second generation Financial Sector reforms 2006-2011 had aimed at, *inter alia*, measures for deepening financial inclusion. These included (i) Improving supervisory function to ensure an efficient and sound financial system, (ii) establishing and promoting MF industry, (iii) promoting an efficient, sound and competitive insurance industry, (iv) promoting an efficient and competitive pension sector, (v) establishing policy framework and legal infrastructure for facilitating development finance, etc. Some of the initiatives of Bank of Tanzania and Government of Tanzania have directed in conformity with the above.

*Banks and MFIs:* As of March 2013, the banking sector comprised of 51 institutions (Commercial banks, community banks, microfinance companies, and cooperative banks) with 559 branches which are regulated and supervised by the Bank of Tanzania (BOT). Overall, they exhibited features of satisfactory financial soundness. The Banking sector has 74 %, pension sector 24% and insurance 2%

of the total of financial assets. The Capital Adequate Ratio (CAR) of banks stood at 18.9% BOT had issued a series of regulations and initiated considerable measures for putting in place a strong, sound and safe banking system. Tanzania Insurance Regulatory Authority (TIRA), which was established in 2009, had, within the short period, taken considerable initiatives in the promotion and supervision of insurance industry.

## **2.2.2 Legislative and policy initiatives**

### INITIATIVES OF GOT

*Financial Sector Deepening Trust (FSDT):* Through policy announcements and programmes initiatives the Government of Tanzania (GOT) and Ministry of Finance (MOF), and the Government of Zanzibar have been giving increasing thrust on financial inclusion and rural finance A number of studies have been conducted at the behest of agencies including World Bank, UNDP and IFAD on themes related to rural finance.

*Review of microfinance policy:* Presently Credit Only (Non-deposit taking) Micro Finance Institutions (MFIs) including financial NGOs are registered under different statutes and subjected to limited regulatory oversight. The Ministry of Finance was reviewing the National Microfinance Policy, 2002 to provide a basis for instituting proper regulatory oversight. A consultant was engaged for the purpose.

### INITIATIVES OF BOT

*Banking and FIs regulations:* BOT had issued a number of regulations in key areas. The Banking and FIs (Development Finance) Regulations, issued in 2011 spells out risk management ,limits of credit, prudential norms, etc. *BOT was also in the process of reviewing the prudential banking regulations which govern the supervision of the banking sector.* The Banking and FIs (Financial Leasing) regulations were issued in 2011, which also covered micro-leasing. A series of regulations issued for banking and FIs by BOT in 2008 included (i) publication of financial statements, (ii) independent auditors, (iv) Prompt Corrective Action, (v) Internal control and audit, (vi) Physical securities measures and (vii) capital adequacy.

*Credit reference regulations:* BOT issued Credit Reference Databank Regulations 2012 and the Credit Reference Bureau Regulations 2012. The objective was to facilitate information-sharing among the lenders, thereby minimizing credit risks while fostering credit access in the economy. The Data Bank regulations cover reporting and access to credit information, protection of credit information, remedies and sanctions. The Agent Banking Guidelines were issued in 2013 with the objective of providing regulatory framework for introduction of agent banking in the country. The Guidelines outline the role expected of banks with respect to governance, due diligence needs and oversight by the Board, assessment by Know Your Agent, risk management on account of agents, customer protection, awareness and education. Organizations eligible for agency service include Limited liability companies, sole proprietorship, partnership society, cooperative society,

parastatal corporations, educational institutions, Trusts, government entities, and NGOs.

*Social security schemes investment guidelines:* BOT had issued Social Security Schemes Investment Guidelines in 2012. The Guidelines provides the framework of the investment policy as mandated under Section 48 of the Social Security (Regulatory Authority) Act 2008. It commenced its oversight to enforce compliance from 2013-14.

*Mobile financial services:* Although mobile financial services are growing rapidly, the Tanzania legal system does not have specific laws for regulating mobile financial services. Draft Mobile Financial Services (MFS) regulations are being finalized in consultation with stake holders. Similarly, in the context of the growing technological advancements, and with a view to improving legal framework to strengthen oversight, the National Payments Systems Bill was in the enactment process.

*Financial Stability Department:* BOT has taken a number of initiatives to enhance its financial stability function. One of the initiatives was elevating Financial Stability Department to a Directorate effective January 2013 in this regards; BOT has enhanced surveillance instruments to facilitate identification of potential systemic risks, risk mitigation and crisis management and resolution.

*Financial Stability Forum:* Tanzania Financial Stability Forum (TFSF) was set up in March 2013. The Forum is constituted by the Ministry of Finance of the United Republic of Tanzania; President's Office, Finance Economy and Development Planning of Zanzibar, Tanzania Insurance Regulatory Authority, Social Security Regulatory Authority, Capital Markets and Securities Authority, Deposit Insurance Board and the Bank of Tanzania. The Forum provides a platform for consultation, exchange of information and policy-making on financial stability.

*Financial Crisis Management Committee:* BOT established a Financial Crisis Management Committee (FCMC). The committee is responsible for advising the Governor on financial crisis management plans and the actions to be taken in the event of a financial crisis. The Committee is made up of the Deputy Governors, the Secretary to the Bank and Directors of Economic Research and Policy, Banking Supervision, Financial Markets, National Payments Systems, Deposit Insurance Board and Financial Stability.

*Assessment of informal financial groups:* BOT had commissioned an assessment study of informal Financial Groups in Tanzania and the report was submitted in September 2013. Further FinScope survey was envisaged to be undertaken in 2014.

### **2.2.3 Financial inclusion initiatives**

#### FINANCIAL INCLUSION FRAMEWORK

The financial inclusion initiatives of the GOT are discussed under the Financial Inclusion Framework (FIF) developed by the BOT.

*Vision and Action Plan:* BOT launched Financial Inclusion Framework in December 2013 with the following Vision: “All Tanzanians to regularly use financial services and payment infrastructure to manage cash flows and mitigate shocks. These are delivered by formal providers through a range of appropriate services with dignity and fairness”. The highlights of the action plan for the framework are shown in Box1 while information on the Setting up of Tanzania Agricultural Development Bank (TADB) is shown in Box 2.

### **Box 1. Financial Inclusion Framework Action Plan – Highlights**

- Reliable and secure electronic payment platform
- Use of agents and technical devices (ATMs/POS)
- Robust electronic information infrastructure for individual and business profile, credit history and collateral
- Effective KYC process
- Increased Credit Reference engagement for institutions in different segments
- Enforcing mandatory reporting requirements
- Effective on-site and off-site analysis;
- Enforcing reliable electronic systems and credit reference systems and credit reference arrangements
- Ensuring customers are informed and protected
- Accomplishing 50% Inclusion by 2016
- BOT is to play the key role in the direction

*Broad principles and implementation mechanism:* BOT’s FIF framework defines broad principles for providing market-based solutions, development of innovative products and services, promoting consumer protection and financial literacy, evolving a suitable regulatory framework, improvement of welfare and productivity, encouraging public-private partnership (PPP) approach and nurturing co-ordination, shared learning and synergy. For measurement of its progress, financial inclusion indicators envisaged include level of access, usage of financial services, range of financial services introduced and quality and welfare concerns. A coordinated structure had been envisaged for implementation of the FIF, including a National Council (Policy direction), National Steering Committee (for co-ordination), and National Technological Committee (for implementation and reporting) and National Secretariat. Hopefully, implementation of FIF would move forward in earnest with development of detailed policy and operational guidelines and implementation mechanism/thrust.

#### INITIATIVES IN COOPERATIVE SECTOR

The issues, problems, potentials and prospects of cooperatives, particularly SACCOs, had been studied by several Committees/Study Groups/ consultants in the past. The latest report of Cooperative Reforms and Modernization Programme (CRMP) 2005-15 was guided by the country’s vision of growth and development and gave wide-ranging recommendations for implementation during the 10-year

## Box 2. Setting up the Tanzania Agricultural Development Bank (TADB)-New Expectations

The Tanzania Agricultural Development Bank (TADB) was set up in September 2012 under the Companies act, with 100% ownership of the Tanzanian government. The new bank, with the mandate of refinance also direct finance for agriculture, coupled with developmental function for the sector shall carry out its business under the provisions of the Banking and Financial institutions Act, 2006 and be governed by the Banking and Financial Institutions (Development Finance) Regulation, 2012. The objectives of TADB include catalyzing credit delivery for agriculture, facilitate financial sector reforms, pursuing agricultural and rural development, assist/co-ordinate Government of Tanzania and BOT in financial inclusion efforts, provide lending for medium term and long term agriculture projects, extend refinance to RFIs for their ST, MT & LT lending, strengthen capacity of the agriculture lending institutions and above all, supplement government and BOT in developing policy, legal and regulatory framework for the sector. This is a bold step in right direction in rural finance and ushers new hope for the future.

period. After prolonged debates and discussions, a new Cooperative Societies Act was enacted in 2013. Broad observations on the Act are as under:

- The Act is quite exhaustive and covers in detail various essential aspects.
- It provides for further preparation of Rules in certain specified aspects. The inaugural Schedule, Rules on certain aspects, etc are annexed.
- It incorporates the organizational pattern, workings and functions of the Tanzania Cooperative Development Commission. It also details the rights and obligations of members, registered societies, Board, management, RCS, auditor, inspectors, Minister, O T, etc. It also gives detailed procedures and requirements of amalgamation, division and dissolution of societies, offences and penalties for violations of set provisions of the Act. It also contains provisions of funding of the societies/Commission. (See details of the TCDC organization in Box 3)
- It will pave the way for setting up and operationalization of the Commission in a systematic/structured way.
- Code of conduct enshrined in section 134, Cooperative Development Plan in section 16 (i), Appointment of Internal auditor in section 56 (i), etc are good provisions.
- Stipulating time limits for RCS in section 33(3), time limit for audit in sec 56 are strong features.
- CDC became functional from January 2014 (Box3). In case of Zanzibar, a separate Act had been drafted with a new regulatory framework under the RCS. Similarly, for microfinance development in Zanzibar, separate MF policy and Bill were being framed.

### INSTITUTION BUILDING FOR POLICY DEVELOPMENT IN RURAL FINANCE

*Umbrella support organizations in cooperatives:* The Savings and Credit Co-operative Union League of Tanzania (SCCULT), governed by the Co-operative Societies Act and Dunduliza, a company owned by SACCOs, has provided technical and organizational capacity building support to members SACCOs. The

### **Box 3. Emergence of Tanzania Co-operative Development Commission—A new beginning of co-operative sector**

The Tanzania Co-operative Development Commission (TCDC) has been set up as an independent unit under the Cooperative Societies Act, 2013 for the purpose of regulating and promoting cooperative societies in the country. Prior to the Act 2013, the regulation and supervision functions were being carried out by the cooperatives Development Division (CDD) of the Ministry of Agriculture and Food Security and Co-operatives. Pursuant to the Co-operatives Societies Act, 2003. TDCC, mandated with both promotion and regulatory role, has prepared an elaborate organizational structure to ensure compliance by all co-operative institutions with co-operatives principles and the Co-operative Societies Act, 2013 and other relevant laws and regulations. The organizational structure (Appendix 8) ensures separate divisions for registration, inspection and supervision of societies, SACCO promotion, research and training planning, monitoring and evaluation and MIS at head office besides structures at the district regional and zonal levels.

league has also been pursuing policy-advocacy and awareness building.

*Tanzania Association of MF institutions (TAMFI):* TAMFI has 78 members (MFIs, co-operative banks and 2 MF companies) and has been, inter alia, taking up policy issues with the authorities, particularly BOT and Government and, thereby, facilitating a regulatory and supervisory environment leading to acceleration of financial services in rural areas. It has provided critical inputs, based on studies and members suggestions on MF policy document and supervisory and regulatory norms for MFIs and Co-operative banks. IFAD has given opportunity for exposure visits to Ethiopia, particularly to appreciate/internalize learning's from AEMFI.

*Community Banks' Association of Tanzania (COBAT):* COBAT has been representing community Banks in policy discussion and consultation for a policy-making institutions. It has been a partner in the capacity building efforts under MIVARF, especially for community banks which include conducting workshops, studying ICT/Training needs, etc.

*Moshi University College of Co-operative and Business studies (MUCCOBS):* MUCCOBS has been a key institution in providing inputs, based on studies and research in Co-operative sector. It has carried out a study of trained needs assessment for training course development for Co-operatives institutions under MIVARF.

## **2.2 Role and contribution of IFAD rural finance programmes**

### **2.2.1 Designing country strategy opportunity programme (COSOP)**

IFAD had prepared the Country Strategy Opportunity Programme, 2007–2013, keeping in view Tanzania's National Strategy for Growth and Reduction of Poverty, 2007–2010 (for mainland and Zanzibar), national policy and strategies for poverty reduction including Agricultural Sector Development Programme of GOT. Relevant Programme documents developed by other donors and to which COSOP was

aligned included the country strategy paper and national Indicative Programme 2008-13, Poverty Reduction Strategy Paper 2005–2010, all of IMF; the Country Programme Document/Action Plan 2007–2010 of UNDP; and Country Assistance Strategy 2007–2010 of World Bank. IFAD’s diversified programmes/portfolios have been evolved as a result of the lessons learnt through its own documents/programmes and policy-related work and through activities of other donors.

### ***2.2.2 Promoting access to financial services and agric inputs/markets***

IFAD’s Market Intervention, Value Addition and Rural Finance (MIVARF) 2010–2016 was built from the lessons of the IFAD-supported Rural Finance Services Programme (RFSP) and Agricultural Marketing System Development Programme. In line with IFAD’s COSOP for Tanzania, the programme has following objectives:

- Increasing access of poor rural people to a wider range of financial services for productivity, enhancing technologies, services, and assets; and
- Increasing access to sustainable agricultural inputs, and output markets and opportunities for rural enterprises.

MIVARF has two major components: component I–Marketing Infrastructure and Systems and component II–Rural Finance, supported by AfDB and IFAD respectively. The rural finance component covers (i) support to grassroot FS, RFIs, RUSACCOs, COBAT and TAMFI and (ii) support to rural finance systems including BOT, MOF (Mainland and Zanzibar), CDC/RCS and FICBs, for MF/Cooperative policy development, supervision and regulation, training and capacity building, guarantee fund, and innovations. GOT and AGRA are also partners in the programme.

### ***2.2.3 Influencing legislative/regulatory/supervisory reforms in RF sub-sector***

Through various Missions, IFAD has given a series of recommendations for legislative, regulatory and supervisory reforms. Some of the regulations issued by BOT were recommended by IFAD, as discussed in stake holders’ meetings and specified in various reports. Reform of Cooperative Legislations, maintaining professional independence of Cooperative regulatory and supervisory authority and rationalization of audit and inspection process were consistently pleaded by IFAD. The new Cooperative Societies Act in Mainland and Zanzibar, setting of Cooperative Development Commission for Mainland/revamped Cooperative Department/RCS in Zanzibar were the results of IFAD’s advocacy and contributions. A major thrust has been to sensitize policy-making authorities to refine/reorient RF policy for furtherance of access of the rural poor to financial services. Although MF policy and draft MF Bill had not yet been finalized by MOF/BOT, IFAD has been consistently pleading for appropriate regulatory/supervisory framework for the credit-only MFIs outside the BOT regulatory orbit. IFAD has been advocating for a differentiated but harmonized regulatory framework for various segments of financial sector and has also championed transformation/graduation of the credit-only/member-only institutions. The need for various policy refinements, rationalization and harmonization of legal, regulatory and supervisory framework was suggested to the policy-making authorities in MF and cooperative and insurance sectors in the form of a MATRIX in 2013. Effort was



also directed for harmonization of policies and regulations between the Mainland and Zanzibar, for greater effectiveness.

#### **2.2.4 Promoting participatory policy making by mobilizing and strengthening capacity of stakeholders**

- a) IFAD has given opportunity to policy-making institutions/TAMFI for exposure visits to appreciate best practices in other countries. The visits included delegations to India and Ethiopia, etc. It has supported workshops, facilitations, and action learning for stakeholders in rural finance for development of policy for MF and Financial Inclusion. A group of senior officials from the policy-making institutions like MOF, TCDC, NBE, etc., were facilitated for exposure visits to India and Ghana to have an insight about MF/RF policy framework, so as to explore replication of the best policy options, institutional models and best practices in the country.
- b) IFAD has been pleading before the authorities for an independent and professionally managed regulatory and supervisory body for proper regulation and supervision of SACCOs through the Rural Finance Programmes all these years. With the setting up of TCDC, financial and technical support has been extended by IFAD under MIVARF to TCDC for institutional capacity building of SACCOs, developing supervisory capacity of the dedicated inspecting officers of the Commission.
- c) IFAD had entrusted to Moshi University of Cooperative and Business Management (MUCCOBS) the task of conducting TNA for SACCOs /cooperative officials. MUCCOBS has been engaged to develop training modules for Cooperative officials. PPP approach in audit of SACCOs in Zanzibar is being studied. Hopefully, these trainings will also give clarity on laws/regulations/policy.
- d) Under MIVARF, pilots on FICB-SACCOs linkage are being conducted for capacity building/ improving efficacy of 100 SACCOs by linking them with 3 Cooperative Banks (FICB). Training on Risk Management for Community banks by COBAT in collaboration with BOT is envisaged. Initiatives are being taken for developing select SACCO inspecting officers with special training and exposure. Capacity building of CDC officers has been planned.
- e) As already stated, the umbrella organizations like Dundeliza and COBAT have been associated with IFAD's programmes and they are encouraged to contribute to policy-making efforts and related capacity building interventions. Specially, COBAT was called upon to work for risk management development, internal control/ supervision mechanism, governance system enhancement and regulatory compliance by community banks. The repercussions of NBE's stipulations on savings-deposit ratio, security and infrastructure for rural branches, etc., were studied by COBAT and they advocated for relaxations in the norms in favour of Community Banks, particularly exempting bulk loans from savings-deposit ratio, in various consultative meetings with IFAD/NBE.

#### **2.2.5 Supporting NBE in implementation of Financial**

In its supervision missions, IFAD has been focusing the need for embarking upon the financial inclusion including financial literacy drive in an integrated manner.

Support from MIVARF for implementation of the recently announced Financial Inclusion Framework (FIF) by BOT was being explored. Hopefully, widening of BOT's role in information collection and collation would enable objective and evidence-based policy-making, planning for financial sector and tracking of FIF.

### ***2.2.6 Sensitizing stakeholders for Micro Insurance Development***

In MIVARF, TIRA has been included as a partner/stakeholder. Inputs were provided and persuasions made for development of a micro insurance regulatory framework, working for preparatory/strategic interventions including pilot-testing of weather index insurance, etc. IFAD has participated in other donors' consultative forums including FSĐT in the efforts directed in evolving policy framework for micro insurance.

### ***2.2.7 Introducing New and innovative financial instruments***

The concept and operational mechanism for Guarantee Fund and Innovation fund were envisaged under MIVARF, with involvement of Agency for Green Revolution in Africa (AGRA) and FSĐT respectively. Efforts were being directed to operationalize Tanzania Incentive-Based Risk-sharing System for Agricultural Lending (TISAL). With the operation of Guarantee Fund and Innovation Fund, there is scope for new learning from the policy development angle.

### ***2.2.8 Harmonizing efforts for AfDB and IFAD for synergy***

MIVARF has brought together synergistic approaches of AfDB and IFAD for agricultural development and rural finance in the country. Progress has been made for providing market linkage for producers, processors and marketing groups. Efforts were being made to strengthen Warehousing Receipt System, value-chain finance and informal-formal institutions linkage. Increasing participation of Village Savings and Loan Association (VSLA) and VICOBAs, etc in the whole process ushers in new possibilities.

### ***2.2.9 Summary of Contributions***

IFAD's contribution to policy development in the country can be accessed from 5 perspectives (4 Ts) as under:

- **T**riggering policy development;
- **T**ransition management from one level of policy framework to a refined and revised policy environment;
- **T**raining and capacity development and
- **T**ools and technical assistance for implementation of policy.

Various study reports/technical papers emanating from the design mission and implementation and review missions of Rural Finance programmes have provided a lot of ideas, information, experiences and suggestions. The reports/papers are developed after due consultation with stakeholders at various levels and field visits at the grassroots levels. This exercise creates a lot of awareness among all stakeholders and *triggers* initiatives and follow up for policy development.

Second, IFAD's persuasive policy dialogues through the rural finance programme had led to change in /addition of policy, legislation and regulation. During this transition period, IFAD has been supportive to the authorities for transition policy management. For instance, the institutional architecture, regulatory and supervisory framework under the Co-operative Societies Act 2003 has been changed under the purview of Co-operative Societies Act, 2013. IFAD's rural finance programme has been supportive to the co-operative authorities in this transition management.

Third, training and capacity building, exposures, KM of the policy- making/ regulatory institutions have been given due focus at all stages of the programme, for policy appreciation and implementation.

Lastly, IFAD has also facilitated technical up gradating and adoption of tools for monitoring and review of the progress and trends under various components.

## Chapter 3

# Emerging issues / challenges and recommendations

The following recommendations are made in the context of emerging issues, and challenges and opportunities in the rural finance sector.

### 3.1 Harmonizing laws and policies

A number of policy documents, which have a bearing on rural finance policy-framework, have been prepared / put in place by the Government. These include the Community Development Policy, 1996, Agricultural and Livestock Policy, 1997, National Land Policy, 1997, National Economic Employment Policy, 2001, NGOs' Policy, 2001, SME Development Policy, 2003, Rural Development Strategy and Policy, 2003, Co-operative Development Policy 2002, National Social Security Policy 2003, etc. Similarly, in Zanzibar, a separate set of policies related to rural finance do exist. In the area of legislative framework, a number of enactments including Banking and Financial Institutions Act 2006, BOT Act, 2006, Co-operative Societies Act, 2013, etc., are in vogue. There is need for continued efforts for harmonization of policies, major legislations and the legislations vis-à-vis policy related to rural finance development. It would be better, if an updated "rural finance development policy and strategy" is evolved. Constitution of a Harmonization Committee of policy-makers to look in to relevant aspects is deemed necessary at this juncture.

### 3.2 Institutional framework for Rural Finance

The financial sector in Tanzania is mainly comprised of financial intermediaries, financial markets and financial system infrastructure including legal, regulatory and supervisory aspects. The Government of Tanzania has taken a number of initiatives for furtherance of the financial sector including microfinance, rural finance and financial inclusion. One such initiative was the establishment of the Finance Sector Development Section in the Ministry of Finance (MOF) in 2008 and adopted as one in Zambia. The Section is under the Policy Analysis Department and led by Assistant Commissioner and has seven staff. The Section has the mandate to formulate, develop and monitor implementation of Financial Sector Development policies. These include market development; monitoring external and internal markets, liaising with all stake holders, evaluating financial sector reforms and monitoring balance of payments and strategies. It is also engaged in drafting Rural Financial Services Strategies (RFSS) and micro-finance policy. Considering the magnitude and diversities of the work involved and with a view to giving pointed focus to rural finance, it would be in the fitness of things if the Section is upgraded to Financial Sector Development Department with a Rural Finance Unit/Section within it, with suitable augmentation/earmarking of staff for the

purpose. In view of high levels of financial exclusion, persistent poverty/extreme poverty, under-developed financial markets, poor financial infrastructure, lack of financial literacy, inadequate competition, lack of demand-based MF products and dispersed population, etc., rural finance development needs identity, priority and push. Suitable organizational designs in MOF should reflect that focus.

### 3.3 Micro-Finance Policy Development

MOF has been engaged in reviewing/revising MF policy, 2000, which was prepared by the Inter-Governmental Task Force in 1998. A multi-disciplinary Task Force was put in place in 2000 to oversee implementation of legal, regulatory and supervisory framework and a Steering Committee was set up then to review the work of the Task Force. BOT was to assume both regulatory and developmental role for the MF sector. There have been attempts by the GOT to review the MF policy and frame new legislation for regulation and supervision of the non-banking institutions by BOT since 2006. The latest initiative of the GOT was to entrust the Economic and Social Research Foundation (ESRF) to review the policy in 2013 in an elaborate and consultative process and submit the report in 3 phases. Phase I - Inception report, Phase II - Analysis Report and Phase III - Policy Document. Phase I of the study was reportedly done. On the other hand, the BOT had initiated a draft-making process for the MF Regulation Bills, with due inputs from various stake holders including TAMFI. Then, the issue cropped up as to the sequence of drafting MF policy and strategy, laws and regulatory and supervisory institutional framework, regulations and supervisory guidelines. Whatever the accepted sequence, the draft law and regulation-making process should only follow the policy and strategy that may be finalized by MOF. Possibly, the completion of the whole processes would take considerable time. Unless this is followed, there could be the problem of harmonization of policy, strategy and enactment of law and regulation at a later stage. The alternative would be to undertake the interventions concurrently, in a coordinated and collaborative approach.

There is, however, emergent need to revisit the policy, strategy, law and regulations in view of various developments in the policy environment. These include enactment of the new and additional legislations, introduction of new financial instruments, establishment of new institutions including regulatory bodies, paradigm shifts and transformation processes in the RF landscape and continuing risks and hazards of unregulated MF entities in the country.

### 3.4 Co-operative policy and reforms

The Co-operative society Act, 2013 as stated earlier, contains several good provisions for orderly development and reforms of the co-operative sector, including TCDC. However, proper operationalization of the Act with respect to the credit co-operatives would be dependent on the autonomy, professionalization and effectiveness of TCDC. For healthy and prudential functioning of SACCOS, the following steps are suggested.

- a) Preparing/enforcing comprehensive regulations for SACCOS/Financial Cooperatives under the Act including appropriate prudential provisions

and risk management and supervision and regulation framework.

- b) Incorporating necessary amendments including institution of the Co-operative Tribunal as recommended by the Parliamentary Committee before expiry of 12 months of the date of the Act.
- c) Sustaining an organizational structure with dedicated units, ensuring segregation of personnel for inspection, audit and promotion of Financial Cooperatives under different Divisions.
- d) Building supervisory and audit competence of the dedicated officers for onsite and offsite supervision as well as policy development and audit (through TCDC and COASCO, respectively).
- e) Strengthening corporate governance of Financial Co-operatives by adherence to governance standards, fit and proper criteria, etc.
- f) Developing MIS, performance standards/measurement, transparency and disclosure framework.
- g) Strengthening accounting and audit policy, system and mechanisms/tools to ensure timeliness and quality.
- h) Strengthening the compliance function in Co-operatives with respect to laws, regulation, inspection, supervision, due dates, etc. .
- i) Giving greater focus to financial literacy, including Co-operatives education of SACCOS' members, for their active participation in policy and decision-making.
- j) Setting up Deposit Safety/institutional protection system for credit Co-operatives
- k) Initiating similar efforts for Co-operatives reforms in Zanzibar.
- l) On the strength of new Act, the line of command from TCDC to the co-operative officials in the district/decentralized level should be operationalized to ensure their compliance and accountability.
- m) Building self-supervision through strengthening Federations, Associations and other Umbrella organizations.

### **3.5 Increasing and intensifying interventions of NBE in rural Finance**

The BOT has taken a series of commendable initiatives in framing regulations, policy development and supervision of financial sector. Organizationally, the BOT had set up the unit for community banks in 1992, Rural Finance Unit (RFU) in 1996, Directorate of MF in 1998 and, finally Department of Real Sector and MF under the Directorate of Economic Research and Policy and Department of MF and Non-Bank Supervision under the Directorate of Banking Supervision. It should be expected that all relevant aspects of microfinance, from global, national and regional perspectives would be taken in view by BOT/MOF, during the ongoing efforts for MF policy and strategy, legislative and regulatory framework review/development. However, the specific differential regulation should be developed, while reviewing the regulations. As in the case of financial inclusion framework launched by BOT as a sort of supervision/developmental initiative, a similar approach could be taken for furtherance of rural finance policy development, with a thrust on agricultural credit and financial services in rural areas. Maya Declaration, envisaging 50% financial inclusion by 2016 has been made at the

behest of BOT and as such, an enabling policy, regulation and supervision for RFI's would be a step in that direction.

### **3.6 Micro Insurance regulation and development**

Notwithstanding the initiatives of TIRA and FSDT, Micro Insurance regulation was not yet finalized and introduced. Micro insurance policy and micro insurance regulations, coupled with related strategic and developmental measures including product development on health, crops, life, credit and property/asset insurance, financial awareness/access to insurance, capacity- building of TIRA, insurance companies and distributing agencies would facilitate systematic and accelerated micro insurance development leading to financial inclusion and should be given more focus.

### **3.7 Informal agencies and bank linkage**

A good number of community/co-operative banks are leveraging the presence of informal agencies (groups of various kinds, networks, etc.) to extend financial services in the excluded and remote rural areas. In the light of huge potential of the informal sector and world wide experience in linkage banking, an enabling policy framework coupled with strategic thrust should be put in place to accelerate social mobilization efforts for forming, nurturing, linking and sustaining the informal sector.

### **3.8 Institutional capacity building for policy research**

MUCCOBS, IBA, TAMFI, DUNDULIZA, COBAT, BOT Training Institute and NBAA, etc., are engaged in capacity building efforts in financial services. Besides, Research Department of BOT and institutions like the Economic and Social Research Foundation (ESRF) are engaged in policy research. Each has their limitations with respect to studies, research, policy dissemination and training delivery in rural finance. Apart from augmentation of the capacity of the existing institutions in rural finance, there is a need for setting up an Apex Institution of excellence in training and policy research in rural finance. The Apex Institution could enhance professional standards and facilitate Certification for RFI's, to provide the necessary thrust and value addition in the sector, in this regard.

### **3.9 Board-basing credit reference bureaus**

The Credit Reference Bureaus are only linked to the Data Centre in BOT and only the regulated entities are mandatorily required to share data with the Data Centre. All financial institutions need to be covered with the Reference Bureau system and both negative and positive information should be shared under the system to make it more comprehensive and effective. The country lacks separate and exclusive laws on data protection, credit reporting and data retention, which should be evolved and enacted.

### **3.10 Enacting Consumer Protection laws**

There is no dedicated Consumer Protection law in the country. Consolidated and comprehensive laws should be enacted to create an enabling environment for empowering consumers including customers of financial institutions in rural areas.

### **3.11 Rural finance forum**

The conference of Financial Institutions, convened by BOT for discussion of papers on identified themes has limited perspectives. It is suggested that a structured mechanism for regular and more frequent discussions and dissemination of policy issues in rural finance should be put in place, on a sustainable basis.

### **3.12 Islamic MF – Regulatory Framework**

Some of the banks - Aman (a fully fledged Islamic Bank), NBC, People Bank of Zanzibar, Stanbic Bank and Kenya CB, have introduced Islamic banking under Shariah principle/laws. There is need for appropriate regulatory framework for the purpose, which should be developed by BOT.



# Appendices

## Appendix 6.1. Study questionnaire

- 1) Who are you? (Country Project Officer, Country Programme Manager, senior Policy Adviser, PTA, Policy researcher, etc).

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- 2) In which country are you working?

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- 3) Using the format given below, please name IFAD-supported projects in your country, segregating those in operation and the completed ones.

Project no.	Project title	Project period	Project's broad components

- 4) According to you which are the most successful IFAD's intervention in your country? Please specify reasons.

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- 5) Were there any major policy issue(s) pertaining to the project's implementation in your country/ESA?

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- 6) If yes, what did the Government, regulatory agencies and other policy-making authorities do to resolve and subsequently improve the project's implementation. (Please mention the project, policy constraints and the improvement made as indicated in the table)

Project name	Policy constraints	Changes/improvements made

7) What methodology/approach was adopted to change/develop the *relevant* policy?

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8) Have there been any separate documentation done on new policy introduced, policy issues resolved and/or policy refinement/development contributed under the project implemented? If so, specify.

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9) Do you have any separate institutional mechanism in the project framework for review, debate, resolution and dissemination of policy issues? If so, specify.

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10) Was regulation and supervision of financial services institutions embedded within the Rural Finance Project as core component? If so, outline major interventions effected for improvement in regulatory and supervisory policy?

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11) How has regulation and supervision of financial services embedment in the Rural Finance Project been helpful in policy reforms in financial sector?

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12) What are the difficulties faced by IFAD in pursuing with policy-making authorities/promoting innovative policy framework?

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13) What could be the best/most feasible ways of bringing about necessary policy changes/reforms for a donor agency?

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14) Are there any seminar/ workshop, training, sensitization, exposure programmes which are organized for stakeholders' capacity to look into policy issues/ explorations as part of project implementation? If so, cite a few models.

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15) (a)What are the means adopted for dissemination of information/experience in policy issues at various levels including grass root level?

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(b)In your project, has there been a participatory approach as a method in making policy decisions? If so, cite instance(s)

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16) Is there any exchange forum(s) put in-place in your country/ESA for projects to exchange knowledge/experience? If so, how effective is the forum(s)?

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17) Is there any institution(s) in your country which can be banked upon for knowledge management in policy issues pertaining to project themes of IFAD? If so, give details.

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18) (a) Identify five major IFAD's contributions in policy areas/issues in your country?

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(b) Give brief outlines of the above identified policy areas/issues.

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(c) Do you think any of the above is/are best practices/innovative which can be replicated in other countries?

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19) Name five major unresolved policy issues (theme-wise) hindering project implementation in your country?

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20) Would you advocate for policy development in core areas of IFAD support framework in your country/ESA? Give reasons for your answer

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.....

21) Do you have any other input having relevance to IFAD's policy contribution in your country/ESA?

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## Appendix 6.2. References

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### Appendix 6.3. Institutions visited and persons consulted

Sl. no.	Name	Designation	Institution	Date
1	Mwatima Juma [Ms]	Country Programme Officer	IFAD	26.06.2014
2	Winnie E Terry [Ms]	Executive Secretary	TAMFI	26.06.2014
3	Harry J Ndambala	Advocacy Officer	TAMFI	26.06.2014
4	Jonathan M Kasembe	Technical Manager	FSDT	22.06.2014
5	Mwallu Mwachanga	Agricultural Finance Specialist	FSDT	22.06.2014
6	Petro S. Kingu	SME Finance Specialist	FSDI	27.06.2014
7	Flora Lugangira Rotalinzibua (MS)	Manager, Real Sector and MF Directorate of Economic Research & Policy	Bank of Tanzania	27.06.2014
8	Eliamningi Mandari	Manager , MF & Bureau do Change Supervision Directorate of Banking Supervision	BOT	27.06.2014
9	Johnson J Nyella	Manager, Research Department, Directorate of Economic Research & Policy	BOT	27.06.2014
10	Tasilo Joseph Mahuri	MD	Dunduliza [SACCOs Network]	27.06.2014
11	Dionisia Mjema	Principal Economist	FS Devt Policy Analysis Dep't, MOF Gol	28.06.2014
12	John S Kuchaka	Project Finance Mgt Officer	External Finance Dept, MOF .GOT	28.06.2014
13	Aberhard J Mbapera	Asst Director	Co-operative Devt Commission of Tanzania	28.06.2014
14	Fuhanael Andrew Kihunrawa	CEO	Community Banks Association of Tanzania	28.06.2014
15	Bernard M Ulaya	Programme Officer	MIVARF, IFAD	28.06.2014







