Cardiff School of
Geography and Planning

Financial inclusion and microfinance in Tanzania

Alison Brown, Peter Mackie and Alastair Smith
Informal Economy Research Observatory
Cardiff University
Colman Msoka
Institute of Development Studies
University of Dar es Salaam
March 2015

Research jointly supported by the ESRC and DFID

Research Team

Principal Investigator is Prof. Alison Brown, Cardiff University, with Co-Investigators Dr. Peter Mackie and Dr. Alastair Smith and research assistant Ben Gascoyne.

Work in Tanzania was led by Dr. Colman Msoka of the Institute of Development Studies, University of Dar es Salaam. We are indebted to the advice and support of Dr. Emmanuel Mung'ong'o, Head of Micro-Surveillance at the Bank of Tanzania, and of researchers, Bonniface Mwasekaga, Obli Mongi, Paul Japhet, Theresia Venance, Nolasco Mkinga, and Yonas Masiaya Laiser.

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Acronyms

BoT	Bank of Tanzania
DFID	UK’s Department for International Development
ESRC	UK’s Economic and Social Science Research Council
FICO	Financial Cooperatives
FSDT	Financial Sector Deepening Trust
MFI	Microfinance Institution
MNO	Mobile Network Operator
MoF	Ministry of Finance
SACCO	Savings and Credit Cooperative
SCCULT	Savings and Credit Cooperative Union League of Tanzania Limited
TAMFI	Tanzania Association of Microfinance Institutions
VICOBA	Village Savings Cooperative Bank
VSLA	Village Saving and Loan Association

1. Introduction

1.1 The Study

This report outlines findings from a study of access to finance and microfinance regulation in Tanzania. The research examines the challenges faced by micro-enterprises and informal-economy businesses working in growth sectors of the economy, and their requirements for strengthening access to finance and consumer protection. Micro-entrepreneurs were the main focus of this research, although there are many other users of microfinance.

The study, *Inclusive Growth: Improving Microfinance Regulation to Support Growth and Innovation in Micro-enterprise,* is one of a series of projects funded under DEGRP (DFID-ESRC[1] Growth Research Programme) focussing on three themes of financial sector development, agriculture and growth, and innovation and productivity. The report starts with a literature review on microfinance in Rwanda and then discusses survey findings and policy recommendations.

1.2 Objectives

This research examines the link between microfinance and urban livelihoods, exploring the challenges of access to finance for micro-enterprises, the vulnerabilities caused by unscrupulous lending practices, and the potential for improved financial access to contribute to poverty reduction and economic growth.

Since 1983 when the Grameen Bank in Bangladesh began making tiny loans to village savings groups, microfinance has emerged as a key tool of development policy based on the assumption that improved access to finance will trigger entrepreneurship and smooth shocks. Microfinance is now a major supplier of financial services to millions of people in the developing world. Yet concerns have emerged about its reach, regulation and oversight, application in urban areas, and impact on growth, poverty reduction and indebtedness.

Research on the impact of micro-credit and microfinance on poverty is inconclusive, and there is an imperative need to examine further the conditions in which savings and micro-credit help or harm low-income households. For example van Rooyen *et al* (2010 and 2012) concluded that microfinance may make some people poorer, not richer, and the focus on reaching the poorest-of-the-poor may be flawed.

Against this background, the project analyses the barriers, benefits and risks to micro-enterprises in accessing a range of financial services and the potential of improved consumer protection to address problems. It explores demand and supply-side opportunities and barriers influencing micro-enterprises' access to finance, and potential alternatives, particularly in urban settings. The philosophy of the research is that, while microfinance is not a guaranteed route out of poverty, micro-enterprises and informal-economy businesses should have access to secure savings and borrowings with transparent costs, and without excessive interest rates or time burdens.

1.3 Approach

The study is based on comparative research in four countries of East Africa: Tanzania, Rwanda, Kenya and Ethiopia, and a comparison with India's more developed financial system, with a focus on major cities and secondary towns and on micro-enterprises in growth sectors of the economy – vending, construction, tourism, manufacturing and services. The findings in Tanzania draw on 206 semi-structured interviews with micro-enterprises in Dar es Salaam and Arusha and Expert Interviews (EIs) with regulators, microfinance providers/promoters and solidarity savings groups.

[1] DFID = Department for International Development (UK Aid); ESRC= the UK's Economic and Social Science Research Council

2. Micro-credit Landscape in Tanzania

2.1 Microfinance Providers

Tanzania has a rapidly developing finance sector, but microfinance provision still relies heavily on semi-formal or informal institutions. According to a recent study by the World Bank, by December 2011 of the 48 formal financial institutions offering microfinance, only 20 were deposit-taking and thus regulated by the Bank of Tanzania (WB 2013).

Since then the number of banking institutions has increased. The Bank of Tanzania's 2013 Annual Report, December 2013, lists 53 banking institutions including 34 commercial banks, 12 community banks, 5 financial institutions and 2 deposit-taking microfinance companies. Of these 5 were state-owned and 48 privately-owned. The banking institutions operated a network of 642 branches, with a focus on the main cities of Dar es Salaam, Mwanza, Arusha, Mbeya and Kilimanjaro, and a network of 1,526 ATMs (BoT 2013). The two deposit-taking microfinance institutions include EFC Tanzania Ltd. and FINCA Tanzania MFC Limited. Two private credit-reference bureaus also operate – Creditinfo Tanzania Ltd. and Dun and Bradstreet Credit Bureau Ltd (BoT 2013).

A wide variety of organisations provide micro-savings and micro-credit services which can be broadly grouped as follows, and discussed in detail in Sections 2.3–2.9 below:

- Informal providers;
- Village Savings and Loan Associations (VLSAs) and Village Community Banks (VICOBAs); sometimes linked to a bank or formal MFI;
- SACCOs (Savings and Credit Cooperative Societies);
- NGO-supported micro-finance institutions, large MFIs include Pride Tanzania; BRAC Tanzania; Finca Tazania and Vision Fund
- Formal banks providing micro-finance services – large providers include Equity Tanzania, Access Bank Tanzania Ltd, and NMB.

Meanwhile the use of mobile money has increased rapidly. SMS payments nearly doubled between 2012 and 2013 to TSh 587 million, with four commercial providers Vodacom (M-Pesa); Airtel (Airtel Money); MIC (Tigo Pesa), and Zantel (Ezy Pesa) and nearly 32 million registered users (BoT 2013). However problems of interoperability between systems is hindering growth and mobile payments are not as widespread as in Kenya.

There are two industry organisations that lobby for members and support capacity building, TAMFI (Tanzania Association of Microfinance Institutions) and SCCULT (the Savings and Credit Cooperative Union League of Tanzania Limited). International donors are also influential.

2.2 Microfinance Regulation and Policy

The regulatory framework for Microfinance Institutions (MFIs) in Tanzania is complex involving many different agencies with limited enforcement powers. Regulation depends on the constitution of the MFI. There is no coordinating body overseeing microfinance provision, although it can be argued that microfinance should be part of the operations of different organisations – banks, cooperatives, NGOs, and non-bank finance companies, whose regulation should not be under the same body.

The Ministry of Finance (MoF) oversees national financial and development policy, and guidance on microfinance is set out in the *National Microfinance Policy, 2000*. The Bank of Tanzania (BoT) supervises banks and deposit-taking MFIs[2] under banking legislation and the requirements for prudential regulation. The main legislation is listed below:

- *Banking and Financial Institution Act, 1991*, amended in 1998
- Banking law was revised in 2003 to give the Bank of Tanzania powers to regulate all financial cooperatives with a deposit of over TSh 800 million
- *Banking and Financial Institutions (Microfinance Companies and Microcredit Activities) Regulations, 2005*[3]
- *Banking and Financial Institutions (Financial Cooperatives Societies) Regulations, 2005*[2]
- *Banking and Financial Institution Act, 2006*

Savings and Credit Cooperative Societies (SACCOs) are registered and regulated by the Tanzania Cooperatives Development Commission, under the *Cooperative Societies Act, 2013.* Together with Savings and Credit Associations (SACCAs), Credit Only Companies and Financial Non-Government Organisations (NGOs). NGO microfinance organisations are registered with other government departments and are subject to limited oversight. A useful summary of the regulatory status of MFIs is given in a recent World Bank study (Table 1: WB 2013).

Table 1: Regulation and supervision of MFIs *Source: Updated from WB 2013*

Type of Institution	Permitted Activities	License & Registration	Responsible Authority
Formal Institution			
Banks providing microfinance services	Deposit-taking Loans	License, regulation & supervision	Bank of Tanzania (Banking and Financial Institutions Act) 2006
Microfinance Companies	Deposit-taking Loans		
FICOs (Financial Cooperatives)	Member savings Deposits Loans	License, regulation & supervision	Bank of Tanzania
Semi-Formal			
SACCOs	Member savings Loans	Registration, regulation & supervision	Tanzania Cooperatives Development Commission (Cooperative Societies Act, 2013)
Credit-only MFIs	Loans	Registration	Ministry of Industry and Trade – Business Registration and Licensing Authority (BRELA); Companies Act, 2002.
Financial NGOs	Compulsory savings as loan collateral Loans	Registration	Ministry of Home Affairs; Society Ordinance Cap 337, 1954 Ministry of Community Development, Gender and Children; NGO Act, 2002 Registration, Insolvency, and Trusteeship Agency (RITA); Trustees Incorporation Ordinance, Cap 375 1956, Written Laws (Miscellaneous Amendments) No. 10 of 1999 Trustees' Incorporation Act of 2002 (Cap 318)
Informal Institutions			
SACAs Village Community Banks (VICOBAs) Village Savings & Loans Associations (VSLAs) Rotating Savings & Credit Associations (ROSCAs) Self-Help Groups (SHGs)	Member savings Loans	Self-regulated	None

Various policies are important in the development of microfinance regulation, outlined below.

The MoF sets out national policy for microfinance in the *National Microfinance Policy, 2000*, which remains the main document guiding microfinance development in Tanzania. In the light of major changes in the industry the policy is now under review, but its principles are important. The policy recognises the need for an efficient and effective system of microfinance services in order

[2] Deposit-taking Institutions (DTIs) accept and manage deposits, and can make loans against deposited funds.
[3] These two regulations require semi-formal institutions whose deposits exceed TSZ 800 million to apply for the BoT license as FICOs or a microfinance company.

to contribute to economic growth and the reduction of poverty, and seeks to ensure that all microfinance practitioners comply with common standards of quality and sustainability. An enabling and non-interventionist approach is adopted, for example:

- Prices should be set by MFIs and not by the Government, BoT or donors, to ensure financial viability (s. 3.2.1). MFIs should maintain accurate portfolio information, take appropriate write-off measures, and follow up non-payments promptly (s. 3.2.2)
- Supervising authorities should apply the same principles applicable to other parts of the financial system and regulation should focus on deposit-taking institutions (s.4.1).
- Standards for MFIs should focus on outreach, institutional development and financial performance (s.4.2).
- The government should promote microfinance, but neither government nor political parties should be involved in direct provision (s.5.1).
- MFIs, NGOs and SACCOs help in widening access but must support best practices (s.5.2).
- SACCOs should be supervised in accordance with prudential financial norms. NGOs will not be subject to supervision so long as they do not accept voluntary deposits (s.5.2).

The *Cooperatives Development Policy, 2002* reiterated the government's commitment to international cooperative principles and values, and proposed the *Cooperative Societies Act, No. 20, 2003,* now repealed by legislation in 2013.

The *National Economic Empowerment Policy, 2004* seeks to ensure that the majority of Tanzanians can access opportunities to participate effectively in the economy, and to create a favourable business environment for investment and growth. The focus is on developing a market-oriented economy including easing access to capital and enabling borrowing.

The *Cooperatives Reforms and Modernization Program, 2005* aimed to foster the emergence of appropriate organisational structures, promote good governance in cooperatives, promote member empowerment through education and skills, promote the viability and sustainability of cooperatives, and support modernisation of SACCOs and cooperative banks.

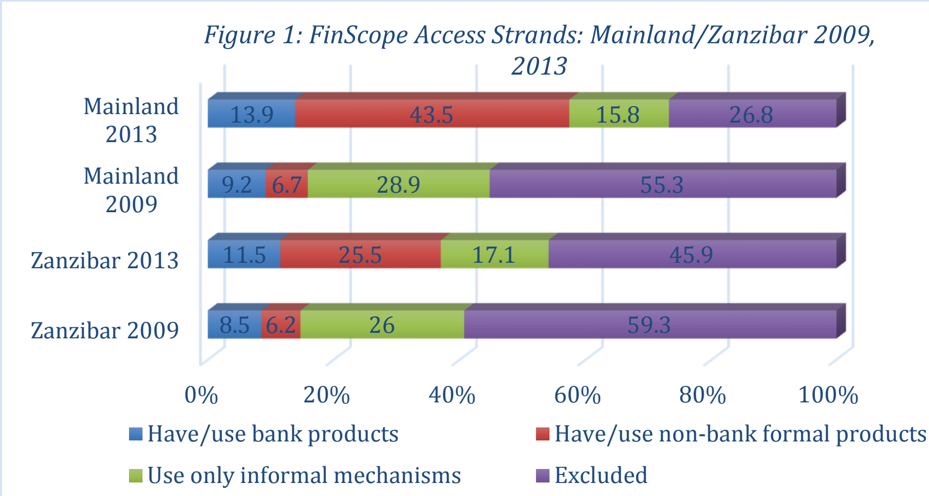
The *National Strategy for Growth and Reduction of Poverty II, 2010 (MKUKUTA II)*, the country's poverty strategy reduction paper, sets out priorities for economic growth and poverty reduction, strengthening the evidence base for priority intervention and the roles of central government, local government and the private sector, fostering human development capacity and promoting self-reliance, and strengthening public finance management.

The *Maya Declaration* made at the Alliance for Financial Inclusion meeting in Mexico, 2011, set out the BoT's commitment to achieve the goal of increasing financial access for up to 50% of the population by 2015, and to promote interoperability solutions for efficiency and affordability.

The *National Financial Inclusion Framework, 2013* establishes the Financial Inclusion Council with membership of 11 government institutions, including the MoF and BoT. It identifies barriers to inclusion including: information asymmetry for customers and financial providers; lack of appropriate products, and lack of interoperability amongst banks, MFIs and mobile money providers. Priorities include enhancing access; improving reliability and reducing the cost of digital platforms; improving the national ID system, and reducing misconceptions about financial services. Mobile financial services are seen as a key element of financial inclusion.

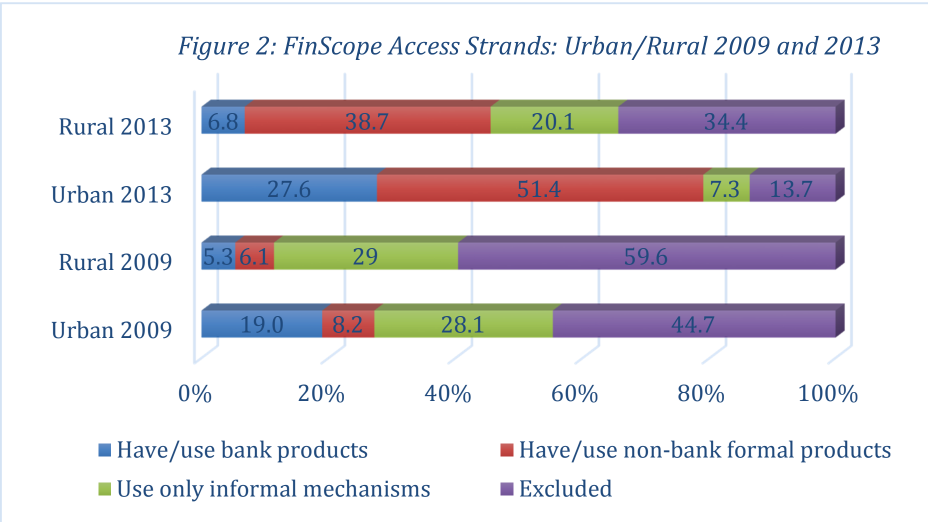
2.3 Access and Reach of Financial Services

Information on changing patterns in the use of financial services is provided by the FinScope surveys undertaken by the FSDT[4] (Financial Sector Deepening Trust). Three FinScope surveys for Tanzania were completed in 2006, 2009, and 2013. The 2009 and 2013 survey targeted 8,000 interviews across 800 Enumeration Areas in mainland Tanzania and Zanzibar with 10 interviews in each area; in 2013 7,987 interviews were achieved (FSDT 2013). This is not a panel survey and there has been some debate about methods, but the large sample is useful.



Source: FSDT 2013a

The FinScope methodology uses four 'access strands' to denote level of financial inclusion: i) use banks; ii) have/use non-bank formal products; iii) use only informal mechanisms, and iv) excluded. Respondents are ranked according to their highest level of usage. The urban results from the 2013 survey show a rapid increase in the take up of formal non-bank products, from 6.7% in 2009 to 43.5% in 2013; a small increase in use of banks; and a rapid decline in the number of people not using financial services at all – 55.3% to 26.8% over the period in mainland Tanzania (Figure 1).



Source: FSDT 2013a

2013 Classification	**Highest level of usage**
Banked (formal)	Commercial banks; Postbank
Non-bank (formal)	Insurance; SACCOs; MFIs; Remittance companies; Mobile money
Informal only (external)	Savings / credit groups
Excluded	Friends / family; Save at home / in kind

[4] FSDT was set up in 2004 to improve the capacity and sustainability of the financial sector in meeting the needs of micro- and small enterprises and poor men and women, to contribute to economic growth. FSDT is donor supported, and works with MoF.

There is a significant difference in financial access between urban and rural areas. About 34% of the interviews were completed in urban areas where change has been particularly rapid; use of banks has increased from 19.0% to 27.6%, non-bank formal products from 8.2% to 51.4% over the period from 2009 to 2013, and financial exclusion has declined from 44.7% to 13.7%.

The FinScope figures include *mobile money* in the definition of non-bank formal products, which accounts for most of the increase in this category between 2009 and 2013. By comparison, growth in other non-bank formal products is small, i.e.: insurance, MFIs, and SACCOS. Of those using mobile money, 33.1% use it to send money, 37.6% to receive money, 25.6% to save and 9.9% to pay bills. However, unlike Kenya, the use of mobile money does not yet include borrowing.

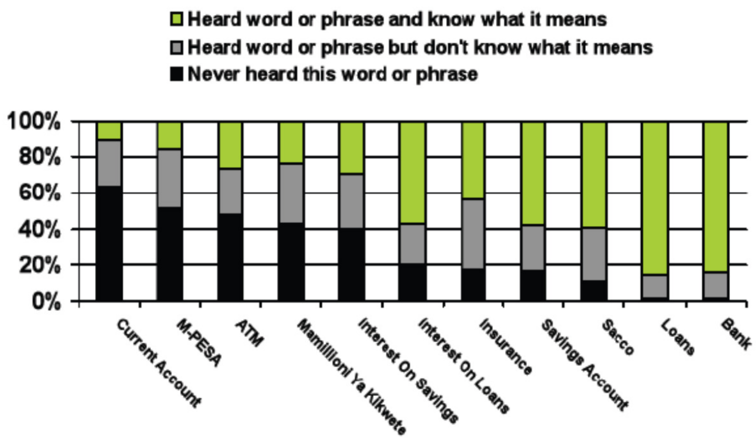
The report suggests that of those using the informal financial services, 21.6% use it for saving, 21.7% for borrowing, 25.2% for getting goods on credit, and 10.8% for informal insurance (although it is not clear whether this total includes all those using the informal sector or just those in the third access strand) (FSDT 2013).

Table 2: How people use informal financial services

Type of service	2009	2013
Informal saving	23.5%	21.6%
Informal borrowing	11.4%	21.7%
Getting goods/services on credit	-	25.2%
Informal insurance (group)	13.9%	10.8%
Informal remittance	17.3%	0.2%

Source: FSDT (2013)

Figure 3: Level of awareness of basic financial concepts, Source: FinScope 2009 from WB 2013



The conclusion is that the financial sector in Tanzania is very dynamic, but even in urban areas both lack of financial education and financial exclusion remain. The main growth has been in mobile money which is changing patterns of financial access, but creating new spaces of exclusion for those in rural areas or without connection.

2.4 Informal Saving and Borrowing

There is a rich pattern of informal savings in Tanzania, known by local names including *upata, cupeana* and *michezo.* Most are based on traditional ROSCAs (rotating savings and credit associations) in which around 5-10 members make weekly or regular savings of the same amount; each week, in turns, one member of the group takes the total saved by the group. A variant is the ASCA (accumulating savings and credit association), in which members make regular savings but can borrow against an accumulating fund. After an agreed period, usually 10 months, all loans are recalled, and the fund and profit is distributed to members.

The study did not find information on the proportion of women who are members of informal savings groups, but this is likely to be high, reducing the need for access to formal financial services. However, in their study of urban women's solidarity groups in Tanzania, Sigalla and Carney (2012) describe the operation of two very different solidarity models. The first uses a modified Grameen model, where clients form groups of five people and guarantee each other's loans; ten groups come together to form a 'market enterprise committee' which provides further guarantee. The second model gives individual loans or lease agreements for equipment, and applicants must be supported by two or more guarantors from their group.

Money lenders are common and typically charge between 10-20% over the period of the loan – often a very short period. In Kariakoo, the main market of Dar es Salaam, money lenders lend large amounts at up to 10% interest per day. An expert suggested that up to 20-30% or all business volumes in the country pass through Kariakoo as a centre for internal trade, and export to the Democratic Republic of Congo, Rwanda and other inland destinations (EI).

2.5 Collective Saving and Borrowing

Village Savings and Loan Associations (VSLAs) are voluntary groups which save money on a weekly basis and can then borrow against the weekly savings, forming a 'self-organised' financial sector (Box 1). VSLAs can be considered as an improved and semi-formalised version of ROSCAs/ASCAs, which have been long established in Tanzania. Their introduction has been spearheaded by NGOs and churches.

Box 1: VSLA history and operations

The VSLA methodology was started in Niger in 1990 by CARE International, funded by Norwegian development assistance to help women in polygamous families support their children. The system started with a collective buying and selling to support agricultural development, adopting a hybrid methodology of ROSCAs and ASCAs. CARE and its partners developed a series of MMD manuals (using the acronym of *Mata Masu Dubara,* or 'Women on the Move' in Hausa) which refined the VSLA method over several years (Allen 2006, EI). VSLAs were an adaptation of traditional savings methods, and CARE's Access Africa has now promoted VSLA groups in at least 26 countries in sub-Saharan Africa.

VSLA groups have 15-20 members and are self-managed. Groups make regular savings and borrow from this pot, sometimes with donor start-up funds. Assets remain within the group. The VSLA methodology requires 'breaking the cycle', usually every 12 months, when profits are 'shared-out', so that the funds do not accumulate. NGOs typically support VLSA groups for 12-24 months with training. Church groups are among those that have promoted VSLAs. The methods are well-established in stable rural communities, but are less common in urban areas.

Each VSLA group establishes a Constitution, which establishes the board membership, frequency of meetings, cost of shares, and loan procedures. Members purchase shares on a regular basis to provide working capital as the basis for loans. Interest rates are set by the group, typically 5% or 10% for the period of the loan (usually 1-3 months); money is often kept in a cash box with two or three key-holders. Profit accrues from interest and fines for late payment or non-attendance. The capital remains relatively small because of the annual 'share-out', limiting the size of loans, but minimising the scope for theft. Share-outs may be made equally to each member or relate to the number of shares. Donor funds are usually for raising awareness, seed money, and entrepreneurship training. Interest rates are sometimes lower than commercial MFIs and profits are returned to the community (although with a transfer from high to low borrowers) [Source: EI]

VSLAs and VICOBA's in Tanzania

In Tanzania there are two main variants of the approach, known as VSLAs and VICOBAs, which adopt similar principles but slightly different methodologies. Care International has been instrumental in setting up many VSLAs, and VICOBAs are established by a variety of donors. The approach was first used in Zanzibar in 2000 and mainland Tanzania in 2002 (SEDIT 2008). Numbers of participants and groups are not known, but it is thought that about 1 million people are members of groups, with about 750,000 in VSLAs and 250,000 in VICOBAs. Average group size is around 23, so this equates to around 32,000 VSLAs and around 11,000 VICOBAs.

Several international NGOs and donors support the approach, including CARE Tanzania, Catholic Relief Services, the World Wildlife Fund (in wildlife reserves), Agha Khan Foundation, World Vision (both VICOBAs and VSLAs), and TASAF (Tanzania Social Action Fund), and others (EIs).

VSLAs were first introduced to Zanzibar in 1998 under a programme funded by the McKnight Foundation to support the livelihoods of fishing communities affected by conservation projects. The project started with 12 groups, but by the end of 2002 these had expanded to 48.

CARE International took up the programme on the mainland. Successful innovations include the introduction of shares and passbooks. Share prices are set by the group and each share is recorded by a print or symbol in the book, thus each member 'owns' the record of their savings and borrowing, although it more difficult to prepare quarterly accounts. Interest rates are typically 5% a month, or 60% per annum, but the profit remains within the group for the share-out (EI). There are a number of APEX associations of groups of VSLAs.

VICOBAs are a variant of VSLAs using the original version of the MMD manual, introduced in 2002 by the NGO SEDIT (Social Economic Development Initiative of Tanzania) in partnership with the WCRP (World Conference on Religion and Peace). VICOBAs adopt a ledger-based system of recording members' shares. SEDIT (2008) supports groups with 14-16 month training on leadership, regulation, savings and credit operations and conflict resolution etc.

The ledger gives the group's accounts at any one time, and means that record keeping is simpler, and can more easily be converted into a management information system, but is harder to keep up to date (CeVEDE 2014). VIBOBA interest rates can sometimes be 5% for 3 months (or 20% a year). A variant is the COCOBA (Community Conservation Banks), supported by the World Wildlife Fund, to help communities develop environmentally friendly economic activities in wildlife conservation areas.

An important aspect of VSLAs and VICOBAs is the annual share-out. At the end of each year the books are closed, and funds shared amongst members. Most VSLAs share out both the principle (share capital) and profit (from interest and penalties), whilst VICOBAs tend to share out only the profit.

Savings groups should be registered with the relevant local authority Community Development Office. Each should have a Constitution and appoint officers. Community Development Officers help groups agree the Constitution, and establish procedures. Each group must have a minimum of 10 members, and divide when they reach 30. A recent VICOBA forum identified a number of constraints facing the development of VICOBAS, including differences in practice, the quality of trainers, problems of registration, and the split responsibilities between different government agencies including the Ministry of Industry and Trade, Ministry of Community Development, Gender and Children Affairs, Ministry of Home Affairs, Ministry of Finance and Economic Planning, and Ministry of Agriculture, Food Security and Cooperatives. VICOBAs also face political interference, and predatory bank practices (CeVEDE 2014).

2.6 SACCOs (Financial Cooperatives)

The cooperative movement in Tanzania has a long history. Informal groups started during the 1920s to improve farmers' access to markets, and the first cooperative union was registered in 1933 in Moshi (K-Rep 2005, Maghimbi, 2010). After independence, cooperatives were central to the *ujamma* (African socialism) movement, introduced by President Nyerere after independence. The National Cooperative Bank was established in 1964, and with 2,500 cooperatives registered by 1974. However, rapid growth led to concerns over their operations, and radical changes in government policy led to the introduction of socialism to all economic and social sectors, so in 1976 primary cooperatives and cooperative unions were abolished and their functions transferred to villages and state crop authorities (EI, Maghimbi, 2010).

Agricultural exports declined rapidly and, as wider economic problems mounted, in 1982 cooperatives and cooperative unions were reintroduced. Under political patronage, membership was effectively compulsory. The 1982 regulations did not require cooperative members to purchase shares, but cooperatives lacked crop-buying funds and had lost manpower and assets, so many agricultural cooperatives failed. In 1991, new legislation made membership voluntary, but by then many cooperatives had accrued debt and were widely mistrusted (Maghimbi 2010). The only sector that thrived were the SACCOs (Savings and Credit Cooperative Societies).

A presidential committee formed in 2000 led to the formulation of the *Cooperative Societies Act, 2003,* with primary cooperatives recognised as the basic structure of the movement and emphasis on the need for economic viability (Maghimbi 2010). At study in 2003 found that many SACCOs still offered limited financial services to members, and many still required technical assistance and capacity building to improve the quality of services (K-Rep 2003). The report also found that although most SACCOs were reasonably well-managed, it concluded that: interest rates were unsustainably low (between 0.58% - 3% per month flat fee or declining balance); no SACCO calculated key financial indicators such as profitability or liquidity, and many faced major challenges including low capitalisation, poor loan repayment, weak internal control systems and lack an emergency fund (K-rep 2003). Widespread recommendations led to publication of the *Cooperative Rules, 2004.*

However, mistrust remains, and as one expert said, *'SACCOs are opening old wounds, because people lost a lot of money when the government banned cooperatives in 1972'* (EI).

SACCOs today

There are now five main types of cooperative in Tanzania, including SACCOs agricultural marketing cooperatives, fishing cooperatives, mining cooperatives, and livestock cooperatives.

SACCOs play an important role in the provision of micro-finance. By March 2013 of the national total of 9,700 registered cooperatives, 5,559 were SACCOs, with 45% in urban areas – an increase from 5,344 in 2011 (EI). They included 1,153,248 members, representing about 25% of clients in the financial sector (both formal and semi-formal organizations) (WB 2013).

However failure rates are high, and of registered SACCOs it is thought that around 60-70% are active and 30-40% are dormant (EIs). One of the problems is that many were formed to benefit from the National Empowerment Fund, popularly known as the 'JK Fund' or 'Jakaya Kikwete Billions'. The main objective of the programme is to *'increase the incomes of small and medium entrepreneurs and to create new jobs for Tanzania citizens'* (NEEC 2015). The programme committed TZS 21 billion as guarantees and loan funds for banks and financial institutions to lend to entrepreneurs. Participating banks were required to lend three times the amount deposited, and several banks focussed their lending on SACCOs.

Support institutions include TFC (Tanzania Federation of Cooperatives), which promotes and coordinates cooperative development in mainland Tanzania, and SCCULT (the Savings and Credit Cooperative Union League of Tanzania Limited) a cooperative union which forms the national association of registered cooperatives providing a Central Finance Programme, lobbying and consultancy, capacity building and other support.

Regulation of cooperatives fall under the Director and Registrar of Cooperatives within the Ministry of Agriculture, Food Security and Cooperatives (MoAFC), which has offices in all 21 regions of mainland Tanzania. Cooperatives are registered by the Regional Cooperative Office, and administered at local government level by the District Cooperative Officer.

Formation and registration of a SACCO follows set procedures. Registration is supervised by the District Cooperative Officer (DCO) at local government level. Potential members must first assemble at a meeting chaired by the DCO to decide a name, elect a chairperson and a committee of 10 members, create bylaws and determine the value of shares and interest. The committee then calls a second meeting to agree a constitution, and file for registration to the District Office. SACCOs must have more than 20 members and capital of more than TSh 5 million (EI). DCOs also monitor and support SACCOs, but are very under-resourced.

Registration is ratified by regional Assistant Registrars under the MoAFC. They have four main functions: registration, promotion, inspection and supervision, and financial advisory services (for SACCOS and cooperative banks). There are however considerable delays in registration. Once registered SACCOs are a 'legal entity' and may open bank accounts and borrow. Larger cooperatives should submit quarterly financial reports, and others six-monthly reports.

In a move to strengthen cooperatives and their support for small-scale enterprise, the new *Cooperatives Societies Act, 2013* established a new Tanzania Cooperatives Development Commission as an independent government department under the ministry responsible for cooperatives, with a chairperson and Chief Executive (the Registrar of Cooperative Societies) appointed by the President. The Act repeals the 2003 legislation, and makes District Cooperative Officers employed by local authorities responsible to the Commission on cooperatives' affairs. The Act specifies that a SACCO must have at least 20 members, and federations of cooperatives should include at least 10 primary societies.

2.7 Micro-finance Institutions

Currently there are no comprehensive, up-to-date data available on the supply of microfinance services in Tanzania, although the World Bank study suggested that by December 2011 of the 48 formal financial institutions offering microfinance, only 20 were deposit-taking and thus regulated by the Bank of Tanzania, and an estimated 71 were financial NGOs providing credit to some 690,000 clients, representing perhaps 10% of those in the financial sector (WB 2013).

Microfinance provision includes two main sectors:

- NGO-supported micro-finance institutions, dominated by four large MFIs – Pride Tanzania (102,000 borrowers); BRAC Tanzania (102,000 borrowers); FINCA Tanzania (78,000 borrowers) and Vision Fund (34,000 borrowers) (MIX 2015, MF Transparency 2015)
- Formal banks providing microfinance services – large providers include Equity Tanzania, Access Bank Tanzania, and NMB (Mix 2015)

Useful information is available from two global donor-funded platforms, MIX Market and MF Transparency, to which the larger MFIs submit information on a voluntary basis, but this is not comprehensive (MIX 2015, MF Transparency 2015). Both MIX Market and MF Transparency promote financial inclusion and global transparency in the microfinance industry and collect MFI data from audited financial accounts etc., but provide slightly different indicators – MIX Market examines portfolio performance, and MF Transparency focuses on products.

MIX Market data shows information from 21 MFIs recording a total of 751,699 deposit accounts totalling US$ 1.9bn, and 346,830 loans totalling US$ 1.4bn (MIX 2015). The higher number of depositors/deposits to borrowers/loans outstanding is unusual, and indicates that Tanzanian microfinance is not as skewed towards debt as most microfinance sectors in Africa. BRAC's presence may have some influence on this, as well as the traditions of saving and of cooperatives.

The data highlights the uneven nature of MFI and bank access in Tanzania, concluding that MFI locations were not determined by population density, and bank access was largely driven by mobile money (Figure 1) (FIL 2014).

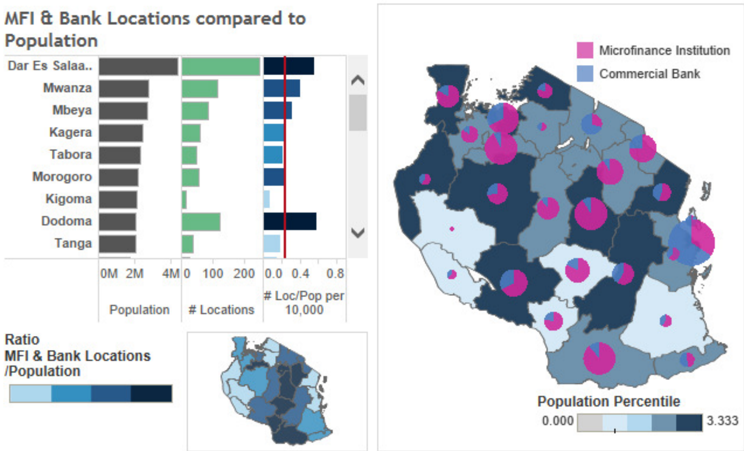


Figure 4: Source: Financial Inclusion Lab: Tanzania **(FIL 2014)**

MF Transparency lists 19 MFIs, representing 470,000 active clients and a combined portfolio of over US$ 255m (MFT 2015). There is some overlap with the MIX Market data. Four large MFIs dominate the market:

- BRAC Tanzania Finance Limited (portfolio US$ 19.6m, 102,392 clients with active loans)
- PRIDE Tanzania (portfolio US$ 33.3 million, 102,278 clients with active loans)
- FINCA Tanzania and NBFI (portfolio US$ 23.9 million, 79,129 clients with active loans)
- NMB (portfolio US$ 74.5 million, 45,197 clients with active loans)

The listed MFIs include six registered (and supervised banks) Access Bank Tanzania Limited; Akiba Commerical Bank plc; Mbinka Community Bank Limited; Mwanga Community Bank (MCBL); National Microfinance Bank (NMB); and CRDB Bank.

The six listed NGOs include BELITA (Better Life for Tanzanians Trust Fund), BRAC Tanzania Finance Limited, Micro Entrepreneurs Development Foundation (MDF) Tanzania, PRIDE-Tanzania Limited (Promotion of Rural Initiative and Development Enterprise), Vision Fund Tanzania and YOSEFO (Youth Self-Employment Foundation).

There are also seven non-bank finance institutions: F& K Finance Limited, FINCA Tanzania MFC Limited, K-Finance Limited, Opportunity Tanzania Limited, Selfina, Tujijenge Tanzania Limited, and Victoria Finance Limited. In addition Tanzania Postal Bank is a state-owned non-bank financial institution with over 1 million customers, and now provides some microfinance.

As the MF Transparency data shows, PRIDE Tanzania and BRAC Tanzania have a strong urban focus, but the other two large MFIs serve a more rural clientele. Products listed include solidarity (group) or individual loans ranging from TZS 30,000 – TZS 35,000,000 (UX$ 16 – US$ 1,920) with interest rates (Annual Percentage Rates or APR) ranging from 24% to over 100%.

The Tanzanian Association of Microfinance Institutions (TAMFI) was revived in 2010 through merging with the former AFRAC (African Rural Agricultural and Credit Association), with the objective to serve as a platform, network and voice for the microfinance industry. It lobbies for improving the business environment for members. Membership includes both banks and MFIs and TAMFI now has 63 members, although most are in Dar es Salaam. They are lobbying for a new microfinance Act. The industry is innovating and at the time of interview (2013), three MFIs were linked to mobile money.

However, where microcredit institutions rely on borrowing for their lending capital, they are incentivised to maximise both growth and recovery. Generally profit margins are low on microcredit, so organisations need volume to create reasonable profits and to satisfy investors. This translates into incentives to loans officers to make loans, and recovery officers to ensure that repayments are prioritised. Although many organisations interviewed for this research outlined responsible loan recovery procedures, inevitably practice sometimes fall short of intention.

It is evident that the structure of the microfinance industry, level of oversight and regulation, and options available are by no means clear to potential customers. In addition, although microfinance is expensive to provide, because of the consumer education and supervision needed in the absence of collateral, it is evident that microfinance clients are paying a higher price for credit than formal bank customers if the time taken to attend the regular savings meetings required of solidarity groups, is considered together with the relatively high interest rates.

2.8 Agent Banking

The agent banking model allows retail outlets such as shops, post offices, pharmacies and petrol stations to act as agents for banks. The agents provide banking services to the bank customers on behalf of the banking institution under a valid agency agreement. In recognition of the potential of this evolution, BoT recently issued the *Guidelines for Agent Banking for Banking Institutions, 2013.* The objectives are to provide for agent banking as a cost-effective delivery channel for banking services, and to establish a framework for good practice. The guidelines are made under Section 71 of the Banking and Financial Institutions Act, 2006. Agents can facilitate the most important banking activities, including cash deposit and withdrawal, cash disbursement and loan repayment, payment of utility bills, and funds transfer etc. (s.6). Agents are required to have operated a lawful commercial activity for at least two years (s. 8). The number of agent banks had reached 542 by December 2013.

2.9 Mobile Money

Tanzania has witnessed a rapid rise in the use of mobile money. By the end of 2009, 7.2 million people (28% of the population) owned a mobile phone and 32% used someone else's (di Castri and Gidvani 2014). Mobile money is effectively a branchless banking service allowing users to deposit money in an account stored on their mobile phones. Money can be transferred to other users with password-restricted text message, and users can deposit and withdraw cash for a small fee from registered agents. Mobile money has now largely replaced buying airtime as a way of transferring money to another user.

Mobile money was launched in 2008, when BoT issued interim letters of ‘no objection’ to Vodacom’s M-Pesa, and Zantel’s Z-Pesa (now Ezy Pesa), followed by Zain’s Zap and Tigo Pesa in 2010. Initially the service was slow to start until Vodacom made operational changes, including a flat fee for M-Pesa transfers, payment of utility bills and expansion of the agent network. By December 2013 there were more than 11 million active mobile money accounts, and 153,359 agents; in the same month mobile money transactions amounted to US$ 1.8 billion, and 35% of households had at least one registered mobile money user (di Castri and Gidvani 2014).

BoT was anxious to promote innovation and financial inclusion so in the absence of adequate regulation put interim measures in place, following Kenya by allowing mobile money services to launch and monitor developments, acting under Section 6 of the *Bank of Tanzania Act, 2003*. Mobile network operators (MNOs) are required to link with one commercial bank, and the money is held in a trust account and thus backed by 100% liquidity. The ‘no objection’ letters issued by BoT stipulated that mobile money was subject to BoT prudential and non-prudential oversight.

Agents are subject to strict conditions, and must be either a registered company with at least five outlets and invest at least US$ 1,480 in a float, or a single outlet and invest US$ 3,700 in the float. Much of the agency network uses an aggregator model, where a master agent coordinates the float for individual agents, which makes supervision easier and ensures liquidity when agents are working in areas with limited bank access. Latest statistics show that the agent network increased from 97,613 in September 2012 to 153,369 in December 2013. Doubtless there has been significant change since then.

In February 2014, Circular NPF/MFS/01/2014 stipulated that interest accrued on the trust accounts should benefit mobile money customers, and MNOs are required to submit proposals to BoT as to how this will be used, eg: to educate customers, or to be paid to customers. *Draft Mobile Payments Regulations,* and a *Draft National Payment Systems Act* are being prepared.

The introduction of VodaCom’s M-Pawa (bank linked) and Airtel’s Timiza mobile money credit is likely to have a significant impact.

2.10 Consumer Protection

The World Bank’s *Responsible Finance* programme promotes financial capability and consumer protection and is progressing 25 country diagnostic reviews. The framework for review is set out in the *Guidelines for Good Practice on Financial Consumer Protection* (WB 2012), which argues that a well-functioning consumer protection regime provides safeguards for financial services consumers while empowering them to claim their legal rights and fulfil their obligations. The review suggests focus on seven core areas: institutions; disclosure; account handing; data protection; compensation; consumer empowerment, and competition. The programme has completed 18 country reviews, including Tanzania in 2013.

The *Tanzania: Diagnostic Review of Consumer Protection and Financial Literacy,* made extensive and detailed recommendations (WB 2013). In reviewing institutions, the legal and regulatory framework, consumer disclosure, business practices, dispute resolution and financial education, the report made a number of key recommendations. Those specifically endorsed by this research include the following:

- Establish a new coordination mechanism for financial consumer protection;
- Ensure that mobile payment regulation entails effective disclosure in agent operation and dispute resolution;

- Develop a unified regulatory approach to ensure that all clients of formal and semi-formal MFIs are treated equally in terms of access to basic product information, and are not subject to abusive sales and collection practices;
- For informal microfinance organisations, support and coordinate efforts to introduce consumer protection and financial education principles into their operation;
- Ensure adequate disclosure of interest rates;
- Enhance fair treatment of microfinance consumers through targeted regulation, affordability assessments, and reducing balance interest rates;
- Introduce financial education programmes for school children;
- Encourage mobile payment providers to educate consumers about their rights, responsibility and privacy protection.

3. Financial Needs of Micro-entrepreneurs

This section summarises the survey of micro-enterprises, with survey results in Appendix 2. There were 206 interviewees, including 111 in Dar es Salaam and 95 in Arusha. The majority of those interviewed were own-account workers, working in a micro-enterprise of less than 10 people.

3.1 Savings

In response to a multiple choice question about where they saved, of 193 valid responses, 53% used mobile money, 42% used banks, 36% saved at home, and 10% used airtime. Relatively few people saw SACCOs, VICOBAs or MFIs as a location for saving. Expert interviews with MFI providers confirmed the view that operators of small businesses do not see MFIs as the first choice for savings.

Means of saving: Respondents were more likely to use banks in Dar es Salaam than Arusha (48% vs. 35%), SACCOs (6% vs. 0%) and mobile money (55% vs. 52%), but less likely to use VICOBAs (4% vs.9%). In terms of gender, men were more likely to use banks than women (47% vs. 37%) and to use mobile money (56% vs. 49%), but less likely to use VICOBAs than women (2% vs. 13%).

There were some differences in savings patterns across different sectors. Those working in construction are more likely to save at home (47%), and those working in tourism were less likely to save using mobile money, a slightly surprising result as this is likely to be a well-connected sector.

Reasons for saving: Reasons for saving were varied – of 183 valid responses, 78% saved for family or medical emergencies, 43% for school fees, 43% for business investment (eg: buying stock or investing in tools and premises), and 36% for future business emergencies. These results confirm that even if intended for business purposes micro-credit is often used for ‘smoothing’ cash flow and to cover family emergencies – business spending is often not seen as a separate household item.

Reasons for saving were broadly similar across both gender and area, with those in Arusha slightly more likely to save for family emergencies and school fees than in Dar es Salaam. Men in Dar es Salaam were more likely to save towards land or housing compared to women (17% vs. 9%). Overall the low-income households face a shortage of finance for house construction or improvements in urban Tanzania.

A small group did not save, mainly because they felt that they did not have enough money to save or did not earn regularly enough.

3.2 Borrowings

Means of Borrowing: Borrowing from friends and family seems to be the most common form of borrowing. Although only 53 valid answers were given to the questions about borrowing, the majority (26%) borrowed from family and friends and 17% from other sources. Some 23% borrowed from banks, 15% from VICOBAs, 8% from MFIs and 6% from SACCOs.

None of the respondents working in construction reported using a bank, and instead used MFIs (25%). Banks were more commonly used by those working in tourism (43%) and manufacturing (30%). Those who resorted to moneylenders said that they typically charge 20%-50% of the loan value. The ease of getting a loan is an obvious factor as one reported:

> *Yes, I take loan from different moneylenders. When I take TSh 100,000 I refund TSh 150,000. The problem is that a loan from bank requires collateral of a higher value than the loan I take, for example you want a loan of TSh 400,000 and you have to submit a house certificate as collateral. It is better to take to money lender who trusts us without any collateral.* (Male, manufacturing women's clothes, Manzese, Dar es Salaam)

Reasons for borrowing: The reasons for borrowing were for business development (53%) or business emergencies (40%). particularly those working in tourism or vendors. Women were considerably more likely than men to borrow for business development (60% vs. 46%), school fees (20% vs. 7%), and family emergencies (12% vs. 0%). Respondents in Arusha compared to Dar es Salaam were also more inclined to borrow for school fees (22% vs. 4%), and family emergencies (11% vs. 0%).

Reasons for not borrowing were mainly because of concerns over repayment or irregular income. From 139 valid responses the most common reason for not borrowing was: worry about paying back debt (68%), not earning regularly enough (34%), not needing a loan (15%), or finding it too expensive to borrow (7%). The sample included 141 Christian and 65 Muslim micro-entrepreneurs – although Muslims were less likely to borrow than their Christian counterparts, fear of debt was the most common reason and only two mentioned religious reasons for not borrowing.

Loans from all sources were of similar size ranges, and varied from TZS 120,000 – TZS 2,000,000; from MFIs from TZS 30,000 – TZS 1,000,000, and from VICOBAs and SACCOs TZS 500,000 – TZS 2,000,000. Virtually none of the micro-entrepreneurs had an understanding of the interest rates charged – they knew only how much money had to be paid each month, not how it was calculated, a common problem with microfinance clients.

Those borrowing from banks usually provided collateral, often the house or place of business; others were able to borrow against assets, a business stand or driving license. They found the interest rates high, and the time to repay the loan very short. One interviewee, a trader at Mwenge now selling soft drinks and water, had lost his house because he failed to repay a loan.

Those borrowing from VICOBAs usually provided savings or business stand or equipment as collateral, and had a signed agreement for the loan from VICOBA leaders. Most were based in Arusha, and several reported harassment and evictions by the city police, and fines of TZS 20,000. SACCOs members generally had to provide four people as guarantors.

3.3 Solidarity Groups in Urban Areas

The solidarity model has been very successful in rural areas, particularly where promoted in groups with shared common interest, and can sometimes translate well into urban areas.

A women's savings group in Kurasini, near Dar es Salaam Port, in Temeke had been particularly successful in using SDI savings methods[5] to develop small businesses. The group of about 30 members had developed a collective soap-making business, and bought a small *bajaj*[6] truck for hire. As one group member said:

> *I was looking for a savings group and found a family* (Female, selling beauty products. Kurasini, Dar es Salaam)

[5] Shack/Slum Dwellers International (SDI) is a global network of community-based organisations of the urban poor in 33 countries. SDI affiliates work through federations of savings groups and promote community-based mapping.
[6] 3-wheeler

Kurasini is affected by the port development plans and members had also purchased development land for replacement housing south of the city. However, group members were relatively young, and several had good education and could manage the accounts.

More difficult are the groups 'constructed' by MFIs, who require disparate people with different livelihood trajectories to form groups to co-guarantee credit. This can be particularly problematic in urban areas for groups with a young and relatively mobile population to ensure repayments. People are thus wary:

> *I have not decided and I have heard that there are too many complications and they want people to be in groups, so I don't want to be part of people I don't know and trust.* (Male, manufacturing furniture etc, Manzese, Dar es Salaam)

Borrowers also fear paying loans for other people

> *Two of my group member ran away with the money so as the remaining members we had to pay 40,500 Tsh each to cover the lost money.* (Female, 34-55. Vendor, Arusha)

Several people also noted the difficulty getting access to group meetings if these were held in MFI offices rather than near at home or the place of work, particularly in Dar es Salaam where bus travel can be slow because of traffic congestion.

3.4 Savings and Mobile Money

Mobile money has significant potential to overcome problems of financial exclusion, but needs to be more transparent, reliable and linked to consumer education.

> *I do keep money in my Tigo-Pesa for unforeseen events in life (I have learnt from my own previous illnesses),and also, if no problem occurs, the money will be spent on buying equipment such as a sewing machine etc,* (Female, 25-34, Tailor, Dar es Salaam)

> *Sometimes M-Pesa network is down so that delays my transactions* (Male, tourism selling handicrafts, Sekei, Arusha)

However problems do occur, and it is difficult for customers to know what to do. Mobile money providers should be required to provide an efficient and free service to trace mis-payments, and to establish clear dispute resolution mechanisms.

> *One day I deposited money in my M-pesa but the balance in the phone did not top-up. Very surprisingly, the agent did not know what to do.* (Female, selling juice, Mwenge, Dar es Salaam)

The introduction in 2014 of VodaCom's M-Pawa (bank linked) and Airtel's Timiza mobile money credit is likely to have a significant impact.

3.5 Vulnerabilities

Many of the micro-enterprises are working in very uncertain environments, where unpredictable shocks are commonplace. These include evictions by the authorities:

> *We are working in the informal area where we always evicted by Mugambo (municipality police), and we come back because this is the area where we get money.* (Female, selling fruit and vegetables, Mwenge Bus Stand, Dar es Salaam)

> *Harassment is a constant action and it can happen anytime even now. This is my daily life crisis. I have been fined more than TSh50,000 at different occasions. I know I'm here illegally but I don't have any option – no matter how many times I will be evicted I will always be back at this place.* (Male, selling *mitumba* trousers & shirts, Soko Kuu, Arusha)

> *Last Tuesday 9th of July 2013 the police invaded the traders where many were caught. The only choice they gave us was either to give them baksheesh or to be jailed. I was afraid of being jailed*

> *that is why I provided them the money [TSh 50,000]. Also I lost some of the goods. The municipality is the source of all this as it gives power to the police who in turn use too much power, and cause huge losses to traders. It's like we have lost human dignity in our own country. I also don't remember whether my mobile phone was stolen or I dropped it somewhere else when running on the day of incident.* (Female, selling, location not specified for reasons of research ethics)

Business is conducted in a very uncertain environment:

> *In case of injuries for my assistants I have to incur extra costs for medical treatments because they don't have health insurance. And some of sub-contractors can take money in advance but do not finish the work according to the agreements. Some clients can withdraw a contract* (Male, construction in civil works, Mwenge, Dar es Salaam)

> *Some customers who buy goods for credits do not pay on time and sometimes they don't pay at all. Sometimes I can buy things from up country but they don't reach on time. Some of the food go bad because I don't have a cold room for storage* (Male, selling rice, bananas etc, Sinza, Dar es Salaam)

> *We do not get training and therefore local people produce poor goods and cannot compete in market; the government does not promote our business internationally even when there are big international meetings the government tend to favour the Indians with big markets.* (Male, tourism selling curios and handicrafts, Mt Meru Craft Market, Arusha)

The cost of borrowing was also cited as a problem.

> *The register a workshop is much cost, the cost that can be used are better used in continuing the business. Also taking loan from bank you need to have house licence as collateral which we don't have in the area we live, the cost of processing loan are also very high for example if you a need loan of TSh 900,000 you can receive about TSh750,000 and rest is the cost of processing.* (Male, manufacturing making beds, doors etc, Temeke Stereo, Temeke)

> *I don't have enough knowledge about loan affairs but I wish to join in one of microfinance institutions like VICCOBA since I can see other members are making more money in their enterprises.* (Male, selling men's clothing, Metropole, Arusha)

Regular borrowing costs to be paid against uncertain income is a compounding factor. Many micro-entrepreneurs thus rely on family and friends to borrow money. However, those that did also reported a high pay-back price and seemed to have particular problems.

> *For the loan I took from my friend I was supposed to pay 10,000 each day I can say that was the most expensive loan but I had no way out keeping in mind that I needed that money and for the supplier I always send the money everyday using Tigo Pesa because it safe taking in mind that no way i can carry cash at night. When I started my business before registration the municipal police used to come and take my things. I was fined twice and one of my assistants was jailed so I had to pay for his freedom.* (Male, selling meat, Mwenge, Dar es Salaam)

> *I have already said that the chairman and his secretary used to come at my work place and ask for baksheesh. I agree to follow their obligation because currently I find no where I can conduct the business*. (Male, selling construction waste, Mwenge, Dar es Salaam)

> *Formerly we were trading around the central market but the municipal authority did not allow that as it was in the operation of maintaining the hygienic condition of the city. Thus what had been happening was, continuous eviction by the police until they relocated us in this particular market [NMC]* (Male, selling leather – shoes and belts, National Mining Corporation, Dar es Salaam)

4. Conclusions and Recommendations

There is no shortage of people willing to offer views on the regulation of microfinance agencies and savings and loan associations, but limited experience on which to draw. Thus a cautious approach to regulation to enable innovation is important (Christen and Rosenberg, 2000).

4.1 Inclusive Growth: Reaching the Most Vulnerable

As Tanzania's urban population increases, urban micro-enterprises will play a key role in providing jobs for young job-seekers and contributing to private sector-led growth. Yet, as this study makes clear, despite extensive government facilitation, this crucially important sector is not fully accessing the services available. Elsewhere we have also reported the harassment that micro-enterprises often face (e.g. Lyons and Brown 2013).

Many fear debt and borrow from family and friends in a financial crisis, and pay heavily for borrowing. Many micro-enterprises are vulnerable and suffer multiple shocks including on-going harassment in their place of work and family emergencies. Unless financial inclusion is part of a wider package that recognises the role of micro-enterprises and informal economy businesses in contributing to jobs and growth, then their potential contribution will be continually undermined.

1] *Financial Inclusion* should be seen as part of a broad *Inclusive Growth* agenda. For micro-enterprises, access to finance is important, but it is not a sufficient to support micro-enterprise growth and must be situated within a broader supporting policy environment. Access to finance is one of many factors that inhibited the growth of micro-enterprises and informal economy businesses interviewed for this survey. Unless an enabling environment is created that addresses conflict over space, harassment, and other insecurities then micro-enterprises will not fulfil their potential for innovation and provide jobs and growth.

4.2 Micro-enterprises: Strengthening Financial Inclusion

Financial inclusion, including access to credit, savings and other financial services, is not sufficient to ensure livelihoods' development and economic growth, although credit can fulfil important functions in livelihoods and wider economic development: the principle should be that those who need financial services should have access to affordable and transparent forms of savings, borrowing and insurance services, where the costs and their rights are made clear. Six barriers to financial inclusion of micro-enterprises are identified:

2] Credit should only be used as part of a tripartite of equally weighted intervention services – savings, insurance and credit: Credit is often the only or primary financial service that is available to micro-enterprises. The emphasis of provision should be on promoting savings and insurance in order to minimise the need for credit. Micro-enterprises should be offered a full range of services, with the focus on savings, insurance, and consumer education rather than credit as the main objective, as it is hard to make money out of poor people's savings.

3] Financial products should be developed which accommodate fluctuating incomes, allowing 'lumpy repayments' when income recovers: Many loan mechanisms require regular payments, but business income is often irregular and unpredictable. Furthermore, although MFIS prefer to lend for business development, as the survey confirmed, in practice much micro-credit is used to 'smooth' consumption spending, eg: for family emergencies or schools when fixed repayments may be difficult.

4] Financial literacy should be tackled at all levels, but with an emphasis on savings rather than credit. Lack of knowledge about financial services is a widespread problem for those running micro-enterprises, including lack of understanding of basic financial concepts (eg: how savings are held by MFIs and how interest is calculated), and no awareness of how charges are calculated and the overall cost of borrowing.

5] Good practice guidance on successful adaptation of the VSLA/VICOBA model to urban settings should be disseminated: The VSLA/VICOBA model works well to build community solidarity, particularly within stable communities and amongst groups with a majority of women members. Although developed as a rural model there are now a number of successful urban groups; but knowledge on successful adaptations in urban settings in not well-disseminated (eg: for young people trying to set up businesses). More research on VSLAs in urban settings is needed.

6] Solidarity groups should be seen as a stepping stone to enabling members to graduate to a accessing full range of individual financial services: Despite their strengths in creating social solidarity, enabling peer learning and bringing borrowers face-to-face with lenders, solidarity groups are expensive – for providers to supervise, and for participants in terms of cost, their time and covering for default by a group member. They will remain important for community development, but should not be the only financial service to which members have access.

7] Distance to MFI lenders remains a problem and mobile phone repayments should be facilitated: Lack of easy access to banks, MFIs, ATMs or other financial sector outlets remains a problem for many micro-enterprise and informal economy workers. Even in urban areas, bus journeys are slow and money is lost through time out of work to attend group meetings, but some of these problems can be addressed through linking MFIs and savings groups to mobile repayment systems.

4.3 Microfinance Institutions: Standards and Regulation

There is considerable innovation amongst MFIs in Tanzania, but the different regulatory regimes for deposit-taking institutions (DTIs) and non-deposit taking institutions (NDTIs) create a two-tier system for both MFIs and their customers. DTIs are regulated by the Bank of Tanzania; larger NDTIs are registered as businesses, but their financial operations are not regulated.

NDTIs may not lend against deposits and rely for finance on bank borrowing, donor funds or fees and interest charges. They lack prudential oversight and costs may be higher than DTIs and must be passed on to customers. Micro-enterprise customers do not distinguish between DTIs and NDTIs. Many NGO-affiliated non-deposit taking MFIs provide examples of excellent practice in supporting customers, but are inhibited in keeping down costs by the two-tier regulatory system. To avoid over-regulation, the aim should be to provide across-the-board guidance on good practice, and to simplify registration procedures for DTIs status.

8] Regulators should develop a standard code of conduct for both formal deposit-taking MFIs (regulated by BoT) and semi-formal non-deposit-taking MFIs. The code of conduct should avoid over-regulation and draw on existing good practice amongst MFIs, with two elements:

i) mandatory requirements for consumer protection and customer information. All MFIs should adhere to core standards of consumer protection, promote transparency in pricing and provide clear information on complaints procedures and dispute resolution mechanisms. Good practice could include providing a KEY FACTS statement to all potential borrowers, and publicising rates of interest as a common APR.

ii) voluntary good practice guidance on avoidance of over-selling and loan recovery practice. Some NDTIs rely on borrowing for their lending capital and need volume to create reasonable profits, which incentivises loan officers to encourage selling and recovery officers to prioritise repayments over broader welfare concerns. Regular training for MFI staff should be encouraged. Maximum rates of interest should be published as APR.

9] A **'small bank license' could allow simplified forms of prudential regulation and accounting to apply to smaller MFIs, piloted with one or more established MFIs.** Non-deposit taking MFIs are inhibited in their development and outreach in not being able to lend against deposits. A 'small bank license' could allow simplified forms of regulation and submission, to support MFIs through formal regulation and oversight. It is important not to let weak institutions take poor people's savings. The present *Banking and Financial Institutions (Licensing) Regulations, 2008* and *Banking and Financial (Capital Adequacy) Regulations, 2008* at present differentiate between large and smaller banks and set the prudential and capital requirements for community banks.

10] MFIs should provide the option of allowing mobile money repayments for both group and individual savings and loans. MFIs still rely largely on regular contact with customers at particular locations, but are time-consuming and costly for the working population to reach. Technology is now allowing that system to be bypassed, and mobile money allows distance payments to be made. However, personal contact has considerable value for social support and peer learning, so a balance needs to be achieved.

11] SACCOs are an important savings mechanism, but monitoring is poor, and there is an urgent need to adequately resource District Cooperative Offices. SACCOs are widely used by around a million people in Tanzania, supported by a sound legal and regulatory framework. However mistrust still remains after their collapse in the late 1970s, and many are dormant. There is urgent need to create a new image and demonstrate on-going government commitment to SACCOs. The new Tanzania Cooperatives Development Commission should give priority to supporting District Cooperative Officers in monitoring and building capacity for SACCOs, and identifying inactive groups. Mobile money links should also be explored.

12] VSLAs and VICOBAs should remain outside the remit of regulation, but should be encouraged to form bank linkages and graduate members to individual savings. Experience of urban VSLAs and VICOBAs should be analysed and promoted. VSLAs and VICOBAs form an important self-help financial sector and should be supported, and allowed to flourish. They are important in building solidarity among the groups involved and developing a savings culture, but are limited in the size and length of loan due to the annual 'share-out'. Many are now operating successfully in urban areas, but experience of these should be shared, through workshops and internet platforms.

13] Agent banks are an important mechanism of extending outreach, but associated risks need addressing. These include problems of customer identification, high bank charges, liquidity constraints and physical security.

4.4 Mobile Money Innovations

The rapid spread of mobile phones provides the best potential for changes in the market. Mobile money is widely used as a form of saving, but much better information is needed on the charges for deposit and withdrawal, and potential returns. The recent requirement that MNOs use the profits from mobile money deposits held in Trust Funds to benefit consumers is a welcome advance.

Given the speed of change following the introduction of mobile money by four MNOs, the launch of new mobile-money credit through VodaCom's M-Pawa (bank-linked) and Airtel's Timiza systems in 2014 is likely result in rapid expansion in borrowing. This is both an opportunity and a threat – for example accounts cannot be accessed if the phone network is down. Bank-linked systems such as M-Pawa are more likely to be robust than those based on personal credit rating.

14] BoT and mobile-money providers should ensure transparent charges for mobile-money savings, credit and insurance. There is an opportunity to work with MNOs at an early stage in the provision of mobile credit to ensure consumer protection and financial education about the new system.

15] More people are now using smart-phones and a series of mobile phone 'apps' in Kiswahili should promote financial education and inclusion. SMS messages can be used to deliver 'key facts' and short financial inclusions messages, and many mobile users now have access to smart phones. The opportunity should be taken to use these as delivery mechanisms for financial education and consumer protection. There could be a requirement that these are sent to potential users before saving or borrowing starts.

16] Mobile money agents should be required to undergo basic training on handling mis-payments, and complaints. At present oversight of mobile money agents and super-agents focuses on the financial float they offer, but there is scope for ensuring good practice in agent operations, which should be part of broader training requirements.

Appendices

APPENDIX 1. Expert Interviews

African Development Bank
Ardhi University
Arusha City Council (Cooperatives and Community Development departments)
Bank of Tanzania (Microfinance, Microsurveillance departments)
CASEC, Arusha (Community Aid and Small Enterprises Consultancy)
FINCA Tanzania (Foundation for International Community Assistance)
Financial Sector Deepening Trust
Hisa Microfinance and Community Development Co. Ltd (VSLA expert)
Kilimanjaro VICOBA Network (KIVINET),
MCHIMACO (Mchikichini Market Cooperative)
Ministry of Agriculture, Food Security and Cooperatives (Cooperatives department)
Ministry of Finance (Microfinance department)
MKURABITA *(Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania)*
TAMFI (Tanzanian Association of Microfinance Institutions)
VICOBA / VSLA expert
Vision Fund Trust (HQ Arusha)
Uchumi Commercial Bank, Moshi
University of Dar es Salaam
Tumaini Church SACCO
Tanzania Chamber of Commerce, Industry & Agriculture, Arusha (TCCIA) (focus group)
Wamikroc Consumer Cooperative Society Ltd

APPENDIX 2. Survey Data

Saving (Multiple Choice Question)

	Bank	%	SACCO	%	VICOBA	%	MFI	%	MobileMoney	%	Airtime	%	Upatu	%	Home	%	Other	%	Missing	Total
Dar es Salaam	48	48	6	6	4	4	1	1	55	55	10	10	0	0	38	38	2	2	10	111
Arusha	32	35	0	0	8	9	0	0	48	52	10	10	2	2	32	35	5	5	3	95
Total	**80**	**42**	**6**	**3**	**12**	**6**	**1**	**1**	**103**	**53**	**20**	**10**	**2**	**1**	**70**	**36**	**7**	**4**	**13**	**206**

Regular Saving

	Yes	%	No	%	Missing	Total
Dar es Salaam	46	44	58	56	7	111
Arusha	38	40	57	60	0	95
Total	**84**	**42**	**115**	**58**	**7**	**206**

Saving Motivation (Multiple Choice Question)

	Business	%	Business Emergencies	%	School Fees	%	Family/Medical Emergencies	%	Land/House	%	Other	%	Missing	Total
Dar es Salaam	45	46	38	39	40	41	74	76	14	14	13	13	13	111
Arusha	33	39	28	33	39	46	69	81	11	13	4	5	10	95
Total	**78**	**43**	**66**	**36**	**79**	**43**	**143**	**78**	**25**	**14**	**17**	**9**	**23**	**206**

Reasons for Not Saving

	Don't need savings	%	Don't have money to save	%	Don't earn regularly enough	%	Too complicated	%	Other	%	Missing	Total
Dar es Salaam	0	0	11	79	1	7	1	7	1	7	97	111
Arusha	1	5	12	57	7	33	0	0	1	5	74	95
Total	**1**	**3**	**23**	**66**	**8**	**23**	**1**	**3**	**2**	**6**	**171**	**206**

Saving Problems

	Yes	%	No	%	Missing	Total
Dar es Salaam	10	11	84	89	17	111
Arusha	2	3	79	97	14	95
Total	**12**	**7**	**163**	**93**	**31**	**206**

Loan (last 24 months)

	Yes	%	No	%	Missing	Total
Dar es Salaam	25	24	81	76	5	111
Arusha	28	30	65	70	2	95
Total	**53**	**27**	**146**	**73**	**7**	**206**

Borrowing

Borrowing (Multiple Choice Question)

	Bank	%	SACCO	%	VICOBA	%	MFI	%	MobileMoney	%	Airtime	%	Upatu	%	Moneylender	%	Boss/Supplier	%	Friend	%	Other	%	Missing	Total
Dar es Salaam	7	28	2	8	1	4	2	8	0	0	0	0	0	0	0	0	2	8	8	32	3	12	97	111
Arusha	5	18	1	4	7	25	2	7	0	0	0	0	0	0	0	0	1	4	6	21	6	21	56	95
Total	**12**	**23**	**3**	**6**	**8**	**15**	**4**	**8**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3**	**6**	**14**	**26**	**9**	**17**	**153**	**206**

Borrowing Motivation (Multiple Choice Question)

	Business	%	Business Emergencies	%	School Fees	%	Family/Medical Emergencies	%	Land/House	%	Other	%	Missing	Total
Dar es Salaam	13	50	9	35	1	4	0	0	1	4	4	15	95	111
Arusha	15	56	12	44	6	22	3	11	0	0	1	4	58	95
Total	**28**	**53**	**21**	**40**	**7**	**13**	**3**	**6**	**1**	**2**	**5**	**9**	**153**	**206**

Reasons for not Borrowing (Multiple Choice Question)

	Don't need a loan	%	Dont earn regularly enough	%	Worried about not paying back debt	%	Don't trust banks or MFIs	%	Too Expensive	%	Other	%	Missing	Total
Dar es Salaam	11	15	21	29	53	73	2	3	4	6	14	19	38	111
Arusha	10	15	26	39	42	64	1	2	6	9	12	18	29	95
Total	**21**	**15**	**47**	**34**	**95**	**68**	**3**	**2**	**10**	**7**	**26**	**19**	**67**	**206**

Mobile Use (Multiple Choice Question)

	Business, customers, suppliers, trans, agents	%	Send M-Payments	%	Receive M-Payments	%	Missing	Total
Dar es Salaam	101	94	59	55	67	63	4	111
Arusha	91	99	52	57	56	61	3	95
Total	**192**	**97**	**111**	**57**	**123**	**62**	**7**	**206**

APPENDIX 3. References

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