NATIONAL MICROFINANCE POLICY 2017

OCTOBER, 2017

TABLE OF CONTENTS

LIST OF ACRONYMS

AfDB	African Development Bank
AgFiMS	Agricultural Finance Markets Scoping
AML	Anti- Money Laundering
ASCAs	Accumulative Savings and Credit Associations
ATMs	Automated Teller Machines
BAFIA	Banking and Financial Institutions Act
BDS	Business Development Services
BOT	Bank of Tanzania
CBOs	Community Based Organisations
CFG's	Community Financial Group's
CFT	Combating Financing of Terrorism
CMSA	Capital Markets and Securities Authority
CRB	Credit Reference Bureau
CSA	Cooperative Societies Act
DOE-UDSM	Department of Economics of the University of Dar es Salaam
ESRF	Economic and Social Research Foundation
EAMU	East Africa Monetary Union
ECGS	Export Credit Guarantee Scheme
FICOS	Financial Cooperative Societies
FIs	Financial Institutions
FSDT	Financial Sector Deepening Trust
GDP	Gross Domestic Product
ICT	Information and Communication Technology

IFAD	International Fund for Agriculture Development
MALF	Ministry of Agriculture Livestock and Fisheries
MFAEAC	Ministry of Foreign Affairs and East Africa Cooperation
MFIs	Micro Finance Institutions
MoHCDEC	Ministry of Health, Community Development, Gender, Elderly and Children
MITI	Ministry of Industry Trade and Investment
MIVARF	Marketing Infrastructure, Value Addition and Rural Finance
MLHHS	Ministry of Land, Housing and Human Settlements
MNOs	Mobile Network Operators
MOFP	Ministry of Finance and Planning
MoEST	Ministry of Education, Science and Technology
MSMEs	Micro, Small and Medium Enterprises
NBS	National Bureau of Statistics
NEDF	National Entrepreneurs Development Fund
NEEC	National Economic Empowerment Council
NGOs	Non-Governmental Organizations
NMP	National Microfinance Policy
PHC	Population and Housing Census
PPF	Parastatal Pensions Fund
PTF	Presidential Trust Fund

ROSCAS	Rotating Savings and Credit Associations
SACCOS	Savings and Credit Cooperative Societies
SELF MF	SELF Microfinance Fund
SSRA	Social Security Regulatory Authority
TCDC	Tanzania Cooperative Development Commission
TCRA	Tanzania Communication Regulatory Authority
TDHS	Tanzania Demographic and Health Survey
TIC	Tanzania Investment Centre
TIRA	Tanzania Insurance Regulatory Authority
TPSF	Tanzania Private Sector Foundation
URT	United Republic of Tanzania
VICOBA	Village Community Bank
VSLA	Village Savings and Loans Association
YDF	Youth Development Fund

DEFINITION OF TERMS

“Agent banking” means the business of providing banking services to the customers of the banking institution on behalf of the banking institution under a valid agency agreement.

“Apex body” means an umbrella association or network of microfinance providers that deal with advocacy and lobbying on behalf of their members.

“**Business Development Services”** means non- financial services and products offered to microfinance client at various stages of their business needs. These services are primarily aimed at skill transfer or business advice.

“**Business Development Services Providers”** means non-microfinance institutions that facilitating business skills development for microfinance clients or microfinance services providers through range of methodologies especially mentorship, couching, accompaniment, training and consultancy.

“Capital Markets” means part of the financial system in an economy which facilitates the mobilization of capital in terms of either equity or debt to be used to finance economic activities.

"Collateral" means an asset pledged by borrower to a lender to secure a loan until such loan is paid back. If the borrower stops making the promised loan repayments or defaults, the lender has a right to seize the collateral and sell it to pay off the loan.

"Community Financial Group's" means a group formed to provide microfinance services that are collectively owned and managed by members. These groups mobilize savings from individuals and provide short-term loans to members, and sometimes to non-members, at varying interest rates, depending on their structure.

"**Compulsory Savings**" means the percentage of the total loan of an MFI client in savings or as a contribution to the group fund for the first or subsequent loans or both which is retained with the MFI.

"Consumer Protection" means rules and regulations designed to safeguard customers when they are dealing with financial service providers and to inspire confidence, transparency, fair treatment and effective recourse to the general public.

"Credit Reference Bureau" means an entity specialized in collecting and compiling information such as credit repayment, court judgements, bankruptcies from creditors and available public resources on a borrower's credit information (individuals and firms) and sells the credit report to interested users and customers.

"Deposit" means withdrawable sum of money put by client/customer for a stipulated term to earn interest subject to conditions as prescribed in the agreement certificates of deposit and which may be used as collateral for a loan.

"Digital Microfinance" means provision of microfinance products and services through digital technologies.

"Financial Deepening" means a process of increasing financial intermediation or engagement within the financial system.

"Financial Education" means possession of knowledge and understanding of financial matters that gives better financial choices and work towards their financial goals to improve their economic wellbeing.

"Financial Inclusion" means the process of ensuring access and regular use of appropriate financial products and services needed by low income populations through payment system infrastructures at an affordable cost in a fair and transparent manner by mainstream institutional players.

"Financial Intermediation" means the lending, investing or placement of funds or securities or both, received, acquired or obtained from the general public or from a well-defined group of persons by way of deposit, borrowing, contribution, premium or in a fiduciary capacity, either for the account of the person receiving such funds or securities or for the account of others.

"**Financial Institutions**" means an entity engaged in the business of banking, but limited as to size, location served, or permitted activities, as prescribed by the Bank of Tanzania or required by the terms and conditions of its licence.

"Financially Underserved" means individuals who are economically active and do not normally have access to formal financial institutions.

"Formal Financial Service Provider" means an institution that provides financial services and is formally registered, licensed and supervised by regulatory authority.

"Group Guarantee" means an agreement by a group of microfinance borrowers to be held jointly or severally liable for loan repayments in order to secure credit facilities.

"Housing Microfinance" means provision of unsecured microcredit, but may include other related financial services such as access to savings, remittances, and micro-insurance to meet the demand of low-income households for renovation or construction of new houses.

"Low Income Population" means people with a relatively small income as periodically prescribed by country context.

"Micro Enterprises" means small personal or family businesses that operate in the informal sector with no formal accounting or financial records and whose real assets, if any, can hardly be pledged or reasonably accepted as collateral.

"Microfinance" means the provision of financial services including micro saving, microloan, micro insurance, micro leasing, micro housing micro pensions, money transfers, financial education and business development to the low-income population (individual, household, enterprises) who are systematically excluded from the financial system.

"Microfinance Bank" means banking institution licensed by the Bank of Tanzania to undertake banking business mainly with individuals, groups, micro and small enterprises of low-income population in the rural or urban area.

"Microfinance Client" means individual, group or enterprise who accesses and uses products and services from the microfinance services providers.

"**Microfinance Company**" means a financial institution incorporated as a company limited by shares formed to undertake ranges of microfinance products and services except banking business primarily with microfinance Clients as defined.

"Microfinance Institution" means entity specialized in provision of microfinance product and service to microfinance clients as defined.

"Microfinance Product and Service" means financial services such as micro savings, micro loans, micro insurance, micro housing, micro leasing, money transfers and other financial related services to microfinance clients.

"Microfinance Service Providers" means an entity performing a microfinance business/activity.

"Microfinance Umbrella Association/Network" means an apex body of microfinance service providers.

"Micro Insurance" means a mechanism used to protect low income people against risk e.g. accident, illness, death in the family and natural disasters in exchange for payments tailored to their needs, income, and level of risk.

"Micro Leasing" means all the finance leasing operations with the following characteristics (i) where the average value of the asset in the portfolio is up to ten million Tanzanian shillings (ii) where the leasing term does not exceed 24 months.

"Micro Loans" means provision of small loans to low-income population, financially underserved customers, or as determined by the regulator.

"Mobile Network Operator (MNO)" means a provider of wireless communications service that owns or controls all the elements necessary to sale and deliver services to an end user including radio spectrum allocation, wireless network infrastructure, back haul infrastructure, billing, customer care, provisioning computer system, marketing and repair organizations.

"Money Laundering" means engagement of a person or persons, direct or indirectly in conversion, transfer, concealment, disguising, use or acquisition of money or property known to be of illicit origin and in which such engagement intends to avoid the legal consequence of such action and includes offences referred in the Anti-Money Laundering Act, Cap. 423.

"Network or Association" means member based institution with common interest or function formed with the purpose of lobbying and advocacy on microfinance related issues on behalf of members to the Government or regulatory authority.

"Payment System" means a system, consisting of payment instruments, banking procedures or transfer of money procedures and interbank funds transfer systems or payment system providers systems that ensures the circulation of money as defined in the National Payment System Act, 2015;

"**Payment System Provider**" means a body corporate that provides electronic payment service licensed under the National Payment Systems Act, 2015.

"Voluntary Saving" means sum of money which is saved by microfinance customer willingly (and not as per any condition for a loan granted) which can be withdrawn at any time.

FOREWORD

The United Republic of Tanzania has been undertaking financial sector reforms since 1990s, in which its implementation has gone through the First and Second Generation Financial Sector Reform programmes. The reforms have been geared at liberalizing the financial sector, with a view to strengthening the financial market structure. Consequently, they have led to significant changes in the financial sector landscape, including increased participation of microfinance service providers.

The development of the financial system is predicated on the financial stability of the country notably the stability of microfinance system. To this end, the Government is committed to put in place sound macroeconomic fundamentals which will ensure financial stability by creating a conducive business environment, legal and regulatory framework that will entail development of a vibrant financial sector, of which the microfinance is a part. The sustainable growth of the microfinance sub-sector will immensely contribute to the generation of employment and raising the incomes of the low-income population.

In recognition of the role of the microfinance sub-sector in poverty reduction and economic growth, the United Republic of Tanzania formulated and adopted the first National Microfinance Policy in 2000 (NMP, 2000). The Policy provided guidance which enabled the participation of various stakeholders in the microfinance sub-sector including microfinance service providers, investors, Development Partners, government funds and programmes. Over the last 15 years, there have also been new developments in the microfinance sub-sector in terms of, the entry of Non-Financial Institutions (NFIs) with new innovations and technologies. Further, there have been other developments like improvement in products and services, and delivery mechanisms. These developments have brought to the fore a number of complexities and challenges, which include: increased informality, inadequate coordination and continued concentration of the microfinance service providers in urban areas. Furthermore, the Government ratified regional and international protocols pertaining to microfinance. These protocols require Partner States to harmonize their policies, laws and systems related to financial system of which microfinance sector is inclusive. Following these changes, there was a need to revise NMP 2000 to take into account new developments, limitations and challenges in the sub-sector. The revised policy will be referred to as National Microfinance Policy 2017 (NMP 2017).

The National Microfinance Policy 2017 will create an enabling environment that promotes the development of appropriate and innovative microfinance products and services to meet the real needs of the low income population and thereby enhance economic growth and accelerate poverty reduction. The Policy will put in place effective coordination, legal and regulatory framework and supervision of microfinance sub sector in the country. The NMP 2017 will continue to provide guidelines to all stakeholders and stimulate the establishment of new players and growth of existing ones to become more competitive. The expected outcome of this policy would be to increase formality, improve saving culture, invigorate microfinance sub sector, which in turn will contribute to economic growth, employment creation and poverty reduction.

The process of preparing NMP 2017 began in June, 2012 through a participatory approach that has engaged various stakeholders. Thus, I take this opportunity to extend my sincere appreciation to all who facilitated the preparation of this Policy. In particular, I wish to thank the Economic and Social Research Foundation (ESRF); Department of Economics of the University of Dar es Salaam (DOE-UDSM); Financial Sector Deepening Trust (FSDT); Marketing Infrastructure, Value Addition and Rural Finance Programme (MIVARF) and Team of Experts who participated in the preparation of this Policy.

It is my belief that this policy will build impetus to further growth of the microfinance sub sector and increase the level of financial inclusion in the country.

The Ministry of Finance and Planning counts on the collective efforts of the financial sector regulators, public agencies and other microfinance stakeholders to play their roles in the effective implementation of this Policy and thus support the country's transition towards becoming a middle income nation with a comprehensive, resilient and progressive financial sector.

Dr. Philip Isdor Mpango (MP)
Minister of Finance and Planning
October, 2017

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

The Government has been undertaking reforms in the financial sector since 1990s to address the challenges in the financial sector and lay the foundation for promoting and transforming the sector to a vibrant, competitive and a well-functioning. In 2000, the Government formulated the National Microfinance Policy (NMP 2000), with a view to establishing the basis for the evolution of an efficient and effective micro financial system in the country, thereby contributing to economic growth and poverty reduction. The NMP 2000 recognized microfinance as a sub-sector that involves a diversity of institutions which apply various service delivery methodologies. The Bank of Tanzania (BOT), among other roles, was given the responsibility to coordinate the implementation of the Policy.

During the implementation of NMP 2000, the financial sector has experienced the increase of local and foreign microfinance service providers, investors, Development Partners, government funds and programmes. In addition, there had been improvement in financial products, services delivery channels; and the entry of Non-Financial Institutions (NFIs) such as mobile network operators

(MNOs) such as Vodacom, Airtel, Tigo and Zantel with innovative ways of applying technology to reach low-income population. However, there had been a number of limitations which affected the effectiveness of the Policy. Some of the limitations include: lack of legal and regulatory framework to govern non deposit MFIs and community financial groups; low level of financial literacy; inadequate data on microfinance sub-sector; absence of consumer protection mechanism in the microfinance sector; inadequate products and services; and lack of Central Loan Register.

Moreover, development in the microfinance sub-sector has brought to the fore a number of complexities and challenges, which include: a rapid growth of the sub-sector; increased informality; inadequate coordination; introduction of new products and services delivered in various models; and concentration of the microfinance service providers in urban areas. In addition, there is a growing public concern on the business conduct of microfinance institutions and their impact on poverty reduction. This is partly associated with: inadequate disclosure of lending terms and conditions; high interest rates; reckless lending and multiple loans contributing to over indebtedness; and unfair loan collection and recovery procedures.

In light of new development in the financial sector, there was a need to revise NMP 2000 to address the limitations and challenges in the microfinance sub sector. The revised policy will be referred to as National Microfinance Policy

2017 (NMP 2017). The objective of NMP 2017 is to promote financial inclusion by creating enabling environment that promotes the development of appropriate and innovative microfinance products and services to meet the real needs of the low income population that enhance economic growth and accelerate poverty reduction.

This Policy is the basis for creating effective coordination, regulation and supervision of the microfinance sub sector in the country. The NMP 2017 will serve as a guide to all stakeholders and stimulate the growth of the microfinance sub sector. The expected outcome of this policy would be to increase formality, improve saving culture, having in place consumer protection and complaints handling mechanisms, invigorate microfinance sub sector, which in turn will facilitate to economic growth, employment and poverty reduction.

1.2 SITUATION ANALYSIS OF MICROFINANCE SUB SECTOR IN TANZANIA

1.2.1 Overview of Economic Performance

The Tanzanian economy had a robust economic growth, with GDP increased at an average rate of 6.4 percent for over the past decade. The GDP growth was 7.0 percent in 2014 compared to 6.4 percent in 2010 based on 2007 constant prices. In addition, per capita GDP at current market prices has been on an increasing trend rising from Tshs. 276,741 in 2001 to Tshs. 1,724,416 in 2014. However, there is a significant disparity in per capita GDP among the regions of Tanzania with Dar es Salaam recording the highest per capita GDP of Tshs. 2,797,694 and Singida with the lowest per capita GDP of Tshs. 1,023,631 in 2014.

During the period under review, the financial sector has played a leading role in allocating financial resources in the various productive sectors of the economy. In 2014, the growth of economic activities in the financial sector slowed down to 10.8 percent from 19.1 percent in 2006. Despite the slowness in the growth, its share to the Gross Domestic Product has increased to 3.4 percent in 2014 from a ratio of 2.4 percent in 2005.

According to the National Bureau of Statistics (NBS), the annual average headline inflation rate for Tanzania Mainland has been showing a continuously declining trend since 2012 with an average rate of 8.9 percent per annum. In 2015, the inflation decreased to 5.6 percent from the annual rate of 16.0 percent recorded in 2012. The fall in the headline inflation was in line with both declines in food and non-food prices. All these were contributed with favourable weather condition, favourable global oil prices and prudent fiscal and monetary policy.

In line to the implementation of monetary policy, the overall Treasury bills rate rose from 11.4 percent in December 2007 to 18.25 percent in December 2015. On deposits mobilization, most of the interest rates offered by commercial banks showed an upward trend. Savings rate increased to 3.42 percent in December 2015 from a rate of 2.67 percent in December 2007, while overall time deposits rose from 8.37 percent in December 2007 to 9.22 percent in December 2015. Similarly, the overall lending rates increased from 15.3 percent in December 2007 to an average rate of 16.41 percent in December 2015. Following this trend, the interest rate spread between lending and saving rate increased from an average of 6.93 percent in December 2007 to an average of 7.19 percent in December 2015.

According to NBS, unemployment rate in Tanzania decreased from 11.70 percent in 2007 to 10.70 percent in 2011. Between 2001 and 2011, the unemployment rate averaged at 11.88 percent, with a maximum rate of 12.90 percent in 2001 and a lowest rate of 10.70 percent in 2011.

In spite of the macroeconomic performance, like many other developing countries, Tanzania is facing the challenge of achieving substantial reduction of poverty. Based on the Household Budget Survey (HBS), poverty has marginally declined at a rate of 1.04 percentage points annually in a period of five years from 2007 to 2012, even though the annual GDP growth rates averaging 6.5 percent over the past ten years. The most recent HBS findings show that 28.2 percent of Tanzanians are poor, with 9.7 percent of them being extremely poor.

1.2.2 Implementation Status of the National Microfinance Policy 2000

1.2.2.1 Achievement of the Implementation of National Microfinance Policy, 2000

The implementation of NMP 2000 has led to the increase of microfinance service providers, models of microfinance service delivery, improvement in products and services, and entry of Non-Financial Institutions (NFIs) including mobile network operators (MNOs) such as Vodacom, Airtel, Tigo and Zantel with innovative ways of applying technology. Currently, the microfinance sub-sector in the country comprises two types of financial service providers namely (i) formal microfinance service providers such as banks and financial institutions; Savings and Credit Cooperative Societies (SACCOS); microfinance companies, financial NGOs, Government Funds and Programmes; and (ii) community financial groups such as Community Based Organizations (CBOs), VICOBA, Village Saving and Loan Associations (VSLAs), Rotating Saving and Credit Associations (ROSCAs), money lenders, and other financial related service providers.

According to the 2017 FinScope Survey, 16.7 percent of the labour force was served by banks compared to 9.1 percent in 2006 while 48.6 percent was served by non-banks such as MFIs, insurance, SACCOS and financial NGOs, as well as Mobile Payments compared to 6.7 percent in 2006. Similarly, 6.7 percent was served by community financial groups such as VICOBAs, VSLAs, ROSCAs, money lenders and other community based savings and credit groups, as well as family and friends, compared to 35.1 percent in 2006.Furthermore, the growth was witnessed in both regulated and non-regulated institutions as follows:

(i) Banks and Financial Institutions

Banks and financial institutions increased from 31 in March 1999 to 63 institutions in December, 2015 (Commercial bank 36, Regional and Co-operative Bank 12, financial institutions 3, Microfinance Bank 3, Development Financial institutions 2, Tanzania Mortgage Refinancing Company 1, Finance Leasing 3, Representative Bank 1, Credit reference bureau 2). There are 56 banks of which 22 banks are offering microfinance products and services that include 8 commercial banks, three microfinance banks and 11 community and cooperative banks. Commercial banks such as NMB Bank, CRDB Bank Ltd and Akiba Commercial Bank (ACB) have established a considerable presence in the rural financial markets and act as indirect providers in the rural areas through wholesale lending operations. TPB Bank has country-wide network of post offices which facilitate savings mobilization and money transfer. In addition, there are a few regional community banks and non-bank financial institutions that are engaged in deposit-based microfinance operations.

(ii) Non-Bank Financial Institutions

These include among others micro insurance companies, micro leasing companies, micro housing companies, collective investment scheme, SACCOS, financial NGOs, microfinance companies, Payment System Providers, private investors and Pension Funds. These institutions are registered by different authorities under different legislations, including Business Registration and Licensing Agency; the National Payment Systems Act, 2015, Cooperative Societies Act, 2013; Companies Act 2002; Societies Act Cap 337 of 1954; NGO Act 2002; Trustees' Incorporation Act 2002 (Cap 318). These institutions play a paramount role in provision of financial service to low and middle income earners.

The number of these institutions has significantly grown over the past 15 years. For instance, SACCOS grew from 803 with 133,134 members who invested Tshs.

14.04 billion in terms of shares, savings, and deposits in 2000 to 4,093 with a total membership of 733,876 who have invested Tshs 377.6 billion in December, 2015.

In addition, the financial NGOs and microfinance companies increased from nine (9) in 2002 to over 292 institutions in 2016. Furthermore, Social Security Funds increased from six in 2000 to Seven Funds in 2016 of which some provide wholesale funds to employee based SACCOS for on-lending. In respect to capital markets, there are five collective investment funds which have been established for the purpose of providing opportunities to low income population to invest in the capital market. As at December 2015, the value of all collective investment funds amounted to Tshs. 246,579.4 million.

(iii) Government Funds and Programmes

The Government has established several credit programmes/schemes to address the need for credit access by the low income populations. Some of the Government funds and programmes include: National Economic Empowerment and Job Creation Programme, SELF Microfinance Fund (SELF MF), Youth and Women Development Fund, Mwananchi Empowerment Fund, National Entrepreneurship Development

Fund (NEDF), Presidential Trust Fund (PTF), Export Credit Guarantee Scheme (ECGS) and SME Development Fund. During this period, government funds and programmes have built entrepreneurial capacity and provided affordable loans to low income population. As at the end of May, 2015, about Tshs. 50.6 billion were disbursed to 74,790 entrepreneurs. In addition, the Government in collaboration with Social Security Funds issued Tshs. 105 billion for on lending to 256,602 entrepreneurs.

(iv) Mobile Money Financial Services

Innovations in payment systems have enabled the use of mobile phone devices to facilitate payment service offered by banks and non-bank institutions. Mobile payments (service offered by mobile network operators) usage in Tanzania has made a significant impact in facilitating access to financial services particularly payment service (person to person) to the majority of the population which are unbanked or under-banked. The service commenced in 2008 by Vodacom with M-Pesa product, later on Airtel (Airtel Money), Tigo (Tigo Pesa), Zantel (Ezy-Pesa) and Halotel (Halo-Pesa) came into operation. Mobile money financial services have significant socio-economic importance in the country on effecting payment transactions and in some cases they maintain transactional balances in their electronic wallets.

The number of registered users has increased from 360,740 in June 2009 to 49,356,465 in December, 2015. Similarly, the total balance held in the trust accounts increased from Tshs. 3.05 billion in June 2009 to Tshs. 583.8 billion in December, 2015. Thirteen banks were operating agent banking services for small savers and borrowers using the mobile money platform with 1,719 agents by December, 2015 with deposit of Tshs 1,180,440.8. million. Mean while, two new products for small savers and borrowers have come into the market where by Vodacom teamed up with Commercial Bank of Africa (CBA) to offer M-PAWA products to small savers and borrowers enrolling 1,920,712 customers with a deposit value of Tshs 18.4 billion. Airtel also teamed up with a microfinance institution namely AFB Tanzania Ltd to offer credit only products by the name of TIMIZA.

Following the above developments, the Government enacted the National Payment Systems Act, 2015 and Electronic Money Regulations and Payment Services Providers Licensing Regulations of 2015 to facilitate safety, efficient and innovations in the digital microfinance services.

(v) Informal Financial Service Providers

Informal financial service providers include: Community financial groups (Rotating, Savings and Credit Associations (ROSCAs); Accumulated Savings and Credit Associations (ASCAs); Village Savings and Loans Associations (VSLAs); VICOBA; Savings and Credit Associations (SACAs); merry-go-round; and money lenders.

The number of community financial groups has increased to cater for microfinance services such as credit, savings and micro-insurance services. During the period ending March, 2015, there were approximately 23,000 informal financial service providers (VICOBA, VSLA, ROSCA, upatu, money lenders) with 700,000 members with estimated capital of Tshs. 86 billion. On the user's side, the introduction of mobile money services caused the decrease of the labour force accessing informal service from 35.1 percent in 2006 to 6.7 percent in 2017.

1.2.2.2 Limitations of the Implementation of National Microfinance Policy, 2000

In the course of implementing NMP 2000, there have been a number of limitations which include:-

(i) **Inadequate legal and regulatory framework**
The microfinance sub sector in the country is partly governed by the Banking and Financial Institutions Act, 2006 which mandated the Bank of Tanzania to licence, regulate and supervise bank and financial institutions (deposit taking microfinance institutions; commercial banks with microfinance product and community banks). The sub sector is also governed by the Cooperative Societies Act, 2013 which empower the Tanzania Cooperative Development Commission (TCDC) to register, regulate and supervises financial cooperatives (SACCOS). However, non - deposit taking microfinance institutions and community financial groups are not licenced, registered, regulated and supervised.

Inadequate legal and regulatory framework in implementation of the NMP 2000 resulted to malpractices such as insufficient disclosure of lending terms and conditions; high interest rates; reckless lending and multiple loans contributing to over indebtedness; unfair loan collection and recovery procedures. Apparently, it is very difficult to get statistical and other relevant information regarding the operations of these unregulated MFIs.

(ii) Poor Management Information System

Most of the unregulated MFIs have inadequate capacity to collect statistical and other relevant information regarding their operations as well as poor capacity to develop Management Information System (MIS). In addition, there is absence of an efficient microfinance MIS coupled with inadequate legal and regulatory framework which limit the ability of the Government to monitor performance of the microfinance sub-sector in the country.

(iii) Lack of Central Loan Register

The concentration of the microfinance service providers in the urban area and provision of service and product to same microfinance clients coupled with a lack of unified central point for sharing and verifying client credit information has exposed the microfinance clients to multiple loans. The multiple loans scenario has been aggravated further by the lack of an impeccable system for unique identification of the borrowers.

Under the current credit reference system, the Bank of Tanzania is mandated to collect credit information of borrowers of the banks and financial institutions which are regulate and supervised by BOT. This leaves out clients of microfinance institutions which are not under the purview of the BOT. Development of the central loan register (Credit reference information) for the rest of MFIs will improve sustainability of these institutions by bringing their Non-Performing Loans (NPL) down but also help people with good credit character to access loans at convenience and cheaper cost.

(iv) Inadequate financial system to empower low income population to access formal financial services

Financial services in Tanzania are largely dominated by low penetration of banks and MFIs due to inadequate: supporting infrastructure such as power, communication and security; use of land title deeds and other properties, that can be used as collateral to access loans from financial institutions; knowledge about financial institutions and their products; level of financial literacy; and policy, legal and regulatory framework especially for microfinance services.

(v) **Inadequate compliance with Anti-money laundering laws due to lack of regulatory body for non-deposit taking and informal financial institutions.**

The Anti-money Laundering laws require regulators of financial institutions and other reporting persons to enforce compliance of anti-money laundering measures such as identification and verification of customer identities, transaction monitoring and record keeping, and supervise compliance of entities they are regulating.

Lack of regulatory body for non-deposit taking microfinance institutions and community financial groups makes it difficult to identify these institutions and monitor their activities in accordance with the Anti-money laundering laws as they are not licensed, registered, regulated and supervised.

1.2.2.3 Results of the Implementation of National Microfinance Policy, 2000

(i) **High Interest Rates**

Microfinance institutions in the country charge high interest rate based on the cost of capital, personnel, administration and loan loss. It is estimated that administrative costs amount up to two thirds of interest paid by clients. There is no universal system applicable across all MFIs and companies on the calculation of interest rates. The interest rates applied are differentiated by product, product attributes and features including loan type, cycle, amount and duration. Most of these institutions are not transparent in their pricing systems and therefore the interest rates charged are more stated in nominal rates than in effective rates, which lead customers to make uninformed borrowing decisions. Some of MFIs charge very high effective interest rates ranging from 3 to 20 percent per month.

(ii) Lack of Consumer protection mechanism

Recently, in the microfinance sector, there are public complaints and concerns regarding the conduct of the credit only institutions which practice: unfair provisions in loan agreements, reckless lending, and inadequate disclosure of lending terms and conditions, unfair loan collection and recovery procedures. This business tendency affects productivity at household level and public at large, hence reducing the

Government efforts in fighting poverty and economic growth.

1.2.2.4 Challenges of the Implementation of National Microfinance Policy, 2000

Developments in the microfinance sub-sector have brought to the fore a number of complexities and challenges, which include:

(i) **Introduction of New Products and Services Delivered in Various Models**
The microfinance sub-sector has made some notable developments in terms of service providers and products and service offered. These developments among others include; entry of Non-Financial Institutions (NFIs) such as mobile network operators (MNOs) with innovative ways of applying technology to reach low-income households. However, these developments have not been captured by the existing NMP 2000.

(ii) **High level of financial exclusion**
Despite the significant increase in number and type of bank and financial institutions, access to formal financial services in the country is still low. This was depicted from the data of FinScope survey 2017 in which 28 percent of the

labour force was financially excluded. In comparing the data between the urban and rural population, 34.9 percent was in rural areas and 14.8 percent in urban areas.

(iii) Inadequate working capital for Microfinance Institutions

Most of the MFIs have inadequate working capital resulting from poor saving culture and inability to secure affordable and reliable financing sources. For example, SACCOS face low capacity of saving mobilization from their members which has resulted into insufficient liquidity to meet savings withdrawals, cushion the organization from operational losses and loans to members. A similar situation is also observed in other microfinance institutions.

(iv) Weak institutional capacity of Microfinance Service Providers

MFIs face a set of inter-related challenges, such as: limitations in the scale of their operations in terms of outreach and number of clients served; the amount of savings mobilized; poor portfolio quality; limitations in their professional capacity; weak governance structure; inadequate Management Information System; poor accounting and record keeping; inefficient operations; and financial disciplines.

(v) **Management of Government Funds and Programs**

Government Financing Programmes are not well coordinated and managed by different government organs, with almost all of them having inadequate sources of funds and requisite skills for managing the funds. These Programmes have not been able to establish or build information link between institutions and the unbanked segment of the population. Furthermore, there is a lack of linkage between increasing credit provision and building or strengthening the technical capacity of institutions to intermediate the funds and operate on a sustainable basis.

(vi) **Lack of National Microfinance Umbrella Association/Network**

The Microfinance sub–sector has various umbrella association/network among other including Tanzania Association of Microfinance Institutions (TAMFI), Networks of Cooperatives such as Tanzania Federation of Cooperatives (TFC), Savings and Credit Cooperatives Union League of Tanzania (SCCULT), Dunduliza and Umoja wa SACCOs za Wakulima (USAWA). Others are, the Community Banks Association of Tanzania (COBAT), Tanzania Bankers Association (TBA), VICOBA FETA Federation, Tanzania Informal Microfinance Association of Practitioners and Mobile Network Operators (MNOs) Association. They are voluntary formed microfinance networks/associations with members who do not share a common goal and vision. All these Associations/ Networks do not have apex body to coordinate them. There are challenges related to communication, deficient control systems of the networks' members, failure to observe standards, policies and procedures and membership dilution where board members and staff act in their interests rather than that of the members.

CHAPTER TWO

IMPORTANCE OF THE NATIONAL MICROFINANCE POLICY

2.1 RATIONALE FOR REVISING THE MICROFINANCE POLICY OF 2000

The National Microfinance Policy of 2000 focused on establishing the basis for the evolution of efficient and effective microfinance system for serving the low-income population. The objectives were to be achieved by: establishing a framework within which Microfinance operations would develop; layout principles that will guide operations in the system; serving as a guide for coordinating intervention by the respective participant in the system; describing the role of implementing agency and the tool to be applied to facilitate development. The tools for the policy implementation were: regulation and supervision; development and application of standards; and capacity building.

The implementation of NMP 2000 has witnessed an increased number of microfinance service providers including banks with microfinance products, microfinance institutions, the entry of Non-Financial Institutions (NFIs) with new innovations and technologies and informal financial service providers. In addition, there have been other achievements like improvement in services delivery mechanisms. However, the implementation of the policy has encountered a number of limitations including lack of legal and regulatory framework to govern non-deposit MFIs and community financial groups, low level of financial literacy, inadequate data on microfinance industry, absence of consumer protection mechanism in the microfinance sub-sector, inadequate dispute resolution mechanisms, inadequate microfinance products and services and lack of central loan register.

On the other hand, microfinance services have not been fully integrated into mainstreaming financial system with flexibility that ensures their special features are not compromised. The prudential regulatory requirements have limited the transformation of microfinance NGOs and companies into mainstream financial system as Microfinance bank. Furthermore, fragmentation in the microfinance system has hindered information flow and competition across this sub sector, which has enabled inefficiency and high interest rates.

The new developments, complexities and challenges in the microfinance sub sector have necessitated the review of NMP 2000. The review of NMP 2000 is also due to growing public concern on the business conduct of microfinance institutions and their impact on poverty reduction. This is partly associated with: inadequate disclosure of lending terms and conditions; high effective interest rates; reckless lending and multiple loans contributing to over indebtedness; and unfair loan collection and recovery procedures.

The revision of the NMP 2000 aims to address the limitations, challenges and emerging issues in the microfinance sub sector with a view of creating an enabling environment that promotes the development of appropriate and innovative microfinance services to meet the real needs of the low income population. In addition, the Policy is in line with international best practice following the Government ratification of Regional and International Protocols including Protocol on the establishment of East Africa Monetary Union (EAMU) and SADC Finance and Investment Protocol. The said protocols, among others, require Partner States to harmonize their policies, laws and systems related to financial system of which microfinance sub-sector is inclusive.

2.2 Vision, Mission and Objectives

2.2.1 Vision

To have a stable, vibrant and inclusive microfinance sub sector.

2.2.2 Mission

To create legal and regulatory environment that ensures growth of strong microfinance institutions that delivers inclusive financial services to low-income individuals, households and enterprises through innovative, diversified, sustainable, affordable and easily accessible financial services.

2.2.3 Objectives

2.2.3.1 General Objective

The overall objective of the Policy is to promote financial inclusion by creating an enabling environment for efficient and effective microfinance sub-sector in the country that serves the needs of the low-income individuals, households and enterprises and thereby contribute to economic growth, employment creation and poverty reduction.

2.2.3.2 Specific Objectives

More specifically objectives of this Policy are to:

(i) Promote the development of a robust, inclusive financial sector;
(ii) Attain sustainability of microfinance service providers';
(iii) Create legal and regulatory framework for effective and efficient delivering of microfinance services;
(iv) Promote research, innovation and products development in microfinance sub-sector;
(v) Strengthen Regional and International cooperation in microfinance sub-sector;
(vi) Encourage adherence to principles and best

practices of good corporate governance in microfinance sub-sector; and

(vii) Mainstream disadvantaged groups, gender and youth issues in accessing and usage of fair and affordable microfinance products and services.

CHAPTER THREE

NATIONAL MICROFINANCE POLICY ISSUES, OBJECTIVES AND STATEMENTS

This chapter presents policy issues, objectives and statements for the National Microfinance Policy 2017.

3.1 Fundamental Microfinance Policy Issues

3.1.1 Financial Inclusion

Financial inclusion is a major contributor not only to economic growth and poverty reduction but for effectiveness monetary policy transmission and financial sector stability. Having greater access to financial services promotes entrepreneurship, lift people out of poverty and give them greater hope for a brighter economic future. The poor like everybody else need a wider range of financial services for them to earn a living, build assets and cushion them from external shocks. Initiatives have been deployed in the country with the aim of expanding financial services to underserved and totally un-served. This has resulted in an increase in a number and types of financial institutions.

However, the country's financial system performance as measured by population coverage and range of services has been dismal even by African standards. The level of access to financial services for the working labour force in Tanzania has increased from 15.9 percent in 2009 to 65 percent in 2017. The increase is largely attributed by higher access to non-bank financial services, notably introduction of mobile financial services. When comparing financial access between rural and urban in 2017, only 8.6 percent of the total rural working population is banked as compared to 32.1 percent of the total urban working population. The proportion of rural population who relies primarily on informal institutions was found to be three times of urban proportion. Similarly, access to financial services in Micro, Small and Medium Enterprise (MSME) in the country is quite low. For instance, only 20 percent of 3.1 million MSMEs in Tanzania had access to formal financial services in 2010 and nearly 70 percent did not use any financial services. Despite the significant increase in number and type of bank and financial institutions, access to formal financial services in the country is still low. This was depicted from data of 2017 in which 28 percent of the labour force was financially excluded whereas 34.9 percent was in rural areas and 14.8 percent in urban areas.

High level of exclusion of financial services in the country is partly explained by low penetration of banks and MFIs due to inadequate supporting infrastructure, low and irregular income resulting from high dependence on low productivity and seasonal activities of agriculture for livelihood and employment; Lack of land title deeds and other properties, that can be used as collateral to access loans from financial institutions; inadequate knowledge about financial institutions and the products offered; low level of financial literacy, lack of knowledge on complexitios of financial products; lack of suitable products addressing the need of the consumers; lack of innovation and weak capacities (human and technical of financial services providers); and high interest rates.

Policy Objective
Promote the development of a robust, inclusive financial sector.

Policy statement
The Government in collaboration with other stakeholders will:

(i) Encourage usage of technology and availability of innovative financial products and services to meet the needs of low income population;
(ii) Enhance financial education and public awareness on microfinance products and services in the country; and
(iii) Ensure access to appropriate microfinance products and services at an affordable cost in a fair and transparent manner.

3.1.2 Sustainability of Microfinance Service Providers

Sustainability of MFIs is critically important for extending financial products and services in urban and rural areas. Adequate capacity of microfinance services providers is a pre-requisite for sustainable growth and outreach of any microfinance institution. Currently, most of microfinance service providers in the country depend on working capital and capacity building from commercial banks, pension funds, development partners, government economic empowerment programs and funds and other foreign investors.

However, most MFIs face a set of inter-related challenges including inadequate liquidity and capital growth, overdependence on external sources of fund, poor coordination and linkage government economic empowerment funds and programs to microfinance service providers, inadequate and qualified personnel; poor record keeping; weak institutional capacity; weak capital base; poor saving culture, poor delinquency control and absence of strong retail capacity.

Policy Objective
Attain sustainability of microfinance service providers'.

Policy statement
The Government in collaboration with stakeholders will:

(i) Promote financial market development for microfinance sub-sector;
(ii) Ensure sustainable capacity building in the microfinance sub-sector; and
(iii) Encourage mainstreaming of community financial groups into the financial system.

3.1.3 Regulating Microfinance Service Provision

The regulation and supervision of MFIs should be an integral part of a strategy to develop a market based microfinance sub-sector. Microfinance is not limited to borrowing, but also includes other financial services such as savings, micro-insurance, and transfer facilities. Such development prompts innovative approaches for achieving and maintaining financial sustainability calling for appropriate legal structure for regulation and supervision. The regulation and supervision of microfinance institutions aims at ensuring consumer protection.

Currently there is a rapid expansion and growth of various players, including microfinance companies and financial NGOs (local and foreign) with aggressive promotions in the microfinance sector which are not regulated and supervised. Their operations have brought about public complaints and concerns on issues related to consumer protection including unfair provisions in loan agreements; reckless lending; mismanagement of savings/funds, inadequate disclosure and transparency of lending terms and conditions; lack of privacy, inadequate complaints handling mechanism, unfair loan collection and recovery procedures; and high interest rates.

Policy Objective
Create legal and regulatory framework for effective and efficient delivering of microfinance services.

Policy Statements
The Government in collaboration with stakeholders will:

(i) Enhance legal, regulatory and supervisory oversight in the microfinance sub-sector;

(ii) Enforce consumer protection in the

microfinance sub- sector; and

(iii) Enhance information sharing infrastructure among regulators in the microfinance subsector.

3.1.4 Research, Innovation and Product Development in Microfinance sub-Sector

The Government recognizes research, innovation and product development as vital components towards growth, outreach and sustainability of microfinance sub-sector. The ongoing research, innovation and product development are integral part of the market systems for development of microfinance sub-sector. Up-to-date information with respect to microfinance is required throughout the life of the sector in order to guide, promote and generate intelligence to influence players, expand outreach and provide the basis for monitoring and evaluation.

There are few players in the microfinance sub-sector who attempted to conduct continuous research, innovation and product development in microfinance including academic institutions and microfinance institutions but the outcomes are not widely shared and up-scaled within the sub-sector. This is partly attributed to among others, unreliable data, high level of information asymmetry, inadequate resources and inadequate capacity. Hence, there is a need to redress this situation in order to have vibrant sector focusing on real needs of low income population.

Policy objective
Promote research, innovation and product development in microfinance sub-sector.

Policy Statement
The Government in collaboration with stakeholders will:

(i) Enhance capacity in conducting research in the microfinance sub-sector ;
(ii) Promote innovation and product development; and
(iii) Encourage sharing research information in the microfinance sub-sector.

3.1.5 Regional and international cooperation

Cooperation with regional and international community is important for development of the microfinance sub-sector. The Government of the United Republic of Tanzania is a member of regional and international bodies including EAC, AU, SADC and International Microfinance Network. There are number of Protocols with issues related to microfinance which have been signed and ratified by the Government. The protocols, among others, require Partner States to harmonize their policies, laws and systems related to financial system of which microfinance sub-sector is inclusive. Therefore, there is a need to strengthen cooperation with international bodies to take advantage of their facilities, resources and experience.

Policy objective
Strengthen regional and International cooperation in microfinance sub sector.

Policy Statement
The Government in collaboration with stakeholders will:

(i) Domesticate regional and international treaties, protocols and Memoranda of Understanding on microfinance matters; and

(ii) Deepen cross-border coordination and cooperation among regulators to promote orderly provision of financial services in the region.

3.2 Cross Cutting Policy Issues

3.2.1 Good Governance in Microfinance sub-Sector

Good governance is a key factor to microfinance associations' success in delivering quality services and developing a vibrant microfinance sub-sector. While effective external regulation and supervision from regulatory bodies are important to the health of the microfinance sub sector, no amount of external oversight can replace accountability that stems from proper governance and supervision performed by the owners and directors of financial institutions.

Standards, disclosure requirements and codes of conduct of associations of providers of microfinance services are common tools to enhance transparency. Accounting standards and external audit requirements serve to push microfinance institutions to produce better accounts, clearer and more comprehensive financial information and improved management and control systems. Disclosure requirements (and voluntary disclosure through standardized performance reports) not only increase transparency but also are an incentive to improve performance, notably, when benchmarking is involved.

The past few years showed that microfinance institutions are highly vulnerable to weak governance, poor portfolio management, delinquency control, improper pricing and deficient in management capacity. Absence of sound corporate governance increase management risk and lack of public confidence in microfinance institutions.

Policy objective
Encourage adherence to principles of good governance in microfinance sub-sector.

Policy statement
The Government in collaboration with stakeholders will:

(i) Encourage adherence to the principles of good governance within MFIs; and
(ii) Ensure MFI's disclose source of funds in accordance with Anti- Money Laundering regime.

3.2.2 Disadvantaged Group, Gender and Youth

Microfinance has the potential to have a powerful impact on disadvantaged groups, women's and youth's empowerment. Strengthening disadvantaged groups, gender and youth financial base and economic contribution to their families and communities will have an impact on empowering them economically, hence increasing their confidence and security. Despite the role played by these groups in the country, they are still marginalized in terms of access to financial services. According to the 2017 FinScope Survey, 30.3 percent of women working population were totally excluded from accessing financial services compared to 25.5 percent for men working population. In addition, the number of SACCOS has grown substantially, of which 60 percent of total membership are men. Further, women are constrained by social norms in accessing assets that can be used as collateral. Although there is no adequate information on youth access to financial services but evidence shows that they are also marginalized in access to finance.

Policy Objective

Mainstream disadvantaged groups, gender and youth issues in accessing and usage of fair and affordable microfinance services and products.

Policy Statement

The government together with other stakeholders will:

(i) Promote equal access of microfinance product and services; and

(ii) Expand the range of products and services that will meet the distinct needs of disadvantaged groups, gender and youth;

CHAPTER FOUR

LEGAL AND REGULATORY FRAMEWORK

4.1 Legal and Regulatory framework

An effective and vibrant microfinance sub-sector requires continuous review of the legal and regulatory framework. The envisioned legal and regulatory reforms seek to incorporate recent developments in the microfinance sub-sector with a view to ensuring that the sub-sector is made vibrant and sustainable in accordance with the Tanzania Development Vision 2025. This Policy seeks to create an appropriate legal and regulatory framework for the rapid growth and sustainable development of the microfinance sub sector.

The legal framework is characterised by a limited number of best legal and regulatory practices for the development of microfinance sub sector. Currently, the legal and regulatory framework of microfinance sub sector in the country is as follows: the Banking and Financial Institutions Act, 2006 provide the power to the Bank of Tanzania to licence, regulate and supervise bank and financial institutions (deposit taking microfinance institutions; commercial banks with microfinance product and cooperative banks); Cooperative Societies Act, 2013 provide the power to Tanzania Cooperative Development Commission (TCDC) to register, regulate and supervises financial cooperatives (such as SACCOS). In addition, other legislation govern the sub sector including: Capital Market and Security Act, (Cap. 79); Companies Act, (Cap. 212); Society Ordinance (Cap. 337); NGOs Act, (No. 24 of 2002); Trustee Incorporation Ordinance (Cap. 375) and (Cap. 318); Business Licensing Act (No. 25 of 1972); Micro insurance Regulations, 2013 under Insurance Act, Cap.394 and Local Government Laws.

However, non-deposit microfinance institutions; community financial groups such as Rotating, Savings and Credit Associations (ROSCAs); Accumulated Savings and Credit Associations (ASCAs); Village Savings and Loans Associations (VSLAs); VICOBA; Savings and Credit Associations (SACAS) and money lender are not licenced, registered, regulated and supervised.

The existing limitations within the legal regime that influence the microfinance sub-sector call for the need to enact a new Microfinance Law and amend existing legal regime, for smooth and effective implementation of this policy while enabling many players to provide responsive, efficient and sustainable services.

For the purpose of regulating, supervising and ensuring transformation in the microfinance sub-sector, the proposed legal and regulatory framework shall categorize tiers for microfinance institutions and regulators. In addition, the proposed legislation shall also provide mechanism for smooth transformation from one tier to another to safeguard interests of borrowers and financial sector stability.

CHAPTER FIVE

INSTITUTIONAL FRAMEWORK, MONITORING AND EVALUATION

5.1 Institutional Framework

The National Microfinance Policy 2017 shall be implemented by designated government institutions in collaboration with other stakeholders. Institutions responsible for the implementation of this Policy shall submit progress reports periodically to the Ministry responsible for Finance. The Policy will be reviewed in the course of new challenges and developments encountered in the microfinance sub-sector in order to further assess and improve on its implementation strategy. The implementation plan shall indicate the financial and human resources required to carry out strategic actions.

5.2 Roles and Responsibilities of Microfinance Stakeholders

The revised Policy takes into accounts all the new challenges, opportunities and developments, including roles and responsibilities of the actors and mechanism for their coordination and linkages. Implementation actors constitute a diverse set of Government Ministries, Authorities, Private Sector, Donor Agencies and Development Partners.

The Government influences the development of the microfinance sub-sector in significant ways. It also collaborates with other key stakeholders to facilitate effective implementation of the revised Policy. The roles and responsibilities of the Government through its various ministries, departments and agencies are delineated below.

Ministry responsible for finance

The ministry responsible for finance has the overall responsibility of coordinating the implementation of the National Microfinance Policy in the country. Specifically the Ministry will:

(i) Coordinate the implementation of National Microfinance Policy;
(ii) Promote microfinance activities in the country;
(iii) Strengthen legal and regulatory framework for microfinance sub-sector;
(iv) Monitor and evaluate the progress of the financial sector including microfinance sub-sector;
(v) Prevent money laundering.
(vi) Constitute National Microfinance Steering Committee;
(vii) Coordinate Development Partner intervention efforts in line with this Policy;
(viii) Facilitate establishment of the Apex body;
(ix) Prepare periodic reports for Microfinance sub-sector; and

Microfinance Unit in the ministry responsible for finance

The Microfinance Unit in the ministry responsible for finance has the overall responsibility of regulating and supervising Non-Deposit Taking MFIs and government funds and programme. Specifically the unit will:

(i) Licence, regulate and supervise Non-Deposit Taking MFIs and government funds and programme;

(ii) Develop and manage database of microfinance in the country;

(iii) Monitor and evaluate the progress of the microfinance sub-sector;

(iv) Prepare annual forum for microfinance service providers; and

(v) Prepare periodic reports for Microfinance sub-sector.

National Microfinance Steering Committee

The NMP 2017 provides for establishment of the National Microfinance Steering Committee, comprised of members from the President Office, Public Services Management; Prime Minister's Office - Regional Administrative and Local Government; Ministries of Finance (Mainland and Zanzibar); Bank of Tanzania; Attorney General's Chambers; Tanzania Cooperative Development Commission; Tanzania insurance Regulatory Authority; Social Security Regulatory Authority; Capital Market and Securities Authority; and Microfinance Apex Body. The Committee will have the following responsibilities:

(i) Serve as the monitoring body for implementation of the National Microfinance Policy 2017;

(ii) Ensure consensus among ministries and other actors on key milestones for improvement of microfinance sub sector in the country and monitor the achievement of those milestones;

(iii) Advise the Government on appropriate response and action to address challenges facing microfinance sub-sector; and

(iv) Promote multi-sectoral coordination of microfinance activities in the country.

Microfinance Regulators Forum

The NMP 2017 provides for establishment of the Microfinance Regulators Forum which will have the following responsibilities:

(i) Build consensus on issues of common interest in the microfinance sub sector;

(ii) Create enabling environment to facilitate smooth transformation of different MFIs from one tier to the other;

(iii) Harmonise legal and regulatory framework; and

(iv) Monitor emerging issues in the microfinance sub-sector, including new products to facilitate timely review of existing regulatory frameworks.

Ministry Responsible for Private Sector development, investments and economic empowerment

Ministry responsible for Private Sector development, investments and economic empowerment will:

(i) Put in place predictable legislative environment and stable institutional framework which will act as an incentive in reducing costs and line of doing business;

(ii) Coordinate investments (FDI inclusive) and Public-Private Partnership;

(iii) Strengthen private sector associations; and

(iv) Continue to supervise, monitor and coordinate all government funds and programmes engaged in microfinance activities;

(v) Monitor and evaluate the government funds and programmes;

(vi) Develop and manage database of the government funds and programmes; and

(vii) Prepare periodic reports for government funds and programmes.

Ministry responsible for Regional Administration and for Local Government Authorities

Ministry responsible for Regional Administration and for Local Government Authorities will:

(i) Guide and monitor the integration of microfinance matters in regional and local government authorities plans and by-laws;

(ii) Develop and manage database of Community financial groups; and

(iii) Prepare periodic Community financial groups reports

Regional Administration will:

(i) Guide and monitor the integration of microfinance matters in local government authorities plans and by-laws;
(ii) Coordinate microfinance activities at regional level; and
(iii) Prepare periodic community financial group's reports.

Local Government will:

(i) Register and regulate community financial groups;
(ii) Develop and manage database of community financial groups;
(iii) Continue promoting formation of community financial groups;
(iv) Constitute Microfinance Committee;
(v) Monitor and evaluate the progress of the community financial group's; and
(vi) Prepare periodic reports community financial groups.

Ministry responsible for Education

Ministry responsible for Education will:

(i) Facilitate provision of Microfinance education in schools and colleges.

Bank of Tanzania

The Bank of Tanzania will:

(i) Enhance enabling environment for banks and financial institutions to support microfinance sub-sector;

(ii) Licence, regulate and supervise deposit taking MFI's;

(iii) Develop and manage database for deposit taking MFI's and financial sector related information; and

(iv) Prepare periodic reports for deposit taking MFI's.

National Economic Empowerment Council (NEEC) will:

(i) Coordinate government funds and programmes;

(ii) Monitor and evaluate the government funds and programmes;

(iii) Develop and manage database of the government funds and programmes; and

(iv) Prepare periodic reports on government funds and programmes.

Tanzania Insurance Regulatory Authority

Tanzania Insurance Regulatory Authority will:

(i) Enhance enabling environment for insurance companies to provide micro insurance services;

(ii) Licence, regulate and supervise micro insurance service providers; and

(iii) Prepare periodic micro insurance reports.

Social Security Regulatory Authority

Social Security Regulatory Authority will:

(i) Enhance enabling environment for social security funds to provide wholesale funds to the microfinance institutions;

(ii) Licence, regulate and supervise social security funds; and

(iii) Prepare periodic micro pension reports.

Capital Markets and Securities Authority

Capital Markets and Securities Authority will:

(i) Enhance enabling environment for microfinance services provider to raise capital through capital markets; and

(ii) Prepare periodic capital market reports.

Tanzania Cooperative Development Commission

Tanzania Cooperative Development Commission will:

(i) Register, licence, regulate and supervise SACCOS particularly financial cooperative societies;

(ii) Coordinate cooperatives in accessing and usage of financial services;

(iii) Develop and manage database of SACCOS in the country;

(iv) Promote development of SACCOS;

(v) Monitor and evaluate SACCOS; and

(vi) Prepare periodic report for SACCOS reports.

Microfinance Service Providers

The microfinance service providers will:

(i) Adhere to legal and regulatory framework for microfinance sub sector and other related legislations;

(ii) Develop appropriate innovative products and services for low income segment of the population;

(iii) Provide financial education and adhere to consumer protection legal and regulatory framework; and

(iv) Prepare periodic microfinance reports as may be required by their respective regulators.

Payment systems providers

Payment systems providers will:

(i) Adhere to legal and regulatory framework for microfinance sub-sector and other related legislations ;

(ii) Create platform and distribution channels for digital microfinance services; and

(iii) Provide financial support for development of microfinance sub sector.

Apex body will:

Apex body will:

(i) Adhere to legal and regulatory framework for microfinance sub-sector and other related legislations;

(ii) Develop appropriate code of conduct for network and microfinance associations in line with international best practices;

(iii) Register networks and microfinance associations;

(iv) Establish and manage data base of microfinance member associations;

(v) Prepare periodic reports on network and microfinance associations;

(vi) Develop capacity building program for network and microfinance associations; and

(vii) Lobby and advocacy on behalf of their members.

Development Partners

The Development Partners will:

(i) Adhere to legal and regulatory framework for microfinance sub-sector and other related legislations ; and

(ii) Provide technical assistance and financial support to the microfinance sub sector.

Academic Institutions

The Academic Institutions will:

(i) Prepare and conduct tailor-made programs related to Microfinance operations;

(ii) Run short, medium and long-term microfinance training programs in-line with national microfinance education curricula; and

(iii) Conduct research and studies for microfinance sub sector.

Media

The media will:

(i) Carry out coverage of microfinance activities including participating in promoting financial literacy; and

(ii) Create public awareness on the microfinance services.

Business Development Services Provider

The Business Development Services Providers will:

(i) Adhere to legal and regulatory framework for microfinance sub-sector and other related legislations;

(ii) Provide financial support for development of microfinance sub-sector;

(iii) Provide business skills development services to microfinance clients and microfinance services providers; and

(iv) Prepare periodic microfinance reports as may be required by regulatory authorities.

5.3 Monitoring and Evaluation

M&E system is instituted as a review mechanism to monitor progress and assess the level of attainment of specific targets relative to the respective planned targets. The proper functioning of M&E system highly depends on a well-coordinated and functioning of all components of the system from data collection to the highest level of analysis and reporting to relevant stakeholders.

The overall responsibility for the monitoring and evaluation of the Policy implementation lies within the Ministry responsible for finance. The Ministry will play key roles in coordination, implementation, monitoring and evaluation of this policy. For effective monitoring and evaluation, each stakeholder will have to establish a reliable internal monitoring system and ensure capacity is available to assess efficiency and effectiveness of their respective organizations in relation to the National Microfinance Policy 2017.

The Monitoring and evaluation will involve, among other things conducting baseline survey, establishing performance indicators and setting M&E framework. Tracking progress on implementation of the milestones and targets will be done periodically. In addition, there will be an annual review, which will focus on assessing whether the planned activities are in line with the achievement of set targets. Moreover, the review will involve conducting case studies, diagnostic studies, surveys and beneficiary assessments to track any changes in terms of outputs realized over the period under review.

5.4 Conclusion

Financial sector development is important for socio-economic growth and poverty reduction in the country. The National Microfinance Policy 2017 builds on the new developments; address complexities and challenges related to entry of new players, innovative products and services, increased informality and delivery mechanisms and initiatives undertaken during the implementation of the NMP 2000 towards the development of the microfinance sub-sector. This Policy also recognizes that low income populations need microfinance products and services among others to finance economic activities, smoothen consumption, improve livelihoods, investment and mitigation of risks.

This policy has addressed in its formulation issues emanating from the analysis of performance of the NMP 2000 and identified limitations and challenges to be addressed in its implementation. It is intended to serve as a basis for expanding and deepening financial inclusion through the provision of diversified financial services on a long-term and sustainable manner for the whole population.