

Findings

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Good Practice
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Tanzania: The Rural and Micro Financial Services Project

The project was designed as a Learning and Innovation initiative (2000-2004) with support from an IDA credit of US\$2 million. Its objectives were (i) the development of a common policy framework, based on internationally recognized best practices, for rural and microfinance initiatives in the country which would establish an enabling environment for rural and microfinance and increase the quality and returns of subsequent investments by the government agencies and other donors; (ii) increasing the level of knowledge and skills within the industry; and (iii) instituting a program of systematic tracking and analyzing of all related initiatives against a set of common criteria.

Impact on the ground

- Prior to the start of the project, Tanzania had no national policy or strategy for developing a viable and sustainable microfinance sector. Achieving the objective of creating an enabling environment started with the adoption of a National Microfinance Policy (NMP) through a broad consultative process among stakeholders. It provided a vision as well as guidelines for both practitioners and donors in several areas including pricing, delinquency control, financial reporting and information management, appropriate techniques and products, as well as gender equity and governance. As a result, the Government of Tanzania (GOT) gradually divested from several projects and is no longer a direct provider of microfinance services. GOT has chosen to focus on providing an enabling environment for private sector investment in microfinance.
- The microfinance environment was further enhanced with the amendment of the Banking and Financial Institutions Act 1991. Amending the law to include microfinance institutions as another category of financial institution alongside commercial banks and other non-Bank financial institutions had the advantage of bringing microfinance into the mainstream of the financial sector and giving it the visibility it needed.
- The regulations that accompany this amendment deal with key areas in microfinance regulation including the definition of microcredit, a clear list of activities that microfinance companies (MFCs) are allowed to carry out, capital adequacy norms and minimum capital requirements. These help the Bank of Tanzania (BOT) better supervise the microfinance industry and to make newly-licensed MFCs viable institutions.
- The development of a unique tracking and analysis tool allowed the Directorate of Microfinance Institutions (DMFI) to collect, input and analyze information on the most important MFIs, including banks, NGOs and Savings and Credit Cooperative Societies (SACCOS). This tool has been incorporated into BOT's regular workplan for monitoring and supervision of MFIs. Tracking and analysis by BOT of the largest microfinance providers has facilitated the identification of an improvement in the performance of microfinance institutions

with (i) increased profitability and improved CAMEL (Capital, Assets, Management, Earnings and Liquidity) ratings;(ii) increased loan portfolio quantity and quality (iii) reduced level of subsidies for on-lending;(iv)increased number of institutions and service outlets; and (v) increased number of customers.

- Between 2001 and 2003, the number of new retail outlets increased by 20%, clientele grew by 72% on average, outstanding loan portfolio and savings deposits grew by 88% and 52% respectively, with a low non-performing loan ratio of less than 5% on average. Profitability and indicators were also on the rise with average adjusted return on assets (AROA) and adjusted return on equity (AROE) increasing by 26% and 46% respectively.
- The establishment and adoption of operational guidelines and standards as well as a supervisory framework for SACCOS reflect international best practice and include : (i) the adoption of Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth (PEARLS) prudential ratios (as system of standards developed by the World Council of Credit Unions to monitor performance);(ii) a modern Management Information System; and (iii) a code of ethics and a governance structure; and (v) rules/ regulations as well as model bylaws for SACCOS.

Two technical workshops on Operational Risk Management for Microfinance Auditors and Accountants, and on Business Planning and Financial Modelling for Microfinance Institutions and 3 annual conferences helped enhance and share knowledge as well as shape government policy in microfinance. A primary conclusion that the government should not intervene directly in the area of microfinance , but assist in creating an enabling environment, were used as inputs to define the government's second generation financial reforms.

Lessons learned

- This project was designed as a short 3-year Lending and Innovation Loan (LIL), meant to be executed quickly so that the outputs could be applied to the industry to catalyze further development. However, activities such as reviewing and amending laws and building consensus amongst stakeholders made the project function more as a normal investment project and took longer than a LIL would to implement. Clearly, a LIL was not the appropriate vehicle.
- Ensuring complementarity between a project's different components is critical – in this case, for example, between the microfinance policy, regulations, capacity building and knowledge enhancement.
- Alignment of donor procurement procedures with national procurement systems is critical for smoother project implementation.
- The capacity of the regulating institutions should be complemented by building the capacity of key cooperating ministries, in this instance, the Ministry of Finance – focusing on the Ministry of Cooperatives and Marketing was not enough.
- Mainstreaming the project into BOT operations made the project activities sustainable, as they are being carried out even after the project has closed.

This Infobrief was excerpted from Implementation Completion Report no. 32836. For more information, e-mail Korotoumou Ouattara: kouattara@worldbank.org