



THE PROCESS OF ESTABLISHING MICROFINANCE SERVICES IN TANZANIA.

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Microfinance is the provision of financial services, including loans, savings, and insurance, to low- income individuals and small businesses.

Microfinance operations have played a significant role in promoting economic development and financial inclusion.

The microfinance industry in Tanzania has grown rapidly in recent years, with a large number of microfinance institutions (MFIs) and community-based organizations (CBOs) providing financial services to underserved populations. These organizations provide a range of financial products, including group and individual loans, savings, and insurance.

The government of Tanzania has played a crucial role in promoting the growth of the microfinance sector, through policies and regulations that support the development of microfinance institutions. The government has also established The Microfinance Act 2018, Microfinance Regulatory Authority (MFRA) to oversee the microfinance sector and ensure that MFIs and CBOs are operating in compliance with regulations.

MICROFINANCE CATEGORIES AND REQUIREMENTS IN TANZANIA.

The Microfinance Act 2018 has classified the microfinance service providers in numbered tiers as follows: -

1. Tier 1 is comprised of deposit taking institutions such as banks and microfinance banks;



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1. Tier 2 is comprised of non-deposit taking microfinance service providers such as individual money lenders;
- iii. Tier 3 is comprised of SACCOs (The Savings and Credit Co-operative Societies); and
- iv. Tier 4 is comprised of community microfinance groups.

LICENSING PROCEDURES UNDER TIER 1

1. **applications under Tier 1 to be made to the BOT in writing** and provide the following information: -

1. *applicant's proposed memorandum and Articles of Association or other charter or instrument of formation required by applicable law;*

1. *a statement of the address of the head office, location of the principal and other places where it proposes to do business and, in the case of a mobile agency, the area to be served;*

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- iii. *the name and address of every subscriber, shareholder, board directors, Chief Executive Officer and any officer directly reporting to the Chief Executive Officer;*



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1. *information that may be prescribed by the BOT for purposes of assessing solvency and trustworthiness of each shareholder with a significant interest; and*

1. *such financial data, business plans and other documents and information as the BOT may require in order to conduct the investigation during review of the application;*

1. *Prescribed non-refundable application fee; and*

- vii. *other relevant information or document which may be required by the BOT.*

LICENSING PROCEDURES UNDER TIER 2

1. **Microfinance service providers who fall under Tier 2 to submit license applications to either the BOT** headquarters or its branches located in Arusha, Mwanza Mbeya, Mtwara, Dodoma and Zanzibar. Such application should be in a prescribed form and accompanied with: -
 1. *Certificate of Incorporation.*

 1. *The latest financial statements;*



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- iii. *The lending policy;*
 - 1. *Approval of home country regulator for foreign applicants;*
 - 1. *training and succession plan for Tanzanian staff is mandatory in applications by foreign-owned Non-Deposit Taking;*
 - 1. *a non-refundable application fee of TZS 500,000 for an entity and TZS 300,000 for an individual;*
- vii. *All the information listed in the Second Schedule to the Microfinance (Non-Deposit Taking Microfinance Service Providers) Regulations, 2019; and Any other document or information as may be required by the BOT. LICENSING PROCEDURE UNDER TIER 3*
 - 1. License applications for microfinance service providers falling under Tier 3 are submitted to the **office of the Registrar of Cooperative Societies** in the respective region through the Tanzania Cooperative Development Commission (TCDC) license application system. Essentially, it is the BOT, which is vested with the authority to license cooperative societies. However, the BOT has delegated such powers to the Registrar of Societies

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through the Microfinance (Delegation of Powers and Functions) (Tier 3) Notice GN No.

887 which was published on 22nd November, 2020. Tier 3 microfinance service providers are issued with a license in either category A or B, which differs by factors such as business activities and minimum capital requirements.



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LICENSING PROCEDURE UNDER TIER 4

1. License applications under Tier 4 are submitted to the Local Government Authorities, which operate under delegation authority. The BOT has delegated its authority to license Tier 4 applicants through the Microfinance (Delegation of Powers and Functions) (Tier 4) GN No. 888, 2019 which has to be read together with **Section 28 (1)** of the Microfinance Act and the Microfinance (Community microfinance Groups) Regulations 2019. **Section**

28 (2) of the Microfinance Act provides for the following requirements for licensing of

Tier 4 microfinance service providers: -

1. two copies of the constitution duly signed by all members of the applicant;
 1. members' resolution to form and register a microfinance entity duly signed by all members;
- proposed organizational structure and names of proposed leaders of the applicant;
- iii. a letter of reference from the ward or village authority introducing the applicant; and



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1. iv. Any other documents or information as the BOT or Delegated Authority may require.

THE PROCEDURE TO START A MICROFINANCE BUSINESS AS AN INDIVIDUAL LENDER IN TANZANIA INCLUDES THE FOLLOWING STEPS.

Prepare the minimum required capital of Tsh 20 million and deposit it into your account, obtaining a bank statement as proof.

1. Register your business name as a sole proprietor at the Business Registrations and Licensing Agency (BRELA) under the Business Names (Registration) Act. The business name must include either “microfinance”, “finance”, “financial services”, “credit”, or “microcredit”.
2. Arrange for a premise and obtain a rental agreement for it.
3. Register for a Tax Identification Number (TIN) at the Tanzania Revenue Authority (TRA)

and obtain both a TIN certificate and a Tax Clearance Certificate.

4. Pay the Tsh 300,000 application fee to the Bank of Tanzania (BOT) and keep the receipt as proof of payment.



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5. Prepare the necessary documents, including:

1. A letter of application in the prescribed form. ii. Proof of payment of the application fee.
 - iii. A certified copy of the business name registration certificate. iv. Proof of availability and source of capital.
 1. Certified copies of academic and professional certificates of the CEO. vi. A copy of the latest audited financial statements, a lending policy.
 - vii. A certified declaration that the funds have not been obtained criminally or associated with any criminal activity. viii. Proof of citizenship of the CEO.
 1. ix. A completed questionnaire for the CE
 2. x. a credit report from a Credit Reference Bureau.
 3. x Contact information for a designated contact person.
6. Apply for a business license from the local authority.

THE PROCEDURE TO START A MICROFINANCE BUSINESS AS A COMPANY IN TANZANIA,

Prepare the minimum required capital of Tsh 20 million and deposit it into your account, obtaining a bank statement as proof.

1. Register your company at BRELA under the Companies Act. The company name must



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include either “microfinance”, “finance”, “financial services”, “credit”, or “microcredit”.

1. Arrange for a premise and obtain a rental agreement for it.

- iii. Register for a Tax Identification Number (TIN) at the Tanzania Revenue Authority (TRA)

and obtain both a TIN certificate and a Tax Clearance Certificate.

1. Pay the Tsh 500,000 application fee to the Bank of Tanzania (BOT) and keep the receipt as proof of payment.

1. Prepare the necessary documents, including a letter of application in the format prescribed in the Microfinance (Non-Deposit Taking Microfinance Service Providers) Regulations,

2019, proof of payment of the application fee, proof of availability and source of capital, certified copies of academic and professional certificates of the members of the board and CEO, a lending policy, and a certified declaration that the funds have not been obtained criminally or associated with any criminal activity.

MICROFINANCE SERVICES IN TANZANIA

MICROFINANCE BUSINESSES IN TANZANIA CHALLENGES THAT CAN HINDER THEIR GROWTH AND PROFITABILITY.



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These include:

1. High cost of outreach: Reaching unbanked populations in remote and sparsely populated areas can be costly and unprofitable without efficient automation and mobile delivery methods.

1. Lack of scalability: Smaller microfinance systems may struggle to compete with larger financial institutions, hindering their ability to grow and expand.

- iii. Geographic barriers: The vastness of Tanzania makes it difficult for microfinance businesses to communicate and serve clients in far-flung areas, limiting their reach and potential for growth.
 1. Diverse business models: Supporting a wide range of lending activities and features can be challenging and require a significant amount of funding and effort.

 1. High transaction costs: The small volume of transactions can make it difficult for microfinance businesses to cover the high fixed costs associated with each transaction.

 1. KYC and security challenges: Microfinance businesses may struggle to offer banking services to clients who lack official identification or are unable to provide tangible security.

- vii. Limited budgets: Many microfinance businesses may not have the resources to invest in world-class banking solutions that can support their growth targets.



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To overcome these challenges, microfinance businesses can adopt digital technologies to reduce costs and increase efficiency, conduct thorough due diligence to identify and mitigate risks, and develop effective credit policies and risk management strategies to ensure sustainable growth.