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**MICROFINANCE IN TANZANIA:
THE EXPERIENCE OF AKIBA COMMERCIAL BANK**

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INTRODUCTION

In his paper “The Role of Saccos in Rural Tanzania”, presented at the “Third Annual National Conference on Microfinance” held in Arusha in March, 2004, Prof. Suleman Chambo, Principal, The Moshi University College of Cooperative and Business Studies, opens with this sentence, “*Tanzania is a microfinance country*”. He goes on to justify this by stating that out of a total population of approximately 35 million people, almost 16 million are regarded as poor since they depend mainly on smallholder subsistence farming. In order for this lot to sustain their small micro-enterprises, they need financial services suited for this kind of economic activity, namely microfinance.

THE FINANCIAL SECTOR

The impressive macroeconomic stability, which has taken place over the past few years, was an essential underpinning of the financial sector recovery in Tanzania.

In spite of this, the current depth and efficiency of Tanzania's financial system fall well short of what is needed to help support economic growth. The percentage of households operating a savings and/or current account fell from 43% in 1991 to 19% in 2001.¹ While there has been accelerated pick-up in credit in the last three years, large swathes of the economy are working with little formal credit. Despite this cautious recovery of credit and confidence, the overall stock of credit outstanding in Tanzania remains exceptionally low (around 6 percent of GDP). The average loan to deposit ratio of the banking system is only 34 percent.²

The financial sector reforms are still in progress, but there is increasing concern that the majority of the rural population, which constitutes 70-80% of the total population and comprise 90% of all the poor in Tanzania, have not benefited from these reforms. Neither can it be said that their urban counterparts have fared significantly better as the formal Financial Services Industry has continued to shy away from them. There is therefore an urgent need to enhance accessibility of financial services to the poor in general, but with greater emphasis to the rural poor. This can, in the foreseeable future, only be achieved through the provision of appropriate microfinance products.

THE MICROFINANCE INDUSTRY IN TANZANIA

Up to around 1995, microfinance was a relatively new concept, mostly linked to women and poverty alleviation. Only a few institutions and donors were involved (most notably USAID and NORAD). The government tried to woo commercial banks to give credit to the small and medium-scale enterprises, the so called the ‘missing middle’. They supported this process through the establishment of credit guarantee schemes, setting up credit and business development service parastatals to deliver

¹ National Bureau of Statistics Tanzania (2001): “Household Budget Survey 2000/01.”

² World Bank and IMF (2003): “Financial Sector Assessment Tanzania.”

general training, entrepreneurship training, and credit, but in all this, micro enterprises were completely left out of the equation.

It was not until February 2001 that the National Microfinance Policy was launched. The key objective of the policy was to establish a basis for evolution of an efficient and effective micro finance system that served the low-income segment of the society. Among other things, it also spelt out the national vision for the development of Micro finance as a tool for poverty eradication through the widespread access to micro financial services right across the country, in both urban and rural areas, on a commercially sustainable basis, thereby contributing to the economic growth of this nation. It is intended that micro finance will integrate with the mainstream financial system with the flexibility that ensures that their special features are not compromised.

Since then the Tanzanian microfinance industry has become increasingly vibrant, with many more players entering the field. Apart from AKIBA Commercial Bank, the other key players are NMB, CRDB, FINCA, PRIDE, and SEDA. Besides these, other banks, such as the Tanzania Postal Bank, have recently introduced microfinance products or plan to do so in the near future. Even the mainstream banks are beginning to take a keen interest in this sector. CRDB Bank recently went a step further and incorporated a dedicated subsidiary for microfinance while Standard Chartered and Barclays are showing a strong interest in the SME sector. A large number of medium sized and smaller local microfinance institutions, such as community banks, (Dar es Salaam Community Bank, and Mufindi Community Bank [MUCOBA] are two well known examples), religious groups, and NGOs, as well as several SACCOs and SACAs are operating with limited local outreach. Nearly all the commercial banks are now aggressively offering consumer lending to salaried employees with a number of them targeting lower-end employees. There is evidence that in a number of cases, these loans are used as start-up capital for small businesses to supplement the family income.

It is expected that most of the institutions mentioned above, in particular the more established microfinance institutions and commercial banks, will aggressively expand their microfinance operations in the coming years, thus turning Tanzania into a highly competitive market for microfinance and SME services. This will become even more so once institutions such as FINCA and PRIDE transform themselves into deposit takers, a process that has already begun ahead of the anticipated relevant legislation. One thing is however for certain, AKIBA Commercial Bank is an example of a bank that has displayed its capacity and willingness to enter the retail microfinance business vigorously out of choice, with its mission and vision fully focused towards this sector.

THE AKIBA EXPERIENCE

BACKGROUND

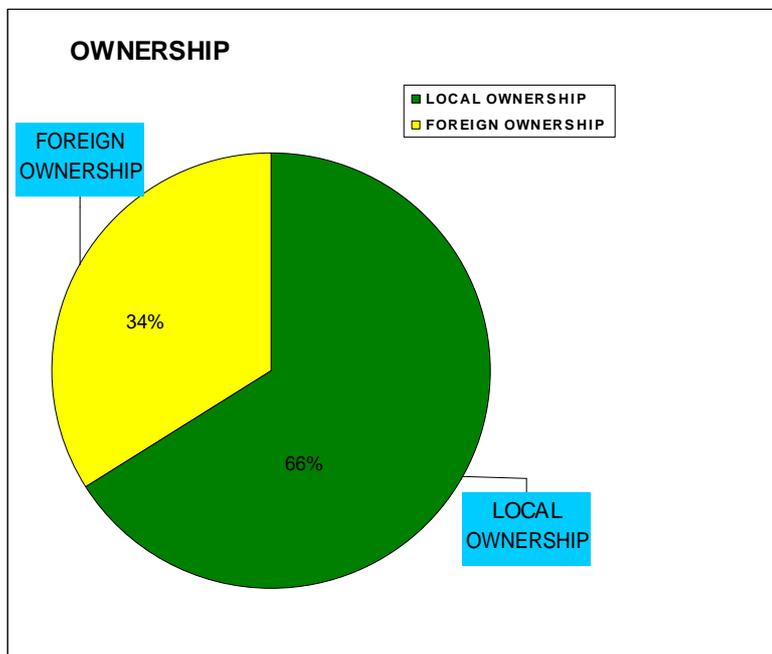
AKIBA Commercial Bank commenced operations in August 1997 as an initiative of over 300 Tanzanian entrepreneurs who were mostly inspired to move into microfinance by the moral and political concern for the plight of Tanzanians, as opposed to the overall commercial attraction. They shared a strong conviction that in

AKIBA they would have the vehicle with which they could reach and touch the lives of the previously un-banked and underserved men and women of Tanzania. The group's vision and mission was to support the emergence of Tanzanian businesses through the provision of financial services at all levels, by a Tanzanian-owned commercial bank that understood Tanzanians and was committed to Tanzania. This origin therefore gives AKIBA very firm and deep roots in Tanzania.

In order to strengthen the resource base of the bank, the founders invited like-minded local institutional investors, together with a few foreign institutions. All these institutions shared in the same vision of a commitment to uplift the economic status of Tanzanians irrespective of their socio-economic positions in life so long as they had entrepreneurial skills that could be nurtured.

OWNERSHIP

Since inception, ownership of AKIBA has largely been in the hands of Tanzanians and it is the intention of the founders that this proportion be maintained into the future.



REACHING OUT TO THE UNDERSERVED OF TANZANIA

In pursuit of this goal, AKIBA pioneered many types of savings and microfinance loan products, with which we have supported various micro enterprise activities such as food vending, fish mongering, groceries, mitumbas (sale of second hand clothes), small scale diary cattle keeping, retail and distribution, tailoring, carpentry, masonry works, internet cafes, stationery shops, secretarial services, barber shops, hair salons, and small scale agriculture etc etc. We must emphasize that at AKIBA we believe that a loan is not a means to an end. Our customers get more than loans. Right at the outset when they are just starting out, we offer them training in basic record keeping, entrepreneurship, business management, leadership and simple concepts of marketing.

Besides this, we organize regular trade fairs where we also bring in various non-financial service providers to network with our customers. We do this because we know that business is not only about money, but our customers also need to know where to go when they require for example, an energy saving “jiko” (stove), city council license, free or affordable legal service from the NGOs’ who target the poor, other training providers like SIDO, trainers on matters of hygiene, health (in particular HIV and AIDS), environmental issues, etc, etc.

GEOGRAPHICAL OUTREACH

AKIBA currently operates through a network of five branches in Dar es Salaam, one branch in Arusha and marketing offices in Moshi, Tanga, Mbeya, Zanzibar and Pemba. Arrangements are at an advanced stage to open our next branches outside Dar es Salaam, namely in Mwanza and Mbeya before end of 2005.

LOAN PRODUCTS

AKIBA currently offers several microfinance loan products each tailor-made to suit every type of our customer. In broad terms, the features revolve around both the traditional group and individual loan methodologies. Besides these, and by virtue of being a full-fledged commercial bank, we are also able to offer consumer lending and corporate loans and overdrafts. We are confident that, given the opportunity to work with NMB, our experience will tremendously enrich their product offerings and achieve the high level impact that AKIBA has itself attained in the market place.

Group micro loans

Under this scheme, customers are able to borrow as little as TZS 20,000 and as much as TZS 5 million with no tangible securities other than their savings and the guarantees that members of the group give to each other. The total portfolio size currently stands at TZS 800 million. To an ordinary observer, this sounds more like a myth rather than reality, but the success can be found directly from the testimonies of the over 4000 satisfied customers and the many that have gone before them to graduate to higher level loan products, out of whom, we give the following two examples:

Individual micro loans

AKIBA is proud to have been the pioneer in offering individual microfinance loans in Tanzania. From the early teething problems, we are happy that we are today offering a product that suits the needs and is desired by very many micro entrepreneurs in this country. Since its launch May 2001 in one branch, it has grown at a faster pace than any other loan product over the past two years, from just above 700 active loans in December 2001 to 4500 today. Out of the current outstanding total loans and advances portfolio of TZS 18 billion, TZS 4 billion is made up of individual microfinance loans. AKIBA’s individual micro loan is characterized by quick turn around time and flexible loan terms—more flexible than any of the products offered by its direct competitors. The minimum loan amount is TZS 200,000 and the maximum currently stands at TZS 10 million. Beyond this, customers graduate to SME loans

and further to corporate loans and overdrafts depending on their working capital requirements.

Consumer Loans

As with the individual micro finance lending, AKIBA was the pioneer of consumer lending in Tanzania having introduced the product in December 2000. It was little wonder that the portfolio and the total asset base of the bank grew very rapidly during the early days of its launching. Competition has however since set in with all the mainstream banks now aggressively offering salary based loan products similar to AKIBA's. In spite of this, and because of our constant innovations, flexibility, and good market intelligence, rather than lose our market share, the number of borrowers have continued to grow from 1200 in 2002, to 4300 today borrowing just over TZS 7 billion.

Corporate Loans and Overdrafts

At AKIBA we have never pretended that this is an area of strength for us. However, the main strength that we draw from this lies in the fact that it gives us the opportunity to be there always for our loyal customers who start with us from the early days of their micro enterprises and whom we nurture as their businesses grow and as we graduate them from group borrowers, to individual micro loan borrowers, to SME borrowers and finally to corporate borrowers. As a matter of fact, the growth of our customers has been one of the major factors behind AKIBA's own growth. Like in the two examples above, we are never short of other examples of customers who started by borrowing TZS 50,000 as recent as five years ago and are today borrowing up to TZS 15 million and have further had to re-locate their businesses from places like Manzese to the up-market Kariakoo. This is clear proof that microfinance is not a myth, but a reality that is commercially viable, while still achieving the social impact that the pioneers of this concept envisaged.

Portfolio Spread

It is interesting to note that women form the majority of our borrowers. Out of a total of 12,200 borrowing customers, 6,800 are women while 5,400 are men. It is further interesting to note that out of the 12,200 borrowers, 6500 of them i.e. over 50%, borrow between TZS 20,000 and TZS 500,000.

SAVINGS PRODUCTS

As a full service bank, AKIBA has historically been committed to providing its clients with attractive savings services. Savings have historically also represented AKIBA's primary source of funds and AKIBA plans to continue this strategy. As at the beginning of 2004, AKIBA offered five primary savings products, in addition to the compulsory savings account required of group borrowers. These voluntary savings products include normal savings accounts, children's savings accounts and fixed deposit accounts. Besides these, we also offer various forms of current accounts innovated around the special needs of our customers.

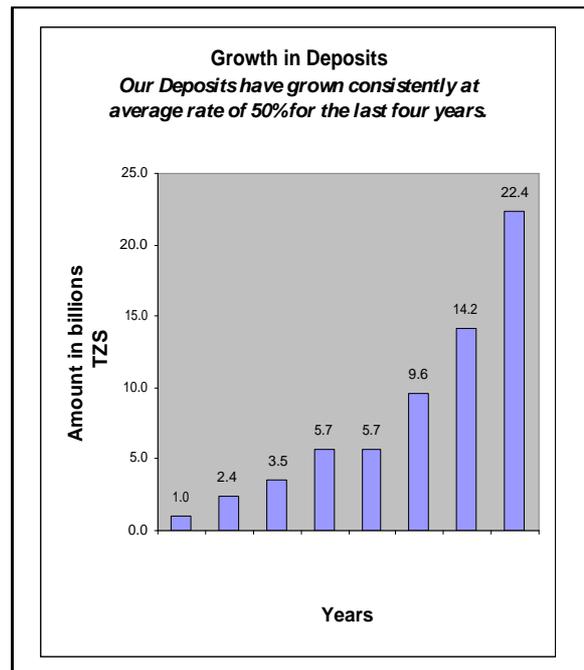
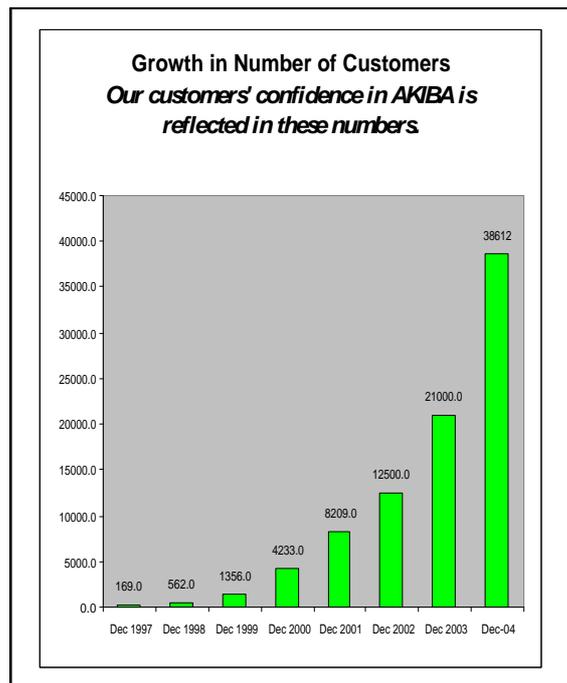
It is important to point out here that one of the major inspirations and sources of satisfaction at AKIBA has not just been the question of our microfinance loans, but being able to teach people the culture of savings and giving them opportunities to own savings accounts. The impact of this becomes clearer when seen from the background of the fact that 80% of the customers who walk into AKIBA are people who have never held a bank account before, not out of choice, but because no other bank would give them the opportunity to open a bank account. Giving them this opportunity has done a lot in elevating their status, building their self – esteem and putting them on the road to better managing their financial affairs and mitigating against emergencies. The value that they derive out of this is captured in the following comment heard recently in one of our banking halls, **“Even people like us can now walk into a bank and be served by a bank manager”!**

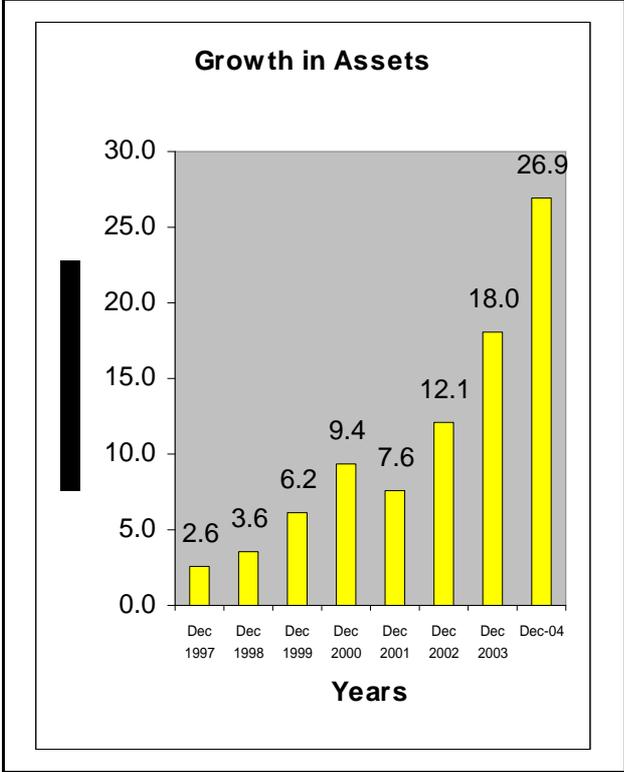
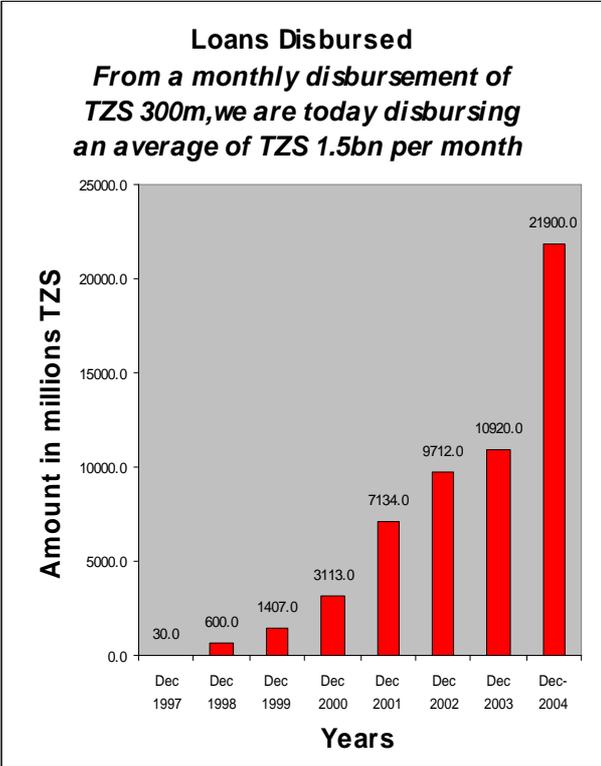
The success brought about through the strict discipline to save on a regular basis, and to repay loans as and when they fall due has in itself been a major attraction for our savings customers who today number 39,000 up from 21,000 in December 2003.

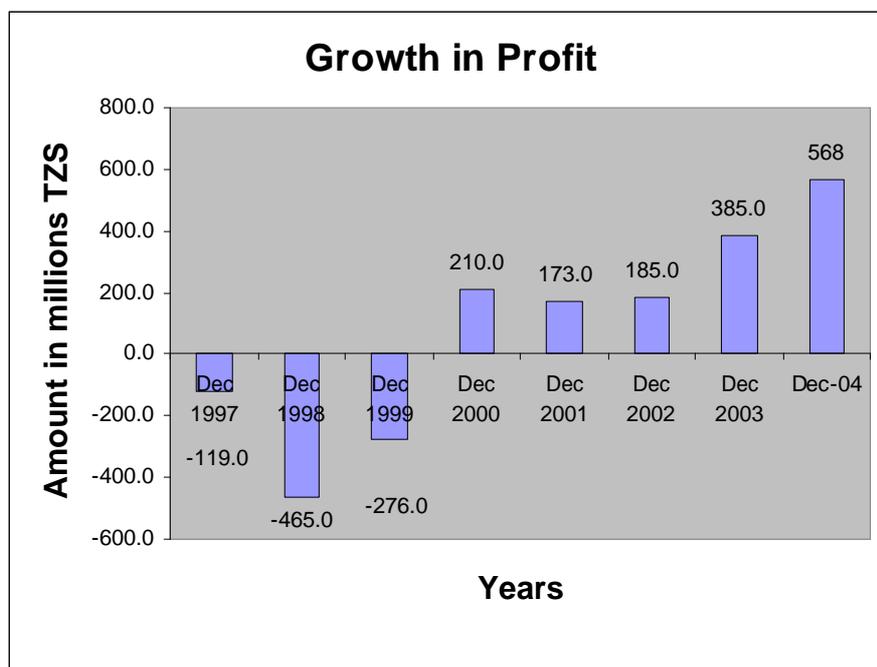
It is also worth noting that our loans to deposit ratio is the highest in the market, a clear indication that we don’t sit on deposits but get it to work as soon as we receive it from our customers.

ACHIEVEMENTS

This forward thinking and action oriented approach of AKIBA is having a major impact on our society and the economy at large and the achievements during its short life is reflected in the following graphs:







HOW DOES AKIBA'S PERFORMANCE COMPARE WITH OTHER BANKS?

(Million Shillings)

	Tanzania Postal Bank	Dar es Salaam Community Bank	Akiba Commercial Bank	CRDB Bank	National Bank of Commerce	Stanbic Bank	Standard Chartered Bank	CitiBank
AMOUNTS IN TZS (MILLIONS)								
Total Shareholders' Funds	4090	1542	3708	24157	39862	18039	30828	28466
Customers Deposits	49010	5393	17533	396511	373859	176287	250613	144764
Total Assets	56465	8541	24270	450605	449927	259638	344304	238441
Performance indicators								
Return on average total assets	0.01	1.39	1.9	1.86	2	1.44	6	1.1
Return on ordinary shareholders' funds	0.17	7.54	10.3	34.73	26	13.7	49.6	10.6
Non-interest expense to gross income	101.58	48.52	54.6	60.99	57	73.62	34.2	50.3
Interest margin to average earning assets	549.24	5.36	6.4	9.54	7	3.91	5.1	2.5
Total capital to total assets	7.24	18.05	15	5.36	9	6.95	9	12
Non-performing loans and advances to total loans and advances	15.81	5.04	4	4.15	5	4.07	28	0
Gross loans and advances to total deposits	23.43	74.6	71	29.52	48	52.95	43.5	44.1
Loans and advances to total assets	19.03	56.95	55	26.17	40	44.31	37.6	29.2

These statistics have been drawn from the quarterly accounts of a few selected banks published in the press as at 30th September 2004. The chart is meant to show that returns from microfinance operations compare favorably with those of commercial

banking operations. Please refer specifically to return on average total assets and return on ordinary shareholders funds.

It is also important to note that the high *loans to deposit ratio* is **ONLY** unique to the banks offering micro finance services, a clear indication of the effective use to which they apply deposits from the public.

KEY CHALLENGES AHEAD

1. Increased Competition.

As shown above, competition is increasing from all directions. While this is good for the customer and the economy at large, individual institutions will have to strive hard to remain in business through creativity, flexibility, innovation and effective use of technology.

2. Mobilizing more deposits to meet loan demands.

This remains one of the biggest challenges that MFI's face today in Tanzania as demand for loans far outweighs the rate at which the targeted customers are able to save. Under these circumstances, many institutions have had to subsidize deposit mobilization with relevant loan instruments.

3. Suitable MIS system.

Commercial microfinance heavily relies on volumes for viability and sustainability. Suitable MIS systems capable of handling the volumes, accurate and timely reporting particularly for the monitoring of the portfolio quality, and the various unique microfinance products are expensive and often out of reach for such institutions. The result is that a number of the processes are carried out manually and as a consequence, the level of risk is by far enhanced.

4. Effective R&D department to enable us to remain competitive.

The role of an effective research, product development, and marketing department, cannot be overemphasized in an environment such as ours.

5. Human resource selection, recruitment, and training.

Being a relatively new concept in Tanzania, there is no availability of readily trained manpower from which the industry can recruit. Each institution has therefore got a great challenge in carefully selecting, recruiting, training, and retaining a competent and well motivated workforce.

6. How to handle a business that is expanding very rapidly

To tackle this, we are grooming mid level managers and supervisors who should be capable of handling routine and operational matters, leaving management to concentrate more on strategic issues.

7. Balancing between micro and corporate finance.

We have deliberately made a decision to grow our corporate portfolio from in-house through the process of graduation, whereby our microfinance customers grow from group borrowers to individual micro-loan borrowers, and then to SME and from here to corporate. This seems to be currently working for us and we intend to keep it this way.

8. Anticipated tougher re-regulation rules by the BOT.

Since AKIBA is licensed as a commercial bank, both the public and the regulators try to compare us with the mainstream banks. It has not been easy to convince people why our rates of interest, for example, should be above those charged by the mainstream banks. It is important to note that our transaction costs are comparatively far too high in order to stay afloat, MFI's have to charge commensurately.

CONCLUSION

It is clear from the foregoing that AKIBA has been able to demonstrate in very practical terms that microfinance is a viable commercial option in Tanzania and no longer requires experiments. AKIBA's main handicap has been the very limited resources that it has had to work with against a background of very huge demands.

AKIBA's commitment to serve the underserved of Tanzania has been amply demonstrated with zeal by what we have been able to achieve in the market place within the very short period that we have been in operation as a microfinance provider.

Thank you.

References:

Prof. Suleman A. Chambo (2004): "The Role of SACCOs in Rural Tanzania"
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