Downscaling with CRDB Bank in Tanzania

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In 2009 Tanzania had adult inclusion of 45% with 9.1% banked.

In 2013 the inclusion increased to 74% with 13.9% banked especially the non-banked formal sector grew from 5% to 44%.

In 2012 CRDB launched Agent Banking in Tanzania, followed by 7 other Banks. By September 2014, Bank has a network of 968 agents out of 1264 agents with a daily transactions of 5000+ aggregating US $ 650 K+ and growing.
Low Cost Financial Access Opportunity
Motivation for Down Scaling

Given concentration of formal Banking channels in Pockets - Micro finance and MSME financing not suitable

Mobile Money agents increased outreach throughout Tanzania and Agent Banking would further consolidate

Monthly MNO transactions at 100+ million, with value of over USD 1.9+ billion

With the outreach, mobile network and successful involvement of unbanked population, Downscaling is becoming norm for risk diversification, financial inclusion and stable low cost deposit
In 2011, CRDB Group has 75% portfolio in Corporate Sector and 25% in SME, Retail & MF. With the expanding Financially included class, the downscaling model targeted more pronouncedly the group financing in the Value Chain and Graduation Process. By 2017, the Group focussed on making the assets portfolio broadbased with 50% in SME, Retail & MF.
Other players are Savings and Credit Associations (SACAs)/Groups and Financial NGOs, Pension Funds and government-backed development projects, e.g. SELF; TASAF, FSDT.

Mainly the model is based on cooperative model backed by a Cooperative Statute in the initial two decades - since 2006 more focus on micro-credit.

CRDB commenced Micro Finance 12 years back and in 2007 launched its Micro Finance Subsidiary - the total cumulative disbursement of over US $ 600 million - Number of Beneficiaries is above 850,000 - NPL Percentage of around 7%.

CRDB closely working with Financial Sector Deepening Trust to promote Micro Credit with $ 12 million matching grant through Micro Credit centers all over the country; In order to promote Micro credit among Muslim Community launching Islamic Micro Credit Product.

<table>
<thead>
<tr>
<th>Players in Micro Finance</th>
<th>MFI Market</th>
<th>CRDB Bank’s Partner</th>
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<tbody>
<tr>
<td>Savings &amp; Credit Cooperatives Society (SACCOS) (Nos.)</td>
<td>5559</td>
<td>458</td>
</tr>
<tr>
<td>Agricultural Marketing Cooperative Society (AMCOS) (Nos.)</td>
<td>1256</td>
<td>228</td>
</tr>
<tr>
<td>Micro Credit Companies (Nos.)</td>
<td>34</td>
<td>28</td>
</tr>
<tr>
<td>Community Banks (Nos.)</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Formal Micro Finance Loans O/S (US $ million)</td>
<td>200</td>
<td>96</td>
</tr>
</tbody>
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Source: Bank of Tanzania, June 2014, National Financial Inclusion Framework June 2013
Bottlenecks in Micro Finance Sector

Demand side Bottlenecks:

- Irregular Income Patterns & subsistence living habits
- Low Financial Literacy
- Politically motivated interventions in mobilizing and formation of member-based institutions,
- Weak supervisory machinery for SACCOS – the newly formed Tanzania Cooperative Development Commission (TPDC) has less capacity
- Inadequate capacities (technical, management and leadership skills) to run MFIs, especially for member-based institutions;

Supply Side Bottlenecks:

- Poor infrastructures to facilitate rural and remote outreach,
- Issue of KYC and address
- Absence of a common legal framework for microfinance activities in Tanzania
- Limited financial resources for enhancing the necessary capacities – at the institutional and industry level
- Lack of an Umbrella Micro Finance Industry Body, the last one defunct in 2007
3.1 million businesses in Tanzania (only 20% served by formal & 70% excluded)

54% of these businesses are in rural area and women own 54%. Major sectors-Trade (55%), Services (30%) and Manufacturing (14%).

Only 43% keep records (mostly basic and patchy). Only 4% formally registered with (BRELA)/TRA

68% are single employee (including the owner) businesses

Education Level of owners: 74% completed primary and only 7% have secondary or higher education. 72% had no training and only 21% and 7% had business and technical training

Purpose 72% for survival reasons whereas 20% run business part time

CRDB commenced specialised SME Department in 2006. As of June 2014, CRDB Bank has a portfolio of US $ 312 million out of industry total of US $ 1.04 billion

- the total cumulative disbursement of over US $ 1.2 billion
- Number of Beneficiaries is above 100,000
- NPL Percentage of around 6%.
Barriers to SME Sector - Tanzania

**Demand-side Barriers**
- Verifiable borrower information
- Viable business plans,
- Lack of collateral, Property and land ownership related issues
- Absent or patchy record-keeping and
- A poor repayment culture among business owners.
- Financial literacy among SMEs.

**Supply-side Barriers**
- A small number of banks with the interest or capability of serving SMEs
- A low level of innovation leading to very limited offer in terms of SME products.
- Mainly Short term credit facilities. Facilities of three years + maturities are quite rare for SMEs.
- High transaction costs on SMEs.
- Non-availability of supply chain finance products such as purchase order financing, invoice discounting, factoring or distribution finance.
- Lack of affordable and non-conventional long-term facilities for SMEs.
- Regulatory requirements and the practices of securing loans
- knowledge of SME demand and market segmentation by financial institutions;
A comparison of Micro Finance & MSME – CRDB Experience

CRDB MF Loan
- Loan Ticket size varies from $125 to $20,000
- Loan Tenure varies from 1 month to 3 years
- Low Interest rate 14% to 20% (Treasury bill rate in Tanzania 11% - 13%)
- NO collateral, simple agreement => Peer pressure & Group Guarantee
- Basic Skills Training, Technical advisory to Saccos & MFIs, Formation of Micro Groups, Women focus

CRDB SME Loan:
- Loan Ticket size varies from $20,001 to $62,500 (MSME)
  - $62,501 to $450,000 (SME) & $450,001 to $1 million (Large SME)
- Loan Tenure varies from 3 months to 5 years
- Low Interest rate 20% to 24% (MSME) 18% to 20% (SMEs)
- NO collateral Product for MSME, Generally Collateralised by 125%
- Loans against stock under collateral Management or warehouse receipts
- Partly Guaranteed Programme from USAID, Danida, Afdb, Shelter Afrique, Norfund
- Toolkit Training to MSME, Incubation Programme with Universities, Women SME Programme
Future looks inspiring  .................

Ahsante Sana ! (Thank You !)