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MICROFINANCE WEEK 2014  
DEVELOPING BETTER MARKETS

## Downscaling with CRDB Bank in Tanzania



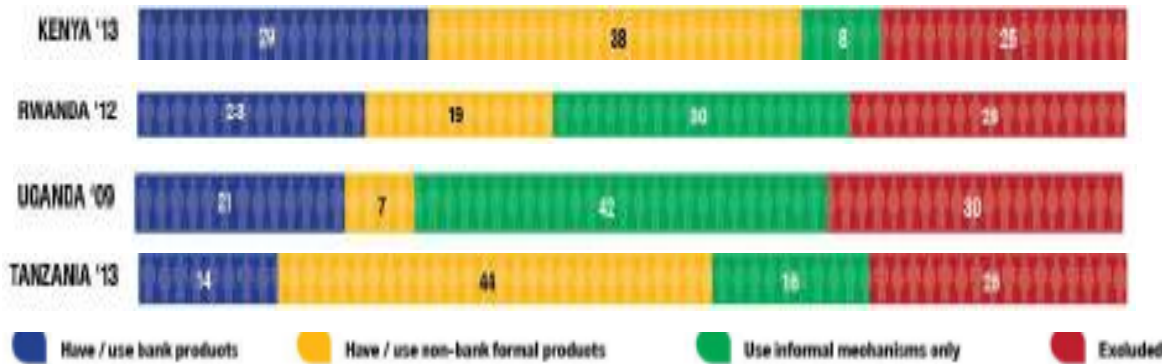
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## Financial Inclusion – Motivation for Downscaling

### Disruptive Channel – Mobile money & Agent Banking

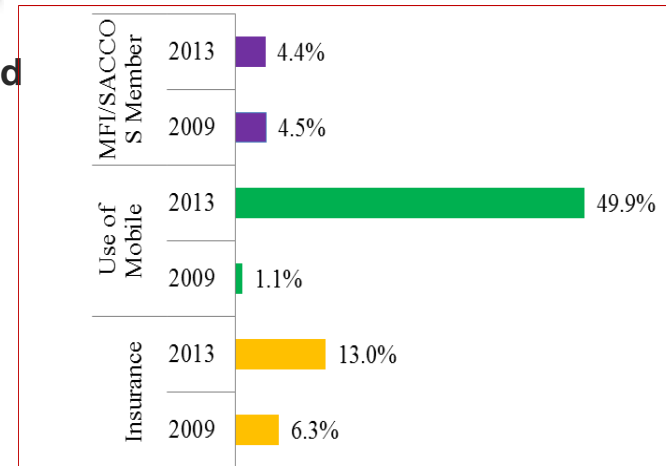


In East Africa the mobile money revolution (2007) coupled with Agent Banking (2009) made the financial inclusion faster - started with Kenya - caught up with Tanzania and the rest

- 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%

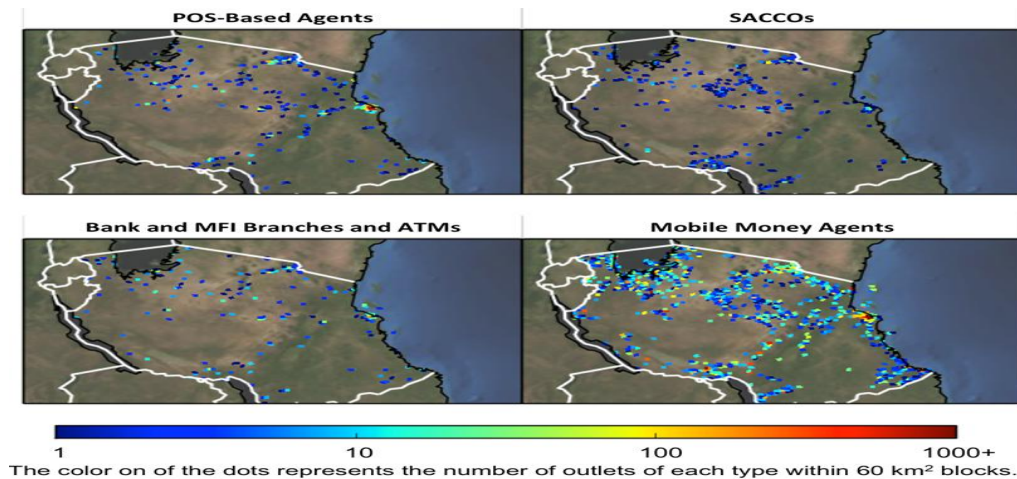
In 2012 CRDB launched Agent Banking in Tanzania, followed by 7 other Banks. By September 2014, Bank has a network of 968 agents out of 1264 agents with a daily transactions of 5000+ aggregating US \$ 650 K+ and growing

#### Growth in Non-Banked formal Sector



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## Low Cost Financial Access Opportunity Motivation for Down Scaling



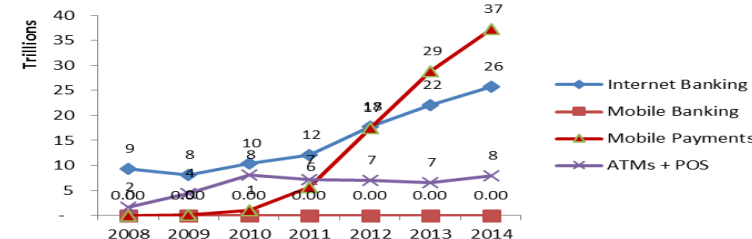
Given concentration of formal Banking channels in Pockets -Micro finance and MSME financing not suitable

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

### Transaction Values – Mobile vs Banks' all alternative channels shows that MNOs have overtaken Banks

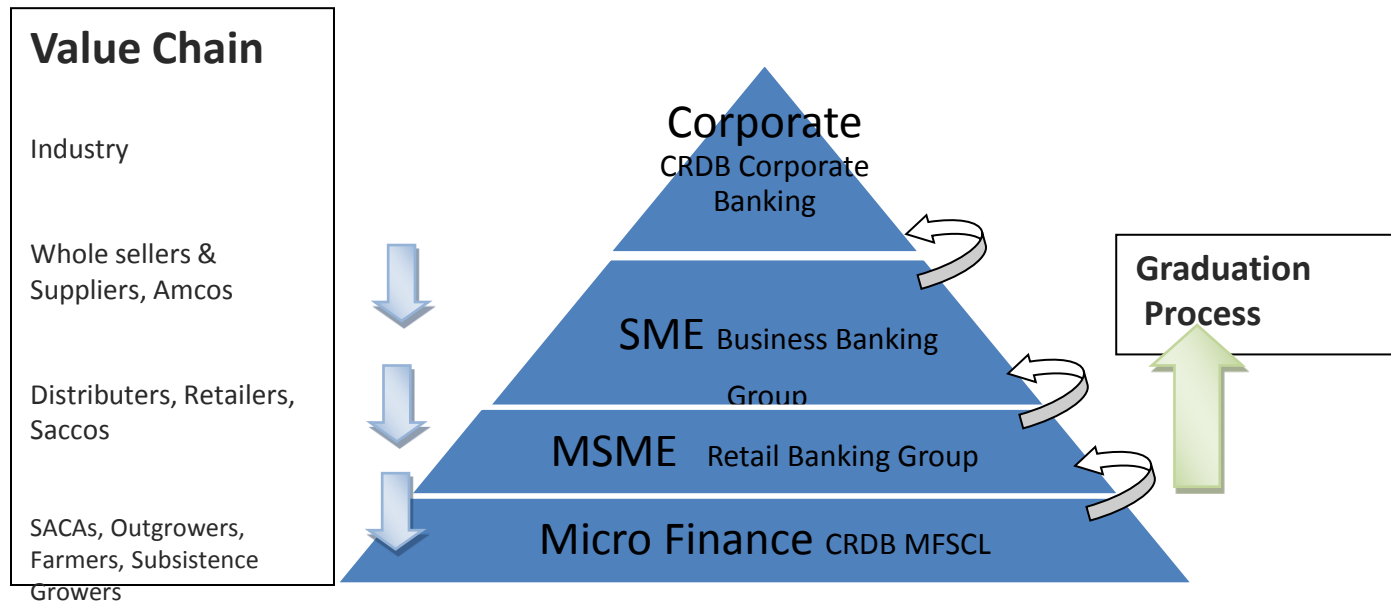




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## Downscaling Model – CRDB Bank Plc

- 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





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## **Micro Finance Trend & CRDB MFCL in Tanzania**

<b>Players in Micro Finance</b>	<b>MFI Market</b>	<b>CRDB Bank's Partner</b>
<b>Savings &amp; Credit Cooperatives Society (SACCOS) (Nos.)</b>	<b>5559</b>	<b>458</b>
<b>Agricultural Marketing Cooperative Society (AMCOS) (Nos.)</b>	<b>1256</b>	<b>228</b>
<b>Micro Credit Companies (Nos.)</b>	<b>34</b>	<b>28</b>
<b>Community Banks (Nos.)</b>	<b>20</b>	<b>4</b>
<b>Formal Micro Finance Loans O/S (US \$ million)</b>	<b>200</b>	<b>96</b>

Source : Bank of Tanzania, June 2014, National Financial Inclusion Framework June 2013

- Other players are Savings and Credit Associations (SACAs)/Groups and Financial NGOs, Pension Funds and government-backed development projects, e.g. SELF; TASAF, FSĐT
- 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



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## 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



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## Micro SME Finance Sector & CRDB – Tanzania

- 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%.



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## 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;





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## 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 ware house receipts,
- Partly Guaranteed Programme from USAID, Danida, Afdb, Shelter Afrique, Norfund
- Toolkit Training to MSME, Incubation Programme with Universities, Women SME Programme



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Future looks inspiring .....

Ahsante Sana ! (Thank You !)