Rural Financial Markets in Tanzania
Analysis of Access to Financial Services in Babati District, Manyara Region
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Tanzania is among the poorest countries in the world, with most of its population living in rural areas. Like most other developing countries, rural households' access to financial services is very limited. The government has adopted series of economic reform measures since mid-1980s that include financial liberalization. Liberalization of the financial sector facilitated participation of private financial institutions, restructuring of public financial institutions and privatization, elimination of interest rate controls, credit allocation and targeting. In addition, the role of the Bank of Tanzania in supervision and regulation of financial institutions was strengthened. Following the privatization of the financial sector, the number of financial service providers increased and diversified, which include commercial banks, development banks, insurance and social security funds, and capital markets. The role of the central bank was re-defined and strengthened in terms of price stability, supervision and regulation. Although there is an increase in financial sector service providers and products, rural households' access to financial services did not improve. To the contrary access to formal financial services is diminishing significantly, hence making poverty reduction initiatives more difficult.

This study analyzed constraints to access to rural financial services, examined its impact on rural households' livelihoods, and recommended appropriate financial sector development strategies. The data for the study were collected from various sources- both primary and secondary. Primary data were collected from selected thirteen villages in Babati and government offices in the district through interviews' focus group discussions, questionnaire, and observation. Secondary information was gathered from documentary sources in the form of reports, records and review of literature. A combination of analytical tools was used — qualitative and quantitative. The study observed that history of rural finance in Tanzania is associated with colonialization of Tanganyika. The German colonial administration was the first to introduce establishment of modern commercial banking in the country in 1905 when the Deutsche Ostafrikanische bank opened a branch in Dar es Salaam. The British colonial administration, after the defeat of Germans in World War l, promoted establishment of commercial banks in Tanganyika in order to support commercialization of the economy. Consequently, German banks were replaced and commercial bank branches were established in other parts of the country. The independent government undertook massive re-organization of the financial sector and much attention was put on agricultural credit. Agricultural credit

was organized through specialized agricultural credit organizations that corroborated with state owned commercial banks. However, the co-operative movement were assigned important role in credit administration on the ground as they are closer to the beneficiaries. The financial structure after independence up to the 1990s, when reforms were ushered in, is characterized by state owned financial institutions with pervasive interference. Credit was directed on the basis of the government priorities with little regard to credit worthiness analysis. The National Bank of Commerce (NBC) and Co-operative and Rural Development Bank (CRDB) were the dominant banks that implemented the government monetary policy.

Emphasis was put on credit and savings mobilization was neglected. The CRDB operated mostly on managing donor funds meant for rural development. Liberalization of the financial sector was introduced through the Banking and Financial Institutions Act (BAFIA) of 1991 to address the weaknesses observed in the financial sector. It was envisaged to improve access to financial services through enhanced competition, increased and diversified financial products and providers, and improved integration of the financial system. However, assessment of the impact of the financial liberalization has mixed results. While there is distinct expansion in financial institutions, products and services; these are more concentrated in urban areas and accessed mostly by wealthy clients. Consequently, rural households' access to finance is diminishing. On the other hand, most financial institutions continue to employ traditional banking approaches of insistence on collateral, preference for less risky category of clients, bias towards large loans, and bureaucratic procedures in providing loans. Besides, there are limited initiatives in product innovation, design of appropriate delivery mechanisms, and high interest rates spreads that discouraged potentials borrowers and depositors.

As a result of poor access to financial services, most households have strengthened self-financing mechanisms through the informal arrangements. Although, the semi-formal - especially member based financial institutions and some Financial NGOs (FiNGOs) are attempting to correct the financial imbalances, their outreach, products and services are still limited. While there are improvement in supervision and regulation of the financial sector, it must be noted that prudential regulation and supervisions as part of the financial infrastructure if not carefully used, will undermine the efficiency of the financial market. The study concludes that rural households need a variety of financial products that include savings facilities, loans, insurance, leasing, and means of transfer payments. The degree of demand for these products is, however, determined by household's level of poverty, household size, level of education and skills, life cycle needs, and local market opportunities. However, financial sector reforms had little impact on households' livelihoods. Its implementation is associated with an increase in inequalities and poverty. Besides, there is a reduced funding as well as investment in agriculture, which forms the key sector of the economy. Consequently, the performance of the agricultural sector has been declining although its contribution to GDP is still significant.

Assessing the supply and demand for rural financial services, it is concluded that rural areas are hardly served by banks hence limiting access to financial services. Prior to liberalization, government owned financial institutions provided limited financial services to rural areas organized through co-operatives and specialized credit agencies. CRDB was responsible for organization of credit for farm inputs' while NBC provided crop finance. In addition, CRDB also facilitated rural development programmes through donor funds. With the liberalizati0n of the financial sector, co-operatives have collapsed, development banks are no longer active, and commercial banks have withdrawn from serving rural areas, thus creating a "supply gap" that is being replaced by informal finance. Furthermore, the study observed that demands for financial services is determined by age of the borrower, household size, and distance from a financial institution, the cost of borrowing that include loan transaction costs plus interest rate charged, bank procedures and conditions, policy and regulatory framework and institutional and infrastructural conditions.

The study recommends the following:

(i) continued efforts for establishment of supportive macroeconomic and sectoral policies — financial, fiscal, monetary & rural development - and legal and regulatory framework that facilitates the growth of the rural financial markets,

(ii) A facilitative intervention by the government in the development of the financial markets that addresses the national poverty reduction development objective through economic growåh is required. The desired actions are those that focus on improvement in demand for financial services, reduced bureaucratic banking conditions, reduced transactions costs, improved infrastructure, and reduction of other structural bottlenecks limiting access to financial services,

(iii) Development of appropriate financial institutions and products relevant for the rural sector requires government guidance through policy, development of appropriate financial infrastructure (legal, regulation and information), and incentive mechanisms.

(iv) Intervention by the government in institutional and infrastructural development is required so as to facilitate the functioning of markets. There must be purposive investment strategy that supports development of the public infrastructure such as transport and communication, electricity, security system, and research and development. Institutional development - judiciary machinery, credit bureaus, and property rights and business registry are required. Furthermore, training and capacity building so as to change peoples' mindsets concerning loans and savings mobilization, and

There is a need for building up a "New Role" for financial institutions. Financial institutions need to revisit their financial terms and conditions in favor of the development of RFMs, especially in

terms of bank conditions, interest rate spreads, demand for collateral, and requirements for addressing the needs of the poor and rural population, Furthermore, financial institutions need to become more innovative in developing new products and services, improvement in organization of rural financial institutions, delivery mechanisms, and establishment of the institutional framework for integration of MFls into the national financial system in the country.

The following areas require further studies:

(i) development of realistic rural development strategy that covers, among others, the development of the financial markets,

(ii) institutionalization of the rural property ownership rights in order to establish how these can be used productively, through say mortgage, collateral, and/or sale for cash income, and

(iii) Mechanisms for enforcement of loan repayments in rural areas — especially the lessons from informal operators. Experiences have shown that under informal credit arrangements, there are few default cases as opposed to formal commercial credit practices.

KEY TERMS: Rural Finance, Financial Liberalization, financial markets, financial deepening and widening, and households' livelihoods, Tanzania