

THE CITIZEN

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MICROFINANCE POLICY, LAW IS TIMELY

The government's decision to launch the Microfinance Policy, 2017 has come at the right time. The policy, together with the planned Microfinance Law, will give the country the required legal framework to effectively regulate the subsector.

According to a recent report by the Business and Assets Formalisation Programme – better known in its Kiswahili acronym as Mkurabita – millions of Tanzanians are still sitting on \$29.3 billion (about Sh65 trillion) worth of dead capital.

These people – who own various properties in informal settings – are the major beneficiaries of loans from microfinance institutions.

With fewer options of where to source loans, people who operate in the informal sector end up being victims of high interest rates that are charged by microfinance institutions. They pay up to 50 per cent of what they had borrowed. As a result, they end up becoming poorer than they used to be.

Indeed, there have been cases where some poor people lose even the little that they had accumulated after they fail to repay the loans due to high interest rates.

The policy is also coming at a time when levels of non-performing loans (NPLs) have increased to reach about 10 per cent of total gross loans against the acceptable threshold rate of 5 per cent. The rising NPLs are also threatening the future of microfinance institutions, forcing them to increase the interest rates on their loans further at the expense of hapless poor Tanzanians.

It is one's anticipation that the policy and the planned law will seek to address issues that force microfinance institutions to raise their interest rates while at the same time, ensuring that borrowers are able to repay the borrowed money on time. It should be noted that it is the provision of small business loans to a large number of people that bolsters the ability of the economy to grow and create jobs. A clear implementation of the legal provisions will help to stimulate economic activities across the country. It is possible.