

**TANZANIA ASSOCIATION OF MICROFINANCE INSTITUTIONS
(TAMFI)**

**THE CODE OF STANDARDS OF PRACTICES
FOR MICROFINANCE INSTITUTIONS
IN TANZANIA**



Revised in May 2011

The Code of Practices

This is the first code of standards of practices for Microfinance Institutions to be developed in Tanzania. To the Tanzania Microfinance Industry this is a great achievement towards developing a well organized and responsible microfinance sector.

With this Code of conduct, TAMFI expects to see members of **TAMFI** taking the leading role to deliver high quality and responsible services which will have great impact to the community we are servicing. Through this code we do expect to attract more social and commercial investors in our country.

Appreciation

This code of conduct is a result of articulation, commitment and hard work of the 1st Board of the 2010 New TAMFI. Special thanks to the following board members:

- i. Edmund Mkwawa
- ii. Joel Mwakitalu
- iii. Felistas Coutinho
- iv. Abiah Kaaya
- v. Altemius Millinga
- vi. Hamis Salum

We also thank all TAMFI members who participated in the discussion, contribution, review and approval of this Code of Standards of Practices.

Special thanks to **Stromme East Africa** for financing the production of this code of standards of practices for Tanzania Microfinance Industry.

Use of the code

This code is intended to be used by TAMFI members and those institutions that believe in responsible financial service delivery.

FOCUS: Industry Quality

To develop an organized and responsible microfinance industry with common standards of practice

GOAL:

To be an association that supports and promotes a transparent business environment with fair competition.

Areas of standards of practices

- i. Interest rate/service cost disclosure
- ii. Customer complaint resolution
- iii. Transparency - Financial and social performance disclosure
- iv. Service contracts
- v. Ethical staff behavior
- vi. Appropriate collection practices
- vii. Staff development and management practices

DETAILS OF THE CODE

1. Interest rate/service cost disclosure

Leveling the playing field so that customers can compare the costs of similar products between institutions helps to improve competition. MFIs can therefore compete on product quality rather than hidden costs. Members will be required to periodically disclose interest rate and other service costs information. World of practice suggests that many borrowers may not understand or value an annual percentage rate-type of calculation, but many prefer that costs be disclosed as the total payment amount. **TAMFI** will work to promote and ensure that its members uniformly disclose interest rates and other service cost in ways that are most useful and transparent to customers.

A suggested uniform disclosure shall be for MFIs to disclose interest rate and other service costs to their members openly through loan contracts and by writing on their offices notice boards. Each member MFI will be required to have a **customer notice board** in the service areas/office visible to customers where all important communication with their clients will have to be placed. The language used on notice boards should be simple and understandable to customers/clients. **TAMFI** will annually measure the number of members that disclose interest rates to customers.

2. Customer complaints resolution

Complaint resolution is used as a proxy for determining how well consumers are protected against unscrupulous or deceptive practices. Existence of a complaint resolution process indicates that consumers have some protection. Opinions differ on whether protecting consumers is a government function or an industry function, or whether consumers should organize themselves to avoid harmful practices. Ultimately, all three players have a role to play.

Where a government has established a complaint resolution process, successful associations work with that body to ensure that it is working smoothly and that complaints are resolved in a fair and timely manner.

Where such a mechanism does not exist, successful associations help establish a complaint resolution process for their members, producing goodwill among customers and avoiding negative publicity generated by unscrupulous actors in the market. Successful associations develop relationships with consumer advocates to ensure that they understand financial service issues, so that customers who seek out impartial, third-party information are well informed.

TAMFI will work to support and promote customer protection act in the industry by ensuring that members put in place transparent systems and processes that deal with customer's complaint resolutions. Members will be required to:

- i. Establish customer complaints desk
- ii. Use of suggestion boxes
- iii. Work to solve customer complaints
- iv. Have programmes to educate, make customers aware of their rights

At TAMFI head office a customer complaints unit will be established. The unit will receive and workout to solve customers' complains from public with respective MFIs and National consumer protection authority. **TAMFI** will periodically measure the number of members that have in place and functioning customer complaints systems.

3. Transparency -Financial and social performance

Financial and social performance transparency is essential for the legitimacy of the microfinance industry. **TAMFI** will work to ensure members' compliance with local and international reporting standards and build on local initiatives to provide meaningful, relevant reporting to local stakeholders. Members will be required to periodically publish their reports in TAMFI Website, TAMFI Annual Magazine, and later to public Newspapers. TAMFI will also encourage members to register their reports with international benchmarking networks such as The MIX Market. By providing accurate and up-to-date information on our members, TAMFI as an Association will build confidence among donors, regulators, and investors. In addition the association will promote the development of

standards and performance benchmarking in the industry. TAMFI will periodically measure the number of members that provide regular financial and social performance reports to the association and institutions such as The MIX Market and other local and international prudential or self-regulatory bodies. Members will be periodically required to submit both Financial and Social performance reports.

- ✓ TAMFI will develop minimum financial and social performance reporting standards and report formats.
- ✓ TAMFI will organize training to its members that will enable members to understand how to correctly prepare the agreed financial and social performance reports.

4. Service contracts

Prudential service delivery and customer protection best practices in lending business require service providers to enter into contracts with their clients to avoid harmful practices. **TAMFI** supports contract best practice and will work to promote and ensure that members comply with lending best practices by entering into transparent documented contracts/agreements with their customers in offering loan products and other products that necessitates having contracts/agreements with clients. TAMFI will periodically assess and measure compliance among members. Service contract acts include:

- Loan contracts are made and issued to all borrowers – loan contract is borrower's right
- Copy of loan repayment schedule is given to a client
- Loan contract are clear and understandable – use national local language (Kiswahili)
- Explain complete contract in clear understandable terms
- Provide verbal explanations for all clients, especially for illiterate clients

5. Ethical staff behavior

Ethical staff behavior includes:

- Use of polite/friendly and encouraging language to clients
- Ensure privacy/confidentiality of clients information
- Ensure all clients are respected
- Penalties (Disciplinary actions) are in place to enforce unethical staff behaviors

MFI ensure that have in place a staff code of ethics and ethical staff behavior are clearly described in the staff code of ethics.

6. Appropriate collection practices

Appropriate collection practices include:

- MFI has in place collection practices guideline
- Clients are explained in full about the consequences of late and non-repayments and collections procedures before they take their loans and during their loan repayments period
- Clients are issued receipt and given correct change to any payment they make to the MFI
- Guarantors and co-signers are involved in enforcing late and non-repayments
- Collectors avoid using abusive languages for enforcing collections
- For field collection, visits happen on a specific day and in day light
- Established procedures are followed during enforcing collection
- Confiscation of assets follows legal recovery channels
- Fees, penalty interest, etc., do not exceed established portion of the original loan amount. Each institution has established procedures to be followed.
- Interest is not charged after the loan is written off (not accrued)
- If using collection agents, agents are aware of ethical behavior and standard practices.

7. Staff development and management practices

- Have in place staff development policies
- All staff enjoys equal opportunities for development through training etc.
- Have in place staff reward system
- Staff are treated fairly and rewarded for their efforts
- Have in place transparent mechanism for addressing staff grievances and complaints
- For field collection, special training is provided for collection staff

8. Incentives package for members to comply

The implementation of code of conduct will be accelerated by the use of a rewarding system for good performance and penalty to bad performance.

i. Non-financial rewards system

- Issue grade based certificate of compliance that will see good compliance enter into a financial reward draw.
- Issue letter of congratulations and offer material reward for winners at a public function
- Publish winners in public magazines and newspapers

ii. Financial rewards

- Best compliance receive financial rewards
- Best compliance linked to international awards with donors

9. Members compliance enforcement measures

- i. Introduce graded financial penalty system to non-compliers
- ii. Introduce periodic warning system for non-reporting
- iii. Introduce limited service policy to non-compliance i.e. list services that non-compliance will miss.
- iv. Introduce disciplinary measures for those MFIs that will be found to submit misleading information or cheating

10. Implementation process

Implementation will be in phases.

- i. Phase one: Preparation phase - members will be required to put in place necessary systems and facilitate the understanding of their on the Code of Practices.
- ii. Phase two: Trials phase - Members will start implementing the standards and there after the 1st assessment on the implementation will be carried and reviews will be made.
- iii. Phase three: – Operational phase: The Code becomes fully operational

11. Review of the code

This code will be periodically reviewed by the **TAMFI Standards Committee** as it deemed necessary to do so.

12. Declaration

All microfinance institutions and other institutions dealing with microfinance, which are part of the Tanzania Association of Microfinance Institutions (hereunder: TAMFI) hereby adopt the Code of Standards of Practices for Microfinance Institutions in Tanzania with the purpose of:

- Establishing recognizable standards of good conduct and open communication towards the users of their services and towards other microfinance institutions.
- Promoting the idea of responsibility, transparency and professionalism in their operation.
- Promoting the achievements of the entire microfinance sector and increasing its reputation in public.

This code also saves as Code of Business Ethics of Microfinance Institutions working in Tanzania.

14. Basic principles

- i. The Code of Standards of Practices for Microfinance Institutions (hereunder: the Code) is a voluntary framework which microfinance institutions use for regulating their relations and business with clients, with other microfinance institutions, with banks and other finance institutions, as well as with other social subjects and the general public.
- ii. By accepting the Code, microfinance institutions set a standard of good practice, to which they adhere as to a minimum standards of practices in their operation.
- iii. The provisions of the Code are obligatory for all member-institutions of the TAMFI and their acceptance and application represents one of the basic pre-conditions for membership to the TAMFI.
- iv. The Code contains the basic elements which every microfinance institution needs to have in its internal regulations.
- v. The professional culture based on this Code should be accepted by all the employees and should be made part of the mode of operation.
- vi. Ethical conduct within an institution is stimulated through defining the principles and rules of conduct and through positive examples set by managers.