SAVINGS AND CREDIT COOPERATIVE SOCIETIES
REGULATIONS 2004

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THE COOPERATIVE SOCIETIES ACT, 2003
(ACT NO. x OF 2003)

REGULATIONS

Made under section ……

SAVINGS AND CREDIT COOPERATIVE SOCIETIES

PART I
PRELIMINARY

1. These regulations may be cited as the Savings and Credit Cooperative Societies Regulations 2004.

2. (1) These regulations shall apply to savings and credit cooperative societies incorporated under this Act or the Cooperative Societies Act No. 4 of 1986 of Zanzibar, engaged in accepting savings and deposits from their members for an amount that is lesser than 800,000,000 (Eight Hundred Million) shillings.

   (2) These regulations shall also apply to credit schemes with deposits of the amount specified in section (1).

3. In these Regulations, unless the context requires otherwise-
   “the Act” means the Cooperative Societies Act 2003 and its amendments.
   “bank” means a financial institution authorized by or under the Banking and Financial Institutions Act 1991 to receive money on current account subject to withdrawal by cheque;
   “financial institution” means any person authorized by or under the Banking and Financial Institutions Act 1991 to engage in banking business not involving the receipt of money on current account subject to withdrawal by cheque.

4. The savings and credit cooperative societies and schemes
observance defined in section 2, shall observe these Regulations with preference over any other Rules or Regulations, although the latter will apply with respect to all matters not specifically addressed in these regulations.

PART II
STATEMENT OF POLICY

National Microfinance Policy

5. The National Microfinance Policy 2000 establishes that the regulation and supervision of microfinance operations shall be guided by principles involving protection of depositors and of the financial system through the application of prudential regulations.

Target group

6. Savings and credit cooperative societies are important suppliers of microfinance services to middle and low income segments of the population, that usually operate at a small scale in areas or with sectors of the population not favored by banks and other financial institutions in the provision of financial services.

Accountability and transparency

7. As a practical matter, financial sector authorities do not need to supervise small organizations, particularly when they are organized cooperatively among people who know each other. However, as these institutions grow, the willingness and capacity of the majority of members to exercise their statutory role in governance and control declines significantly, leading in some cases to an undesirable, even damaging loss of accountability and transparency.

Objectives

8. (1) Establish the circumstances under which savings and credit cooperatives societies become subject to legislation and supervision applicable to small and medium-scale financial intermediation, as well as the special rules that must be observed on the account of their particular mode of organization as member-based institutions.
(2) Promote participation of members in the governance of the institution and establish clear lines of responsibility between committee members, managers and internal auditors.
(3) Reinforce transparency in accounting and reporting, not only as a means to properly inform members and other stakeholders, but to discourage the adoption of less than best practices in
product and service design and implementation.

(4) Allow for more independence in increasing the funding base, in order to compete fairly with other financial intermediaries in providing financial services to households and small and microentrepreneurs of the urban and rural sector.

(5) Establish mechanisms that will strengthen an entrepreneurial approach in their administration.

PART III
COMMON BOND AND SERVICES

9. (1) A savings and credit cooperative society, in this part referred to as a credit society, is solely dedicated to the promotion of thrift among its members and the creation of a source of credit for them at competitive rates of interest through financial intermediation.

(2) The words “Savings and Credit” shall form part of the name of every society registered exclusively for these purposes.

(3) The by-laws shall prescribe the common bond of occupation, association or residence to which the membership of the credit society shall be limited. The common bond should be clearly defined.

10 (1) A credit society may request the employer or employers of its members, or to the agricultural society to whom they belong, to provide such services as office accommodations and deductions at the source for the purchase of shares, for deposit of funds and for the payment of loans.

(2) A contract to the effect shall be subscribed and specify the responsibilities of each party.

11 (1) A credit society may accept for admission to membership another credit or cooperative society or a charitable, educational or community welfare organization.

(2) Member societies and organizations shall not be provided with loans or services in different conditions or in higher amounts than those applicable to any other member of the credit society.
PART IV
COMMITTEES

12. (1) The general meeting of a credit society shall appoint management, credit and supervisory committees for the administration of the affairs of the society.
(2) The duties of the management committee shall include the establishment of the credit sub committee and formulation of administrative and credit policies, the interest rates for loans and deposits, the annual budget and the business hours of the credit society.
(3) The duties of the credit sub committee shall be to evaluate the character and the capacity of the member to repay the loans and to approve or reject loan applications. Loans approvals shall be by majority decisions and may be reviewed by the same committee.
(4) The duties of the supervisory committee shall be to verify, on a regular basis, that committees and employees of the credit society abide by applicable laws, regulations, by-laws and established policies, and that the accounting and other records, including members passbooks and loan registers, are administered with due care and accuracy. The supervisory committee shall oversee and receive the reports of the internal auditor, when appointed.
(5) The eligibility, years of mandate, replacement, remuneration if any and personal responsibility of committee members shall be established in the by-laws.

PART V
FUNDING, MEMBERSHIP AND CAPITAL REQUIREMENTS

13. (1) Credit societies shall be able to receive funds from their members, in the form of shares, savings and deposits. A credit society may also receive donations.
(2) A credit society may receive loans, provided they are not from natural persons, that no mortgaging or pledging of its immovable or movable property is involved and that they represent no more than one third of the assets of the credit society.

14. (1) A credit society shall at all times maintain a minimum capital of Tsh.5,000,000 (five million shillings) and at least twenty
shares in a credit society

(20) members with fully paid shares in order to qualify for registration.

(2) The Registrar may authorize a credit society with a lower capital and/or a lesser number of members than the established in sub-rule (1), provided the organizers can demonstrate the availability of satisfactory technical assistance for the organization and operation of the society during its first three years of operations.

(3) A member may acquire additional shares, provided his total holdings do not exceed one tenth of the shares of the credit society or such lesser amount as the by-laws may specify.

(4) All shares shall be fully paid. The by-laws shall prescribe the amount of the entrance fee for new members, if any, which shall exceed the direct costs involved in their enrollment.

PART VI
SIGHT AND TIME DEPOSIT SERVICES

15. (1) A member may deposit moneys in this part referred to as savings or sight deposits in a deposit account in a credit society in such minimum amount as may be prescribed in the By-laws.

(2) If permitted by the By-laws, a member may, by agreement with the society, deposit money in this part referred to as deposits or time deposits in an account with a credit society for a stipulated term, for such minimum and maximum periods and subject to such other conditions as may be prescribed in the certificate of deposit.

(3) Moneys deposited by a member in a credit society for a stipulated term shall be in such amount as may be agreed to by the credit society.

(4) Moneys paid for on account of savings may be withdrawn on any day the credit society’s office is open for business. The amount to be withdrawn at one time must be specified in the By-laws. Any amount exceeding the specified amount shall require a notice of thirty days in writing on the intention to withdraw the whole or any part of such addition amount as may be specified in the By-laws:

Provided further that if moneys deposited for a stipulated term pursuant to sub-rule (2) are withdrawn before maturity the rate of interest fixed in the deposit agreement may be discounted in such manner as may be determined and as may be specified in the
deposit agreement of the credit society

(5) The credit society may pay interest on savings and deposits at a rate which may, subject to the approval of the general meeting, be determined by the Management Committee.

16. Deposits may be accepted from members of a credit society under the following conditions:

(1) The credit society adopts the By-laws providing for the conditions under which such deposit may be accepted.

(2) The Registrar is satisfied that the credit society:
   (i) Has a permanent place of business,
   (ii) Is adequately provided with safekeeping facilities for books to its individual members,
   (iii) Has adequate bonding and insurance coverage,
   (iv) Has adequate book-keeping system that is kept up to date,
   (v) Has the minimum amount of shares paid up,
   (vi) Has been authorized to use order negotiable by endorsement (cheque) with clearing arrangements with commercial banks, and
   (vii) Has appointed an auditor.

(3) The total amount of savings and deposits accepted by a credit society shall not exceed five times the total amount of its share capital and general reserves.

(4) Deposits by member organizations shall be subject to sub-regulation (3).

PART VII
RESTRICTIONS

17. (1) A credit society shall maintain deposits in a bank or financial institution supervised by the Bank of Tanzania or in securities issued by the Government or by the Bank of Tanzania, for an amount of not less than 20% (twenty percent) of its total savings and deposits.

(2) A deposit from a member organization shall not be subject to sub-rule 1, provided the residual term is over six months.

(3) No credit society shall keep in a single bank or a financial institution, deposits of an amount in excess of twenty five per cent
of its own share and general reserves. However where there is only one bank or financial institution in a locality, the supervisory authority shall give dispensation of such a requirement. on such restriction.

Refund of shares

18. (1) Shares may be refunded from the share transfer fund as provided under sub-regulation 41(3) at the written request of a member and shall require advance notice of at least sixty (60) days.

(2) The management committee shall approve a refund of shares, only when the credit society has a positive net surplus and when such refund shall not cause the society to contravene regulation 16.

Administration of cash

19. (1) Only members of the management committee or their authorized assistants shall be authorized to handle cash.

(2) The management committee, with the prior approval of the supervisory committee, shall establish prudent policies for handling cash.

No overdraft allowed

20. No officer or employee of a credit society shall permit any withdrawals of funds from share capital or from savings or deposit accounts or from the proceeds of a loan properly approved in accordance with the Act and placed to the credit of the borrower by the savings and credit cooperative society when the funds in such amount are not sufficient to cover the withdrawal.

PART VIII
LENDING

21. Subject to sub-section (2) of section 14, no credit society shall commence lending operations until the minimum number of shares as prescribed in the By-laws have been paid.

22. (1) Every application for a loan shall be on a standard form provided by the credit committee, and shall set forth the purpose for which the loan is desired, the security, if any, offered and such other information as may be required by the committee.

(2) The credit committee shall inquire carefully into the character and the financial conditions of each applicant for a loan and his sureties or guarantors, if any, in order to determine his ability to
(3) The credit committee shall require partial or total security to be given on all loans, within the limits established in these rules.
(4) An assignment of savings or deposits as well as movable or immovable property of marketable quality may be accepted as security for a loan.
(5) Before a loan is made, the security for a loan shall be in the possession or within the control of the society or shall be properly documented and registered.

<table>
<thead>
<tr>
<th>Preference in the granting of loans</th>
<th>23. Preference in the granting of loans, when funds are in short supply may be given to smaller loans and to loans for verified emergencies of members.</th>
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| Maximum amount to be owed by members | 24. (1) A member may obtain loans for a total of 3% of the share capital and general reserves of the credit society, if fully secured by his own savings and deposits, by those of another member or by marketable property as provided in regulation 22.  
(2) A member may obtain loans for up to three times the amount of his own savings and deposits, as long as the total amount is not more than 1% of the share capital and reserves of the credit society. |
| Purpose of loans                    | 25. A member may use a loan extended by a credit society for a productive purpose or for any other purpose that is lawful and is declared in the loan application. |
| Terms and repayment of loans        | 26. (1) A credit society may extend loans with a term of up to three years, when guaranteed by shares or by marketable property. Loans guaranteed by deposits shall keep harmony with the terms of such deposits.  
(2) Repayment of loans shall be in installments and a grace period of up to three months may be agreed.  
(3) Loans to smallholder farmers shall be extended and repaid on the basis of the projected cash flow of the family unit. |
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<th>Section</th>
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<tr>
<td>27.</td>
<td>(1) The members of the committees may obtain loans only for an amount not to exceed the amount specified in regulation 23 and 24(2). &lt;br&gt; (2) Employees may only receive salary advances for emergencies, approved in accordance with the policy established by the management committee but not exceeding 3 months gross salary.</td>
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<td>28.</td>
<td>No credit society shall lend money to or accept savings and deposits from a person who is not a member of the society.</td>
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<td>29.</td>
<td>(1) No officer or employee of a credit society shall lend money from the funds of the society to an applicant for a loan unless the application and the loan have been approved as required by these regulations. &lt;br&gt; (2) An officer or employee of a credit society who lends money from the funds of the credit society to an applicant whose application for loan has not been approved in accordance with the provisions of these Regulations commits an offence.</td>
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<td>30.</td>
<td>No loan shall be made to a member for a period exceeding three years.</td>
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<td>31.</td>
<td>No person shall be advanced with a loan unless he furnishes sufficient evidence that he will repay the loan.</td>
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<tr>
<td>32.</td>
<td>(1) Subject to the approval of the General Meeting, the management committee shall establish the interest rate for new loans to be disbursed. &lt;br&gt; (2) The interest rate on loans outstanding may not be changed.</td>
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<td>33.</td>
<td>(1) It shall be the responsibility of the supervisory committee to instruct the suspension of loans, when: &lt;br&gt; a) The past due portfolio (non-performing loans) exceeds 5% (five per cent) of the total loan portfolio, or &lt;br&gt; b) The management committee has not produced the financial statements within the terms established in regulation 35. &lt;br&gt; (2) The Registrar may also suspend loans and acceptance of savings and deposits, after an examination or investigation under the Act. &lt;br&gt; (3) A general meeting shall be called when extension of loans and acceptance of savings and deposits is resumed.</td>
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34.(1) “Where a loan or any part of a loan has remained unpaid for more than ninety days in accordance with the agreed repayment schedule, the credit society shall cancel the loan with the shares, savings and deposits accepted as security for the loan, and shall proceed to collect on any other property pledged as security.

(2) If any amount remains unpaid after one year, it shall be written off and charged against the loan loss provision account.

(3) Payments received after a loan has been written off, shall be accounted as income.

(4) Credit societies shall provision their loan portfolio according to the following:

(a) 1 to 30 days in arrears = 10% of net outstanding balance at risk
(b) 31 to 90 days in arrears = 25% of net outstanding balance at risk
(c) 91 to 180 days in arrears = 50% of net outstanding balance at risk
(d) More than 180 days in arrears = 100% of net outstanding balance at risk
(e) All other current loans = 1% of net outstanding balance at risk”.

Net outstanding balance at risk is computed by deducting from the current loan balance the amount of shares a member of a credit society possess to secure the loan.

PART IX
FINANCIAL REPORTING

35. (1) The statements of accounts to be prepared by the management committee of all credit societies are a yearly balance sheet and a yearly income statement as of the last day of December.

(2) If the assets of the credit society exceed Tsh.100,000,000 (one hundred million shillings), a complete set of financial statements shall be prepared as of the last day of December, as prescribed in Tanzanian Financial Accounting Standards issued by the National Board of Accountants and Auditors.

(3) If the assets of the credit society exceed Tsh.200,000,000 (two hundred million shillings), a complete set of financial statements shall be prepared as of the last day of June and December.
(4) If the assets of the credit society exceed Tsh.500,000,000 (five hundred million shillings), a complete set of financial statements shall be prepared as of the last day of March, June, September and December.

(5) All credit societies shall send the financial statements to the Registrar, bearing the signature of a majority of members of the management and supervisory committees, not more than thirty days after the dates established in sub-regulations (1) to (4).

(6) Credit societies of sub-regulation (3) and (4) shall also send their financial statements to the Directorate of Microfinance of the Bank of Tanzania.

(7) The accounting principles to be followed in the preparation of the statements of accounts, are those established in accounting Regulations issued by the Bank of Tanzania for institutions engaged in microcredit activities.

36. (1) At the end of every three months, a list of all outstanding loans shall be made available for review by any member, showing with respect of every loan:
   a) Name of the member.
   b) Date of extension.
   c) Initial amount and the outstanding balance.
   d) Terms of repayment and interest rate.
   e) Amount of unpaid installments, if any.

   (2) The supervisory committee shall instruct the suspension of new loans when the list is not made available to the members, in the first week after the end of the applicable month.

37. (1) One or more passbooks or statement shall be used to record all transactions regarding shares, savings and loans of members.

   (2) All entries in the passbook shall be authorized by the designed member of the management committee or its authorized agent.

   (3) A member using the payroll deduction for payments of shares or loans shall present his passbook or statement to the designated member of the management committee or its authorized agent, at least quarterly.

   (4) A lost or destroyed passbook or statements shall be replaced with the prior payment of a replacement fee.

   (5) A credit society that conducts its business with the use of computers and other electronic means, shall establish their own procedures to keep their members informed as regards their
operations with the credit society.

PART X
AUDIT AND INSPECTION

38. (1) The statements of accounts of a credit society shall be audited at least once a year by an independent professional or a firm registered by the National Board of Accountants and Auditors and having a valid certificate of practice.
(2) The audit report shall include a section on compliance with loan accounting and provisioning guidelines established by Bank of Tanzania, as provided in regulation 35.
(3) The audit report shall certify the net surplus of the society, the amount that must be added to the capital reserve fund, share transfer fund, loan loss provision account and any other distributions as provided in regulation 41.
(4) The audit report shall certify the accuracy of the account of dividends due to each member, prepared by the management committee.
(5) A copy of the auditor’s report shall be presented to the Registrar, within three months after the end of the year.
(6) The Registrar shall recognize compliant credit societies through a special accreditation.

39. (1) Inspection and audit of credit societies as provided under section 12(1) and 48(3) of the Act, respectively shall be carried out as provided by the Act.
(2) Immediately after inspection or audit of a credit society, the representative of the Registrar or other duly authorized persons who conducted such inspection or audit, shall meet with the management committee to discuss conditions of the society and the need for any immediate action to be taken by the management committee to improve lending and other operations and to protect the interest of the members.
(3) A report of any discussion under section (2) shall be included in the inspection or audit report to be sent to the Registrar for such further action, as he may deem necessary.
PART XI
CANCELLATION OF REGISTRATION

Cancellation of registration

40. The registration of a credit society shall be cancelled as provided by the Act.

PART XII
DISTRIBUTION OF SURPLUS

Distribution of net surplus of a credit society

41 (1) When determining the net surplus made by a Credit Society, 30% of the annual net surplus shall be set-aside in the Capital Reserve Fund to enhance the share capital until the set capital adequacy standard is reached.
(2) At least 15% of the annual net surplus of a credit society shall be credited to the Loan Loss Provision Account.
(3) At least 15% of the annual net surplus of a credit society shall be credited to the Share Transfer Fund.
(4) The by-laws may provide for payment, before dividends are distributed, of an incentive bonus to employees in an amount that shall not exceed two times the monthly wages of each employee.
(5) The by-laws may provide for the use of a limited amount of the net surplus, to create a reserve fund for educational, charitable, social or service activity for members or for the community at large.
(6) Where sub-regulations (4) and (5) do not apply, the remainder of the annual net surplus shall be distributed as dividends among all members in proportion with the amount of shares held by each member during the year.