SHORT TITLE

1.- These regulations may be cited as the Financial Cooperative Societies Regulations 2004.

APPLICATION

2.- (1) These regulations shall apply to savings and credit cooperative societies incorporated under the Cooperative Societies Act 2003 or the Cooperative Societies Act No. 4 of 1986 of Zanzibar, engaged in accepting savings and deposits from their members for an amount that totals or is greater than 800,000,000 (Eight Hundred Million) shillings.

(2) These regulations shall also apply to any other savings and credit schemes with deposits of the amount specified in section (1), as provided in section 2 subsection (5) of the Banking and Financial Institutions Act, 1991 and amendments.

INTERPRETATION

3. In these Regulations, unless the context requires otherwise-
“the Bank” means the Bank of Tanzania

4. The savings and credit cooperative societies and schemes 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. For the observance of Regulations issued by the Bank, the term “financial institution” shall be applicable to these societies and schemes.
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 large-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.
9. (1) A savings and credit cooperative society whose volume of savings and deposits accepted from members have reached the amount established in Regulation 2, shall be required to apply to the Bank for a license to operate as a financial co-operative society.

(2) Every application for a license shall be in writing and shall include:

a) By-laws approved by the Registrar of Cooperatives showing that the savings and credit cooperative society has adopted or incorporated all necessary actions and provisions to comply with these Regulations.

b) Copy of lending and other administrative policies and internal procedures and controls manuals.

c) Audited financial information showing an adequate economic and financial situation and full compliance with rules and regulations applicable to savings and credit cooperative societies.

d) Documentary evidence that the members of the management and supervisory committees, the general manager and the senior officers that report directly to general manager and the internal auditor, fulfill the requirements established in the Banking and Financial Institutions Regulations 1997.

e) The approval of the General Meeting of a savings and credit cooperative society.

f) Such other information that the Bank may require.

(3) Upon receipt of the application, the Bank may require the cooperative society that has applied for a license to comply with any condition stipulated under Part II of the Banking and Financial Institutions Regulations, 1997.

(4) The Bank may issue a provisional license subject to fulfillment by the co-operative society, within six months following the date of application, of any condition necessary for grant of a license.

(5) Without prejudice to sub-regulation (1) of this regulation, all existing savings and credit co-operative societies whose total savings and deposits have surpassed the amount established in Regulation 2, shall continue to operate as such within a period of two years from the date of commencement of these regulations. Thereafter, the provisions of Regulation 12 shall apply.
10. (1) A Financial Cooperative must have a management committee and a supervisory committee, appointed by the general meeting in accordance with the provisions of cooperative law, rules and regulations.

(2) The management committee shall be responsible for establishing all operational and financial policies, as well as appointing a general manager and approving a management team responsible for all executive duties including the approval of loans and advances to members. The management committee shall have all the duties and responsibilities that the Banking and Financial Institutions Act 1991 and its regulations, assign to the board of directors.

(3) The supervisory committee shall appoint the internal auditor and shall have the duties and responsibilities of the auditing committee established in the Internal Control and Internal Audit Regulations, 2003.

(4) The members of the management and supervisory committees shall be subject to the sanctions and penalties established in financial and cooperative laws, rules and regulations.

11. (1) Prior to extending a license the Bank shall perform a complete examination of the financial condition of the applicant, its physical and technological infrastructure, the professional quality of the managers and the training of the personnel, particularly loan officers, as well as the accuracy and completeness of the documentation presented in the application process.

(2) Within ninety days after the receipt of the complete application, the Bank may grant the savings and credit cooperative society a license to operate as a Financial Cooperative or, where the application has been rejected, the grounds upon which the rejection is based. The issued license shall remain in force until revoked.

12. Subject to regulation 9(5), any existing savings and credit cooperative society that operates with deposits in excess of the amount established in regulation 2, without a license as a Financial Cooperative, shall be deemed to be engaged in banking business without being a financial institution and any such savings and credit cooperative society and its administrators and officers, shall be subject to the penalties established in section 49 of the Act.
PART IV
CAPITAL, RESERVES AND ACCOUNTS

13. (1) A Financial Cooperative shall maintain a core capital made up of members’ shares, 20% of retained net earnings and 10% of savings yearly until the capital reaches a minimum of Tshs.800,000,000 (Eight Hundred Million). (2) Provided that no less than one third of its members participate in general meetings, a Financial Cooperative shall be able to operate with a core capital and total capital at not less than 10% (Ten per centum) and 15% (Fifteen Percentum) respectively of its total risk weighted assets and off balance sheet exposure.
(4) Special purpose reserves such as education, social services, membership in secondary cooperative societies or others shall not be considered in the computation of the capital.

14. Sections 14 and 15 of the Act and its regulations are applicable to Financial Cooperatives.

15. Financial cooperatives shall comply with the provisions of Section 16 of the Act, as well as all regulations on these matters issued by the Bank save that with respect to publication, every Financial Cooperative shall, subject to these Regulations, post on the notice board at a normal place of business, information on the state of books of accounts and a summary statement of its financial position duly certified by the Auditor.

16. (1) The General Meeting of the Financial Cooperative shall approve the amounts of general and special purpose reserves, to be created from the annual surplus audited by an independent auditor in accordance to applicable regulations, as well as the amounts, if any, to be given to managers and employees as a bonus for their performance.
(2) Not less than 20% of the annual net surplus shall be dedicated to the creation of general reserves for unanticipated losses, which shall be accounted in capital accounts and included in the
calculation of the core capital.
(3) The remainder of the annual net surplus shall be distributed as dividends among the members, in accordance with Savings and Credit Cooperative Societies rules.

PART V
SUPERVISION, REGULATION, COORDINATION AND CONTROL

Supervision and Powers of the Bank

17. (1) Sections 17, 18 and 21 of the Act and its regulations are applicable to Financial Cooperatives.
(2) The Bank shall provide the Registrar of Cooperatives with a copy of its inspection reports. Any direct inspection activity by the Registrar shall be coordinated with the Bank.

Establishment of branches and investment in secondary societies

18. (1) For the establishment of branches, Financial Cooperatives shall comply with Part VII of The Banking and Financial Institutions Regulations, 1997 and have the approval of the members in a General Assembly.
(2) Branches shall be opened only on those locations where it is justified by the common bond established in the by-laws and approved by the Registrar of Cooperatives.
(3) Membership in secondary cooperative societies and apex organizations shall be financed only with funds arising from annual net surpluses that have been designated as special purpose reserves by the general meeting.

Ownership

19. No member of a Financial Cooperative shall hold more than 20% (twenty percentum) of outstanding shares, except when approved by the Bank to address a situation of financial distress.

Other events requiring prior authorization

20. (1) Financial Cooperatives shall observe the provisions of section 22 of the Banking and Financial Institutions Act, with the exception of paragraph (c) of subsection (1).
(2) The withdrawal by a member of the whole or any amount of shares shall have the prior authorization of the management committee.
(3) Management committee members will be personally responsible for authorizing a withdrawal of shares that causes the Financial Cooperative to fail to comply with any statutory limits related to capital accounts.
(4) Withdrawal of shares shall be subject to prior approval by the
Bank, whenever the cumulative total of withdrawals during any accounting exercise exceeds 10% of the shares outstanding at the starting date of such exercise.

PART VI
SPECIAL DUTIES OF FINANCIAL COOPERATIVES

21. Sections 30 to 36 of the Act and its regulations are applicable to Financial Cooperatives.

Cash reserves and liquid assets requirements

22. (1) Financial Cooperatives shall maintain minimum cash balances on deposit with the Bank as reserves against the deposit and other liabilities, as well as maintain liquid asset ratios established by the Bank for different kinds of deposits provided to observe reserve requirements stipulated in Bank of Tanzania Act, 1995 including those established in the Circular on Reserves Against Deposits and Borrowings, 1999 and the Liquid Assets Ratio Regulations, 2001. 
(2) Financial Cooperatives that fail to maintain the required assets as provided in section (1), shall be subject to penalty charges applicable to banks and financial institutions.

Information to be furnished to the Bank

23. (1) Financial Cooperatives shall comply with the presentation of information prescribed in the Circular for Financial Cooperatives on Instructions for Filling Reports under the Act and all other regulatory instruments prescribed by the Bank. 
(2) Financial Cooperatives that fail to comply with the information requirements shall be subject to the penalties prescribed in the Circular on Penalties for Late Submission of Statutory Reports/Returns, 1995.

Deposit Insurance Fund

24. All Financial Cooperatives shall observe and comply with the provision of Part V of the Act.

PART VII
RESTRICTIONS ON FINANCIAL COOPERATIVES
25. (1) Financial Cooperatives shall maintain preferential observance of the lending and operational restrictions and limits prescribed by the Microfinance Companies and Microcredit Activities Regulations 2003, and on issues not addressed in the Regulations shall observe the Credit Concentration and Other Exposures Limits Regulations, 2001 and other regulations issued by the Bank or provided by the Cooperative Societies Act, 2003, its rules and regulations.

(2) Financial Cooperatives that contravene these Regulations shall be subject to applicable fines as prescribed by subsection (4) of section 37 of the Act.

26. (1) Members of Financial Cooperatives may pledge their deposits in the Cooperative, in addition to any other assets or guarantees established in the loan policy of the Cooperative, as security for any loans and advances obtained from the Cooperative.

27. Section 38 of the Act and its regulations are applicable to Financial Cooperatives.

**PART VIII**

**LIQUIDATION**

28. (1) A Financial Cooperative shall obtain prior authorization of the Bank to engage in a process of voluntary liquidation.

(2) The Bank shall verify, before granting such authorization, whether the assets of the Financial Cooperative are sufficient to cover the payment of all the liabilities and the shares of the members.

29. (1) The Bank shall revoke the license and instruct the Registrar of Cooperatives to cancel the registration of any Financial Cooperative that becomes insolvent, under the definition of section 26 of the Act or the Microfinance Companies and Microcredit Activities Regulations 2003.

(2) The Bank may appoint the Board of the Deposit Insurance Fund as liquidator or instruct the Registrar of Cooperatives to proceed with the liquidation process as established in sections 100 through 119 of the Cooperative Societies Act, 2003.