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**PROJECT: SMALL ENTREPRENEURS LOAN FACILITY II (SELF II)**  
**COUNTRY: TANZANIA**

**PROJECT APPRAISAL REPORT**

*Date: March 2010*

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## Currency Equivalents

March 2010

1UA	=	TZS2080.06
1USD	=	TZS1338.35
1UA	=	USD1.55419

Fiscal Year

Tanzania: 01 July-30 June

## Weights and Measures

1 metric tonne (t)	=	2,205 lbs.
1 kilogram (kg)	=	2.205 lbs.
1 meter (m)	=	3.281 ft
1 foot (ft)	=	0.305 m
1 hectare (ha) = 0.01 km <sup>2</sup>	=	2.471 acres

## Acronyms and Abbreviations

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ADB	African Development Bank
ADF	African Development Fund
ASCAs	Accumulating Savings & Credit Associations
CBO	Community Based Organization
CPIA	Country Portfolio Implementation Assessment
DFID	Department for International Development
DP	Development Partner
EIRR	Economic Internal Rate of Return
ESIA	Environmental and Social Impact Assessment
EU	European Union
FBO	Faith Based Organization
FINSCOP	Financial Scope
FSDT	Financial Sector Deepening Trust
GOT	Government of Tanzania
JAST	Joint Assistance Strategy for Tanzania
MFIs	Microfinance Institutions
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Tanzania
MKUZA	Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Zanzibar
MTEF	Medium-Term Expenditure Framework
NEMC	National Environmental Management Council
NGO	Non Governmental Organization
NSGRP	National Strategy for Growth and Reduction of Poverty
RMCs	Regional Member Countries
ROSCA	Rotating Savings and Credit Association
RFP	Request for Proposals
RFSS	Rural Financial Services Strategy
SACCOS	Savings and Credit Cooperative Society
SELF	Small Entrepreneurs Loan Facility
TAMFI	Tanzania Association of Microfinance Institutions
TZFO	Tanzania Field Office
UA	Unit of Account
URT	United Republic of Tanzania

## Loan Information

### Client's information

**BORROWER:** GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA

**EXECUTING AGENCY:** MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

### Financing plan

Source	Amount (UA)	Instrument
ADF	20.00 million	Loan
GOT	2.00 million	counterpart funds
<b>TOTAL COST</b>	<b>22.00 million</b>	

### ADB's key financing information

Loan / grant currency	US\$/ Euro
Interest type	N/A
Interest rate spread	N/A
Commitment fee	0.5% (5 basis points)
Other fees	0.75% service charge
Tenor	600 Months
Grace period	120 Months

### Timeframe - Main Milestones (expected)

Concept Note approval	15 December 2009
Loan Negotiations	1 April 2010
Project approval	5 May 2010
Effectiveness	June 2010
Launching	July 2010
Last Disbursement	December 2015
Completion	June 2015

## **Project Summary**

*Project Overview:* SELF II comprises: (i) Financial Services; and (ii) institutional capacity building. The financing requirement for the project amounts to UA22 million. The components are to be financed through an ADF loan of UA20.00 million or 90% of the total cost. Government will contribute UA2.00 million or 10% in counterpart financing. The project will be implemented over a five year period. At completion SELF is expected to disburse to financial intermediaries 2,040 loans to be on lent to 0.82 million clients of whom 50% women in all regions of Tanzania and Zanzibar. In addition, the project is expected to strengthen the capacity of SELF, MFIs and MoFEA through training of approximately 21,000 staff members.

*Project Beneficiaries and Participation:* All districts of mainland Tanzania and Zanzibar (141) will be eligible to benefit from the proposed project, as long as the participating Microfinance Institutions fulfil the eligibility criteria stipulated in the project operations manual. The main beneficiaries of the project are the rural active poor. The project impact will include increased household income and reduced poverty among the target population. The Ministry of Finance and Economic Affairs will benefit from the institutional strengthening to enable it coordinate and oversee the microfinance sector.

*Project Rationale and Need:* In line with Rural Financial Services Strategy, the project will support economic and social development through the provision of financial services to underserved categories of the population. Recent studies found that Tanzania ranks lowest in the region on the ability of the population to access financial services. Only 7% of the population in Tanzania have access to any form of formal banking services while more than 54% of the population are totally excluded from accessing of financial services. Recent evidence shows that since 2006 the number of people accessing financial service shrank by almost 3%. In terms of the provision of financial services, banks and other formal financial institutions have a very low level of penetration in the rural areas, primarily driven by the fact that many of bank branches are located in urban areas.

In order to foster development of rural financial services delivery, the Government developed: (i) the 2004 National Microfinance Policy (NMP) which aims to establish a basis for evolution of an efficient and effective microfinance system that services the low-income segment of the society, and thereby contribute to economic growth and reduction of poverty; and (ii) the 2005 Rural Financial Services Strategy (RFSS - 2005-2009) which aims at improving the level of access to deepen financial services delivery for individuals, households and enterprises in the rural areas. The RFSS objectives are consistent with those of the National Strategy for Growth and Reduction of Poverty (NSGRP 2005/06-2009/10) or MKUKUTA/MKUZA under Cluster I and the Joint Assistance Strategy for Tanzania (JAST) and consistent with the Medium-Term Strategy of the Bank (2008-2012).

*Bank's Value Added:* The proposed intervention is building on the successful implementation of the ADF financed SELF I. The Bank intervention will address the gaps in the demand and supply side while taking SELF to higher level of institutional development and sustainability. In particular, Bank support will enable SELF to build the capacity and systems of MFIs to enable them graduate from infancy to intermediate and advance MFIs that can access finances from formal financial institutions through linkage banking. Moreover, SELF will complement other Bank financed projects in Tanzania such as CRDB bank and ACCESS Bank to enable these MFI access financial services. The proposed project also fits into the strategic mandate of the Bank in alleviating poverty and building human capital in Regional Member Countries (RMCs) while deploying its operational competences during implementation.

*Knowledge Management:* The project will enhance the knowledge of the staff of SELF, MoFEA, MFIs and target clients on financial management, accounting, micro-loan appraisal and management, etc. In addition, the project will invest on knowledge building through the conduct of beneficiary assessment studies; research and development of new products that respond to client's needs; innovation on financial service delivery in remote rural areas; outcome and impact assessment studies; etc. All publications produced by SELF will be shared with the Bank in order to have it circulated to similar operations in the RMCs. The finding and lessons learned will be also captured in OPEV and ORQR reports for wider dissemination.

## SELF II PROJECT RESULTS BASED-MATRIX

Hierarchy of Objectives	Expected Results	Reach	Performance Indicators	Indicative Targets Timeframe	Assumptions/Risks																
<p><b>Goal</b></p> <p>To contribute towards reducing income poverty in Tanzania.</p>	<p><b>Impact</b></p> <p>Increased household income</p>	<p><b>Beneficiaries</b></p> <p>National (all 141 Districts of Tanzania)</p>	<p><b>Impact Indicators</b></p> <p>Population below the poverty line.</p>	<p><b>Progress anticipated in long-term by 2015</b></p> <ul style="list-style-type: none"> <li>- Population below the poverty line reduced from 33.7% in 2010 to 19% by 2015</li> <li>- per capita income of clients increased from \$400 in 2010 to \$600 by 2015</li> </ul> <p><i>Source:</i> Household Budget Survey. National Bureau of Statistics.</p>	<p><b>Assumption statement:</b></p> <ul style="list-style-type: none"> <li>- Priority given to rural development maintained in the long run as the second generation of financial reforms are implemented.</li> <li>- Low and stable inflation</li> </ul>																
<p><b>Project Purpose</b></p> <p>To improve access to financial services to 820,000 active poor in rural areas.</p>	<p><b>Outcome</b></p> <ul style="list-style-type: none"> <li>- Deepened outreach and delivery of financial services to rural areas;</li> <li>- Employment creation;</li> <li>- Enhanced institutional capacity &amp; strengthened financial service delivery.</li> </ul>	<p><b>Beneficiaries</b></p> <p>0.82 Million clients' country wide.</p>	<p><b>Outcome Indicators</b></p> <ul style="list-style-type: none"> <li>- Growth of loan portfolio and quality;</li> <li>- permanent jobs created ;</li> <li>- Quality of Intermediaries loan portfolio.</li> </ul>	<p><b>Progress anticipated in medium term by 2014</b></p> <ul style="list-style-type: none"> <li>- Growth of loan portfolio from 20% to 30% and maintaining 95% repayment;</li> <li>- Jobs created increased from 136,000 to 1.23 million (50% women)</li> <li>- Intermediaries portfolio at risk improved from 7% to 5%;</li> <li>Operational Self Sustainability improved from 83% to 124%.</li> </ul> <p><i>Source:</i> SELFII Quarterly Progress Reports</p>	<p><b>Assumption statement:</b></p> <p><b>Risk (low)</b></p> <ul style="list-style-type: none"> <li>- Lack of funds for on-lending to end clients and capacity building</li> <li>- Lack of effective industry coordination and oversight.</li> </ul> <p><b>Mitigation strategy:</b></p> <ul style="list-style-type: none"> <li>- GoT to maintain provision of counterpart funding to SELF &amp; amalgamate the existing Youth &amp; Women funds to SELF. SELF to also consider attracting equity after transformation.</li> <li>- SELF II to support establishment of Microfinance Unit in the MOFEA to coordinate industry activities and provide oversight..</li> </ul>																
<p><b>Inputs/Activities</b></p> <p>1. Financial Services 2. Institutional Capacity building</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"><b>Source</b></td> <td style="width: 10%;"><b>UAM</b></td> <td style="width: 10%;"><b>%</b></td> <td></td> </tr> <tr> <td>ADF Loan</td> <td>20.00</td> <td>90.00</td> <td></td> </tr> <tr> <td>GOT</td> <td>2.00</td> <td>10.00</td> <td></td> </tr> <tr> <td><b>Total</b></td> <td><b>22.00</b></td> <td></td> <td></td> </tr> </table>	<b>Source</b>	<b>UAM</b>	<b>%</b>		ADF Loan	20.00	90.00		GOT	2.00	10.00		<b>Total</b>	<b>22.00</b>			<p><b>Outputs</b></p> <p>1- Intermediary MFIs and end clients served and loans issued;</p> <p>2- SELF, MoFEA &amp; intermediary MFI's staff trained; and</p> <ul style="list-style-type: none"> <li>- New loan products developed.</li> </ul>	<p><b>Beneficiaries</b></p> <p>0.82 Million clients' country wide.</p>	<p><b>Output Indicators</b></p> <p>1- Depth of outreach in terms of districts;</p> <ul style="list-style-type: none"> <li>- Number of MFIs and clients reached; -</li> </ul> <p>2- Number of SELF &amp; Intermediary staff trained and skills enhanced;</p> <ul style="list-style-type: none"> <li>- Number of products developed;</li> </ul>	<p><b>Progress anticipated in short term - by 2013:</b></p> <p>1.1- clients reached increased from 67,000 to 0.82 million of which 50% women;</p> <p>1.2- loans disbursed to financial intermediaries increased from 400 loans to 2,040 loans of which at least 50% for Women);</p> <p>2.1- Number of strengthened MFIs increased from 227 to 706;</p> <ul style="list-style-type: none"> <li>- Number of SELF, MoFEA &amp; MFI staff trained increased from 4,100 to 21,000 (at least 50% women);</li> </ul> <p>2.2- SELF loan products increased from 4 to at least 7.</p> <p><i>Source:</i> SELFII Quarterly Progress Reports</p>	<p><b>Assumption statement</b></p> <p><b>Risk (Medium)</b></p> <ul style="list-style-type: none"> <li>- Poor governance among Intermediary MFIs.</li> <li>- High financial illiteracy among of the population</li> </ul> <p><b>Mitigation strategies:</b></p> <ul style="list-style-type: none"> <li>- To strengthen MFIs capacity through training.</li> <li>- Increased sensitization and awareness raising of the population.</li> </ul>
<b>Source</b>	<b>UAM</b>	<b>%</b>																			
ADF Loan	20.00	90.00																			
GOT	2.00	10.00																			
<b>Total</b>	<b>22.00</b>																				

## Project Implementation Timeframe: SELF II

YEARS	2010												2011												2012												2013												2014																								
MONTHS	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	ACTION BY												
ACTIVITY																																																																									
<b>ADMINISTRATION</b>																																																																									
Appraisal: February 2010	█																																																												ADF/GOT												
Board Approval: May 2010	█																																																																								ADF
Loan Signature: May 2010	█																																																																								ADF/GOT
<b>Entry into Force: June 2010</b>	█																																																																								ADF
Project launching:	█																																																																								ADF/GOT
<b>IMPLEMENTATION</b>																																																																									
Implementation period	█												█												█												█												█												GOT												
Supervision Missions	█												█												█												█												█												ADF/GOT												
Mid-term Review	█												█												█												█												█												ADF/GOT												
Bank/Borrower PCR: Dec 2014	█																																																█												GOT												
<b>FINANCIAL SERVICES</b>																																																																									
Delivery of financial services	█												█												█												█												█												SELF												
<b>INSTITUTIONAL CAPACITY BUILDING</b>																																																																									
Procurement of goods SELF	█												█												█												█												█												GOT												
TA recruitment	█												█												█												█												█												GOT												
TA	█												█												█												█												█												GOT												

# **REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO TANZANIA FOR THE SMALL ENTREPRENEURS LOAN FACILITY II (SELF II)**

Management submits the following report and recommendation on a proposed loan of UA20.00 million to the United Republic of Tanzania to finance SELF II project.

## **I STRATEGIC THRUST AND RATIONALE**

### ***1.1 Project Background***

1.1.1 The Bank has been involved in supporting the microfinance sector in Tanzania since 2000 through the Small Entrepreneurs Loan Facility (SELF) Project. At completion, the project achieved its objectives of supporting intermediary Microfinance Institutions (MFIs) to better reach the rural poor and empower them for increased income generating opportunities. The project also increased the capacity SELF and Intermediary MFIs to continue to sustainably address the emerging demand for financing by micro entrepreneurs.

1.1.2 In particular, the project accomplished outstanding results such as: (i) Expanded microfinance coverage to 94 out of a total of 127 districts in 19 out of 26 regions of the United Republic of Tanzania compared to the planned coverage of 6 regions and 42 districts at appraisal; (ii) Deepened outreach of microfinance services to 60,016 clients of which 50% were women which created 136,000 jobs including 50% for women against 33,000 clients and 54,000 jobs anticipated at appraisal respectively; (iii) Strengthened the capacity of 186 MFIs (76% of them SACCOS) and enhanced the skills of 1,959 MFIs personnel instead of the 30 MFIs planned at appraisal; (iv) Facilitated the graduation of 28.2% of infant MFIs to medium and advanced stage and (v) Extended loans to 227 MFIs of which 82% are institutions based in peri-urban and rural areas; and disbursed 85% of outstanding loan fund while maintaining an average of 95% repayment rate; and (vi) increased per capita income of target clients by at least 50% compared to the 10% anticipated at appraisal. As at 30<sup>th</sup> June, 2009, SELF had received 636 applications worth TZS 61.4 billion (UA29.2 million) and had disbursed credit amounting to TZS 20.795 billion (UA9.9 million) for onward lending to a total of 227 MFIs. In addition, SELF generated cumulative interest income amounting to TZS 5.2 billion (UA2.5 million). This enables SELF to meet its operations cost and achieve Operational Self-Sustainability (OSS) ratio of 104% which is in line with industry standards.

1.1.3 In spite of these achievements, there remains a significant gap in terms of access to financial services, particularly in rural areas who are the underserved. More than 90% of the population do not access financial services while more than 56% are totally excluded. In addition, the microfinance institutions in the country have exhibited significant institutional weaknesses which hampered their ability to deepen outreach. This is compounded by the depth of financial illiteracy amongst the population (29%). The proposed support to SELF II, therefore, builds on the achievements of the previous phase, lessons learned (see section 2.8) and seeks to consolidate the capacity and outreach as well as deepen access to financial services by the rural poor. SELF II is designed to support: (i) the URT's second Generation of Financial Reforms which was designed to address enhanced access to financial services, reform Government-owned financial institutions, legal and judicial area, long-term investment and banking regulation and supervision.

## ***1.2 Project Linkages with Country Strategy and Objectives***

1.2.1 The National Strategy for Growth and Reduction of Poverty (NSGRP) or MKUKUTA (2005/06-2009/10) and the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP) or MKUZA (2005/06-2009/10) which are the second Poverty Reduction Strategy Papers recognize that lack of access to financial services is a constraint to reducing poverty, particularly among the rural population which constitutes more than 72.4% of the poor in Tanzania. Moreover, this segment of the population is not served by any commercial private sector financial institutions. The strategies under Pillar I on Growth of the Economy and Reduction in Income Poverty identify microfinance as one of the key operational targets for promoting sustainable and pro-poor growth. The above mentioned pillar supports pro-poor growth and poverty reduction and is fully in harmony with the Bank's Microfinance Policy and Strategy (2006) and the Medium Term Strategy 2008-2012 which promotes building inclusive financial systems and generating broad based employment.

1.2.2 The Bank's assistance strategy (CSP) aims at reinforcing two pillars of the poverty reduction strategy namely (i) promotion of growth, and (ii) improvement of life and social well-being. The CSP is fully aligned with the Joint Assistance Strategy for Tanzania (JAST) and the Joint Programme Document (JPD) for Tanzania covering the period 2006-2010. It emphasizes country ownership of development programmes aligned with national priorities. MKUKUTA and MKUZA identify microfinance as necessary to the attainment of social and economic development objectives. Both are consistent with the Bank's 2006 Microfinance Policy that has identified deepening the access of the poor and low income groups to inclusive and sustainable financial service as one of the major focus areas. The project falls under Pillar I and II of the CSP. See Annex A1: Tanzania's development agenda and donor support.

## ***1.3 Rationale for Bank Involvement***

1.3.1 The present project aims to address the gaps identified in the country regarding access to financial services amongst the poor and the underserved. In 2009, the Financial Sector Deepening Trust (FSDT) carried out a survey on the extent of access of financial services in Tanzania. This was a follow up to the similar survey carried out in 2006. The 2009 survey found that on the demand side, the financial sector landscape has not changed much and in some areas has worsened. Whilst growth in those accessing formal (banks) and semi-formal financial institutions rose by 3.3% and 2.2% respectively; 7.8% of clients in the informal sector dropped out of using any form of financing mechanism. Furthermore, the percentage of the population who are totally excluded from both formal and informal financial institutions has increased to 56% in 2009. The survey also revealed that: (i) the excluded youth (age 16-34) increased by 1.2 million (5.4% of adult population in 2009); and (ii) there is twice the number of men than women using the formal financial institutions and a third of both adult men and women remain outside the financial system altogether. Overall, only 12% of the population have access to financial services while in Kenya and Uganda the comparable rates are 23% and 18% respectively. The access in the rural areas is particularly weak with only 8.5% outreach by any form of financing.

1.3.2 On the supply side, in 2009, there were over 3,577 SACCOS with approximately 429,240 members. The informal savings and credit associations (*Village Savings and Loan Associations (VSLA)*) were 146 with a total membership of 4,197 (70% women), whereas the NGO-type MFIs were estimated to have 220,000 active borrowers. Banks accounted for 303 branches and 181 ATMs with a total of 2 million clients. In spite of the growth of the formal financial institutions there is evidence of market failure in the provision of financial services in Tanzanians. This is attributed to: (i) very low level of penetration of financial institutions; (ii) Most bank branches are located in urban areas and none of the existing institutions have a focused outreach strategy; and (iii) privatized banks have closed

many of their rural branches. This would require a holistic approach and alternative outreach model to financial inclusion.

1.3.3 Based on the results of the FSDT study, there is significant segment of the population which does not have access to financial services and who strive to actively reduce household poverty and contribute to economic growth. In this regard, the project addresses the chronic lack of access to financial services by the majority of Tanzania’s population in a two pronged approach which is: (i) long-term approach to improve the access of the rural poor to financial services. This will be achieved by bringing on board the “excluded” that are not served by the financial institutions through linkage banking; and (ii) replicating successful alternative home-grown models of intervention such as SELF.

## **1.4 Donor Coordination**

1.4.1 Development partners in Tanzania increasingly recognize the importance of ensuring deeper and sustainable access of the rural population to financial services in order to reduce poverty. The approach implies the delivery of various forms of financial services by a range of institutions to various categories of beneficiaries. At present, the microfinance industry in Tanzania is supported mainly by IFAD, DANIDA, Dfid, EU, GTZ, and AfDB.

1.4.2 The Financial Sector Deepening Trust is supported by several donors namely, Canada, Denmark Netherlands, Norway, Sweden and UK. Discussions with the FSDT indicated that the main goal of the programme is to support capacity building and developing new produces while also supporting dialogue on policy, legal and regulatory framework issues. The FSDT supports commercial banks and other financial institutions seeking to increase outreach by developing new and innovative products for microfinance markets and smaller-scale customers. IFAD also supports rural finance in the agriculture sector, marketing and value addition with strong focus on capacity building through the use of appropriate financial accounting systems, and the development of savings and lending products to match the needs of target clients.

*Table 1.4: Development Partners Financing in Microfinance and Areas of Focus*

<b>Development Partners</b>	<b>Funding in UA and Duration</b>	<b>Focus Area</b>
Canada, Denmark Netherlands, Norway, Sweden and UK	17 million (2007- 2012)	Capacity building
IFAD	57 million (2010-2012)	Rural finance, marketing and value addition with focus on capacity building.

1.4.3 SELF will continue its collaboration and strategic partners in order to set priorities, strategies, and approaches to the development of the microfinance sector and building synergies. Similarly, involvement of local leaders at regional administration levels, municipalities, district councils and local government authorities percolate the ownership down to rural areas. This would be achieved through effective promotional activities, sensitization and awareness raising of key stakeholders.

## **II PROJECT DESCRIPTION**

### **2.1 Project Objectives**

2.1.1 The overall goal of the Project is to contribute towards reducing income poverty in Tanzania. The objective of the proposed project is to improve access to financial services to 820,000 active poor in rural areas.

## 2.2 Components

2.2.1 The project will comprise of the following two components: (i) Financial Services; and (ii) Institutional Capacity Building. The following table presents the project components, expected outcomes and estimated cost per component. For details see Annex C1.

Component	Description, expected outcomes and budget allocation
1. Financial Services (FS)	<ul style="list-style-type: none"> <li>• SELF will use the eligibility criteria stipulated in the Credit Operations Manual (see annex B7), to provide funds to eligible MFIs based in the rural areas which target the underserved.</li> <li>• Expected outcomes will include: growth of loan portfolio to improve from 20% to 30%; clients reached will increase from 67,000 to 0.82 million (50% women). <i>UA 14.71 million</i></li> </ul>
2. Institutional Capacity Building (ICB)	<ul style="list-style-type: none"> <li>• Institutional Capacity Building will be demand driven and include both training and institutional support as need arises for SELF, MOFEA and intermediaries through tailor made training programs for skills and business development enhancement by credible service providers.</li> <li>• Enhance credit consumer education, financial literacy and sensitization and awareness raising of the population specifically targeting women and youth;</li> <li>• Develop and test new products and methodologies in service delivery (mobile banking, loan cards, micro-insurance, etc) which can reduce transaction costs and allow for a sustainable outreach of financial services to remote and low-density areas.</li> <li>• Strengthen industry wide M&amp;E functions and Management Information systems.</li> <li>• Expected outcomes will include: SELF will strengthen the capacity 706 MFIs and will build the knowledge and skills of 21,000 SELF &amp; MFI staff and clients of whom 50% will be women. <i>UA 7.29 million.</i></li> </ul>

## 2.3 Technical Solution Retained and Other Alternatives Explored

2.3.1 Project design considered three alternatives, namely:

*Table 2.3: Project alternatives considered and reason for rejection*

Alternatives	Brief Description	Reasons for Rejection
Conventional commercial banks	Use commercial banks to delivery financial services to the active poor in rural areas.	2009 FSDT/Finscope survey concluded that due to high levels of financial illiteracy, particularly in rural areas and amongst women, expansion in the banking industry will remain limited in the short and medium term. The formal financial institutions are not doing enough to attract the excluded groups which also include the Youth. As a result, there is need for alternative model which focuses on the excluded groups.
Direct lending to rural clients	SELF to directly retail loans to rural clients.	This would require large number of outlets in 141 districts and the costs involved in service delivery will be prohibitive.
Focus on Capacity building only.	Focus on building the capacity of microfinance institutions.	The FSDT, IFAD financed projects are focusing on capacity building, which will complement the proposed project.
Combining capacity building with credit delivery	Focus on capacity building sensitization and awareness raising before injecting financial services such as credit	SELF I proved that in a country with weak MFIs and high illiteracy levels among the population focus on capacity building before delivery of financial services is critical for the success of the intervention. This is the technical solution that has been retained.

## 2.4 Project Type

2.4.1 Public investment project.

## 2.5 Project Cost and Financing Arrangements

2.5.1 The total project cost is estimated at UA 22.00 million. These cost estimates are based on February 2010 prices. For the purpose of costing, all items have been priced in Tanzania Shilling and converted into UA at the exchange rate applicable for the month of February 2010. Price escalation has been calculated based on 5% annual rate of depreciation of foreign and local currency throughout the five-year implementation period.

2.5.2 The ADF instrument is a concessionary loan repayable in fifty (50) years, including a ten (10) year grace period and attracting a service charge of 0.75 percent per annum on the disbursed and outstanding balances of the loan. Commitment fee of 0.5 per cent per annum will be applied to the undisbursed portion, beginning to accrue 120 days after the signing of the loan agreement.

2.5.3 The project will be financed jointly by the ADF at UA 20.00 million (90%) and the Government at UA 2.00 million (10%) as shown in Table 2.5.3 ADF contribution will cover 100% of all foreign exchange costs and 71.4% of local costs. The Government will finance 28.6% of the local costs. The Fund will contribute to financing the financial services, technical assistance, training, goods, and part of the operating cost. For the List of Goods and Services see Annex B2.

Table 2.5.1 - Project Cost by Component (in millions)

COMPONENT	in TZS			in UA			%
	F.E	L.C.	Total	F.E	L.C.	Total	
I. FINANCIAL SERVICES DELIVERY	21,474.07	7,661.63	29,135.69	10.32	3.68	14.01	66.9
II. INST. CAPACITY BUILDING							
<u>Sub-Components</u>							
<i>Outreach and Monitoring</i>	3,178.23	1,731.59	4,909.82	1.53	0.83	2.36	11.3
<i>Capacity Building</i>	2,685.38	1,101.38	3,786.76	1.29	0.53	1.82	8.7
<i>SELF</i>	491.81	5,258.11	5,749.92	0.24	2.53	2.76	13.2
SUB-TOTAL COMPONENT II	6,355.42	8,091.08	14,446.50	3.06	3.89	6.95	33.1
BASE COST	27,829.49	15,752.71	43,582.20	13.38	7.57	20.95	100
PRICE ESCALATION	1,391.47	787.64	2,179.11	0.67	0.38	1.05	5.0
TOTAL PROJECT COST	29,220.96	16,540.34	45,761.31	14.05	7.95	22.00	100
Percentage of Total	63.9	36.1	100.0	63.86	36.14	100	

Table 2.5.2: Project Cost by Category of Expenditure (in millions)

CATEGORY	in TZS			in UA			%
	F.E	L.C.	Total	F.E	L.C.	Total	
<b>Component I: Financial Services</b>							
a) MISCELLANEOUS	21,474.07	7,661.63	29,135.69	10.32	3.68	14.01	66.9%
<b>Component II</b>							
<i>Outreach and Monitoring</i>							
b) TRAINING (SENSITIZATION)	840.20	391.76	1,231.96	0.40	0.19	0.59	2.8
c) TECHNICAL ASSISTANCE	2,338.03	1,339.83	3,677.86	1.12	0.64	1.77	8.4
SUB-TOTAL (Sub-Component A)	3,178.23	1,731.59	4,909.82	1.53	0.83	2.36	11.3
<i>Capacity Building for MFIs/SELF/MoFEA</i>							
b) TRAINING	2,201.18	875.61	3,076.79	1.06	0.42	1.48	7.1
c) TECHNICAL ASSISTANCE	484.20	225.77	709.97	0.23	0.11	0.34	32.6
SUB-TOTAL (Sub-Component B)	2,685.38	1,101.38	3,786.76	1.29	0.53	1.82	8.3
<i>SELF</i>							
d) EQUIPMENT	491.81	0.00	491.81	0.24	0.00	0.24	1.1
e) OPERATING COSTS	0.00	5,258.11	5,258.11	0.00	2.53	2.53	12.1
SUB-TOTAL (Sub-Component C)	491.81	5,258.11	5,749.92	0.24	2.53	2.76	13.2
BASE COST	27,829.49	15,752.71	43,582.20	13.38	7.57	20.95	100

PRICE ESCALATION	1,391.47	787.64	2,179.11	0.67	0.38	1.05	5.0
TOTAL PROJECT COST	29,220.96	16,540.34	45,761.31	14.05	7.95	22.00	100
Percentage of Total	63.9	36.1	100.0	63.9	36.1	100	

*Table 2.5.3: Sources of Finance (in UA million)*

	F.E.	%	L.C	%	Total	%
ADF	14.05	100.0%	5.95	74.8%	20.00	90%
GOVERNMENT	0.00	0.00	2.00	25.2%	2.00	10%
TOTAL	14.05		7.95	100.0%	22.0	100.0%
Percentage	63.9%		36.1%		100.0%	

*Table 2.5.4 Expenditure Schedule by Category of Expenditure and by Source of Finance (UA million)*

CATEGORY	EXPENDITURE/YEAR						
	2010/11	2011/12	2012/13	2013/14	2014/15	TOTAL	%
A. Credit Fund	8.82	0.00	5.88	0.00	0.00	14.71	66.9%
B. Training	0.17	0.61	0.61	0.61	0.18	2.17	9.9%
C. Technical Assistance	0.25	0.52	0.52	0.48	0.43	2.21	10.1%
D. Equipment	0.12	0.06	0.03	0.02	0.02	0.25	1.1%
E. Operating Costs	0.39	0.59	0.59	0.59	0.49	2.65	0.30
Project Cost	9.76	1.78	7.64	1.70	1.12	22.00	100.0%
Percentage of Total	44.4%	8.1%	34.7%	7.7%	5.1%	100.0%	

## ***2.6. Project's target area and population***

2.6.1 All districts of mainland Tanzania and Zanzibar (141) will benefit from the proposed project. The main beneficiaries of the project are 820,000 rural active poor of whom at least 50% will be women.

## ***2.7. Participatory Process for Project Identification, Design and Implementation, Including Active Participation of the Private Sector and Civil Society***

2.7.1 The proposed Project was conceived following a prolonged consultative process which culminated at the SELF December 2009 Annual General Meeting (AGM) which focused on "expanding outreach of financial services in rural areas." These forums brought together the government officials, MFIs/SACCOS, clients, development partners, representatives of the financial sector, business development service providers, and the media. The consultative meeting which was officially addressed by Minister for Finance and Economic Affairs came up with the following recommendations: (i) promoting the establishment of SACCOS which are instrumental in promoting saving culture; (ii) strengthening capacity of MFIs/SACCOS to deepen outreach of financial services; and (iii) providing leadership in order to enhance coordination and build the enabling legal and regulatory environment.

2.7.2 Following the restructuring of the Bank of Tanzania (BoT) the Rural Finance Department was closed and the bank shifted its focus to the supervision of only deposit taking financial institutions. This resulted in weak national level institutional oversight and coordination of the 3<sup>rd</sup> tier MFIs including SACCOS – non deposit taking MFIs. Moreover, the existing microfinance network - Tanzania Association of Microfinance Institutions (TAMFI) - is ineffective and could not play a leadership role in the industry. There is a consensus among key stakeholders, therefore, that through SELF support, the MoFEA should play a leadership role in promoting mechanisms for sustainable financial inclusion for all Tanzanians. As a result, the MOFEA is in the process of strengthening the Microfinance Unit in the Policy Analysis Department. The Unit will oversee, coordinate, and create conducive enabling environment for the industry to grow and effectively contribute to poverty reduction. Its main responsibility will include among others: (i) spearhead in close consultation with

other stakeholders the process of policy formulation and establishment of MFIs/SACCOS regulatory authorities; (ii) provide a platform that nurture industry level dialogue and coordination among key stakeholders; (iii) act as a focal point for the compilation of industry wide financial and socio-economic data and commission industry assessment studies in regular intervals; and (iv) prepare annual report on the State of the Microfinance Industry in Tanzania.

## 2.8 *Bank Group Experience, Lessons Reflected in Project Design*

2.8.1 Based on the Bank’s operational experience of implementing previous and on-going microfinance interventions in Tanzania and those of other development partners, the following are lessons that have been incorporated in project design:

*Table 8: Lessons learned and measures taken to integrate them in SELF II*

<b>Identified weaknesses</b>	<b>Measures taken to address them in SELF II</b>
Limitations imposed by the nature of a “Project” due to its short-term and limited life span.	Transform SELF to a self sustaining microfinance institution in the long run.
Weak market outreach particularly in rural areas,	SELF to replicate the unique model of combining credit with capacity building as it augments entrepreneurial capacity to deliver services which in turn increases client’s financial literacy and demand for financial services. SELF to develop and test innovative new products which are responsive to the needs of rural clients.
Weak Government oversight and Coordination	SELF to support strengthening: (i) the microfinance Unit in the MoFEA to oversee and coordinate the industry; and (ii) the capacity of TAMFI to advocate for and enhance coordination and networking among MFIs.

## 2.9 *Key Performance Indicators*

2.9.1 Output and outcome indicators have been identified for monitoring in the Results Based Logical Framework Matrix. The identified outcomes include growth of loan portfolio and level of repayment; employment opportunities created and per cent women, improvement in intermediaries’ portfolio at risk and improvements in the SELFs operational self sustainability The Tanzania Bureau of Statistics will be outsourced to collect socio-economic data at various intervals throughout project implementation as means of ensuring that the intended targets outputs and outcomes are achieved, new client friendly products developed.

## **III PROJECT FEASIBILITY**

### 3.1. *Financial Performance*

3.1.1 The SELF financial projections for the next 5 years (June 2009/10 – June 2014) are produced using Microfin Financial Modelling Tool version 4.10 (2009) on the basic assumption that SELF II project will continue from FY 2009/10 but transform into a corporate entity during project implementation. The basis for the projections is the current SELF project historical financial statements for the FYs 2006/07, 2007/08 and 2008/09.

3.1.2 Projected interest on loan portfolio received per annum will increase from TSZ 1.54 billion (UA0.734 million) at the end of the first year, to TSZ 4.55 billion (UA2.2 million) at the end of the second year, to TSZ 5.43 billion (UA2.6 million) at the end of the third year, to TSZ 7.06 billion (UA3.6 million) at the end of year four and TSHS 9.97 billion (UA4.6 million) at the end of the fifth year. This gives an average annual interest income growth of 57%. The project profitability trend continues from YR 2 through to YR 5 of project implementation.

3.1.3 Balance sheet projections show that SELF II's total assets will build up gradually from TZS 26.42 billion (UA12.7 million) at the end of the first year of projections to TZS 65.43 billion (UA31.5 million) by the fifth year of project implementation. This is mainly attributed to substantial growth in loan portfolio; short-term investments and increase in fixed assets as a result of new acquisitions for both HQ and Financial Hubs. No significant liabilities are projected and equity is expected to grow by 21% p.a. on the average. The cash flow projections (net change in cash and bank balances) is projected to a positive of TZS 0.67 billion (UA0.320) in year 1 to TZS 0.46 billion (UA0.221) by Year 5. Loan disbursements will constitute the most significant cash outflows. Substantial cash inflows will come from loan repayments: TZS.9.39 billion (UA4.5 million) in Year 1 to TZS 67.25 billion (UA32.3 million) in Years 5. Equally significant will be donated equity and income from short-term investments.

3.1.4 The table below provides a snapshot of the projected key financial performance indicators over the 5-Year period on an end of year basis. The growth in the loan portfolio and yield will significantly increase in the first year of operations due increase in disbursement of resource and attracting new clients. As operations stabilize, however, it is expected that an annual growth and yield on the portfolio will be maintained at approximately 30% and 20% respectively. SELF II is expected to continue controlling costs such that operating cost ratio is projected to improve from 14% in Year 1 to 12% by Year 5. The staff in both HQ and Financial Hubs will operate optimally such that the ratio of Credit Officers (COs) to total number of staff will be 17% by Year 5 which is in accordance with sound practices. On the average, borrowers per CO will be 31 on the average over the project implementation period. SELF II is projected not to suffer liquidity problems (insolvency).

*Table 3.1: SELF II Projected key performance indicators June 2009-June 2014*

<b>Growth and Outreach</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Growth in Loan Portfolio	65.64%	29.44%	28.98%	18.75%	27.82%
Number of Active Loans	805	1,042	1,344	1,596	2,040
<b>Efficiency and Productivity</b>					
Yield on Portfolio	21%	19%	20%	20%	20%
Operating Cost Ratio	14%	13%	14%	12%	12%
Borrowers per Credit Officer	30	32	30	31	30
Overhead percentage	100%	41%	37%	37%	31%
Credit Officers as a % of total staff	66%	62%	69%	72%	74%
<b>Portfolio Quality</b>					
Reserve Ratio	5%	5%	5%	5%	5%
Annualised Loan write-off ratio	1.8%	2%	1.3%	1.4%	1.7%
<b>Profitability</b>					
Operational Self-Sufficiency	83%	129%	114%	138%	129%
Financial Self-Sufficiency	36%	73%	62%	67%	73%
<b>Solvency</b>					
Equity Multiplier	1.0	1.0	1.0	1.0	1.0

*Source: Financial Projections*

## **3.2 Economic Performance**

3.2.1 The project will support at least 0.82 million end clients and create an average of 1.5 additional full time jobs in every new micro-enterprise established by the 2040 loans. This will lead to the creation of 1.2 million jobs. SELF partner MFIs that have accessed loans have experienced growth in terms of number of clients and mobilized savings and improved quality of their loan portfolio. MFIs gross profit margin, net profit margin and return on assets have consistently increased. The return on performing asset ratio shows that for every shilling that was loaned out to clients, the returns ranged from 10% to 47%. This impressive return is found to be much higher than commercial banks annual savings rates of 3%. The credit facility would inject 2040 loans to enable rural poor households tap financial resources and take advantage of potentially profitable investment opportunities. This is expected to: (i) create at least 1.23 million employment opportunities for rural clients, of whom 50%

are women, through the provision of loans and enhanced skills through training and business development services; (ii) bring about positive changes on business growth, high return on capital and increase their earnings as the loan size increased while the loan portfolio will grow by 55%; (iii) significantly increase household productive assets, earnings and returns on borrowed capital at market rate of interest; and (iv) increase household savings which will provide incentives to build up funds for investment or future household consumption. Overall, based on the operational outcomes of SELF I and SELF II, it is estimated that these enterprises will generate at least 75% average return on capital per enterprise. Annex B7 presents detailed: financial and economic analysis.

### **3.3 *Environmental and Social impacts***

#### **Environment**

3.3.1 The proposed project is category IV. This is justified on grounds that the project activity is the wholesaling of funds to financial intermediaries and no direct physical infrastructure investments are envisaged. The proposed project, therefore, will not require environmental and social mitigation measures. The National Environment Management Council (NEMC) is a collaborating partner with SELF, whose main role will be the development of guidelines and training of clients on project appraisal for funding especially in fragile environments and ecosystems.

#### **Gender**

3.3.2 The Government of Tanzania has made impressive strides in supporting women entrepreneurs, and its policies reflect a commitment to advancing women. The Tanzania MUKUKUTA includes actions for addressing gender inequalities, and the Development Vision 2025 sets the goal of redressing gender imbalances by 2025. While women in Tanzania tend to predominate in agriculture and trade and men predominate in manufacturing, construction, transport and finance, they are also engaged in lower-skilled positions and earn less, with the average monthly wage for a woman in manufacturing being 3.5 times smaller than a man's wage. Even though women make up about 43 percent of micro and small enterprises, generally female-owned businesses are smaller and have fewer employees than those of men.

3.3.3 The National Microfinance Policy recognizes that “access to financial services should be made available to both men and women,” and that in order to ensure gender equity, “it may be necessary to make special efforts to incorporate features that make the services accessible to all.” In that regard, the major constraint for women’s economic empowerment is identified as limited access to finance, limited access to training in business and financial management, as well as insufficient information on market opportunities. Therefore innovative programs which target women specifically will contribute greatly to increasing women's access to finance and economic empowerment. Experience also indicates that loans alone are not sufficient, and that training in financial and business management is very important for women who previously may not have been able to acquire these skills.

3.3.4 Recent studies show that there is twice the number of men than women using the formal financial institutions compared to 7% more women in the informal sector. The 2006 FINESCOP study shows however, that a third of both male and female adults remain outside the financial system. The most significant barrier to accessing the financial service industry is perceived to be low levels of education, particularly amongst women and in rural areas. To enhance positive benefits for women, therefore, the institutional capacity building component will support specialized training programs (financial management, delinquency management, interest rate setting, etc.) for women entrepreneurs and MFI staff.

## Social

3.3.5 Rural areas in Tanzania, though rich in agriculture and natural resources, have limited sources of cash income due to low employment opportunities and commodity prices owing to weather related exogenous factors such as droughts and floods. Among the direct and immediate economic benefits that will emanate from the project, however, are the creation of job opportunities and income generation for approximately 820,000 local entrepreneurs who will also employ an additional 410,000 unskilled and semi-skilled labour totalling 1.23 million. Taking into consideration the prevailing minimum wage in Tanzania of approximately UA68/month, the wage income generated will amount to about UA101/month by end of project implementation. This cash flow will increase the scale of enterprises operations as they mature and grow. It will predominantly circulate in the local economies resulting in other positive impacts at the household level such as improved health conditions, enhanced school attendance of children, improved food security and nutrition while significantly increasing the revenue base of local Governments.

## **IV IMPLEMENTATION**

### **4.1 Implementation Arrangements**

4.1.1 The proposed project will be implemented using the existing SELF institutional arrangements.

4.1.2 *Project Executing Agency* The Ministry of Finance and Economic Affairs (MoFEA) will be designated as the Project Executing Agency. The Microfinance Unit in the MoFEA will oversee the implementation of the Project.

4.1.3 *Project Steering Committee (PSC)*: SELF is headed by an 8 member Project Steering Committee (PSC). PSC is charged with the responsibility of overseeing overall policy and project management and implementation. The PSC chaired by the Deputy Permanent Secretary of the MoFEA will meet at least quarterly to: (i) provide oversight and formulate project policy; (ii) review and approve project operating procedure and practices; (iii) review and approve SELF annual work plans and operating budgets; (iv) review SELF quarterly progress reports; (v) review the annual audit reports; (vi) convene at the end of each project implementation year an Annual General Meeting of stakeholders; and (vii) review and decide on any other matters concerning the project.

4.1.4 *Small Entrepreneurs Loan Facility (SELF)*: SELF established in 2000, will be responsible for the day to day management of Project activities. SELF has a lean organizational set up based in Dar Es Salaam and has no regional offices. SELF is headed by a Manager supported by 10 professionals with adequate skills mix. These comprise of Financial Controller, Two Credit Officers, Capacity Building Officer, Monitoring and Evaluation Officer, Management Information Systems officer, Marketing and Outreach Officer and Accounts Assistant. In order to further strengthen institutional capacity, an Internal Auditor, Human Resources Officer and Executive Secretary will be recruited. SELF will wholesale loan funds to intermediaries such as SACCOs and MFIs at market interest rates applicable to the relevant loan product. The prevailing SELF interest rate structure is competitive. The processing of loans to intermediaries will be governed by the eligibility criteria which are stipulated in the Credit Operations Manual. In addition, SELF will outsource institutional and business development services from viable service providers' already available nation-wide in the private and public sector.

4.1.5 *The Financial Hubs*: Considering the geographical size of the country and the need to be closer to clients and deepen outreach, the project will establish two *Financial Hubs (FHs)* which shall be established at strategic locations with a catchment of several regions in year 2 and 4 of project implementation. This is primarily aimed to: (i) speed up processing of intermediary loan applications;

(ii) ensure close follow-up and enhance loan to enhance repayment; and (ii) contain operations cost. SELF will develop criteria for the selection of the locations of FHs and implementation arrangements. Each FH will be staffed with a Credit Officer, Administration and Logistics Officer and a Driver/Office Attendant. The FH will be responsible to: (i) closely liaise with SELF partner intermediary entities in the catchment region and closely follow-up on outstanding loans; (ii) solicit new applications from partner intermediaries and provide technical backstopping; (iii) undertake awareness raising and sensitization of both intermediaries and their clients on microfinance best practices; (iv) compile and assemble basic socio-economic data of partners in their catchment of regions; and (v) promote and market SELF financial products that the rural clients could access. This mechanism will accelerate outreach while supporting close follow-up and monitoring to ensure financial sustainability.

4.1.6 *SELF Governance Structure:* In line with the Government's financial sector reform program SELF will be transformed into an autonomous corporate entity to enhance efficiency and increased productivity and viability. SELF governance structure will comprise of: (i) a Board of Directors to be appointed by the Borrower - to replace the PSC - which will oversee the entity and provide policy and operational guidance; and (ii) the existing SELF management set up which will continue to play its original mandate. It is envisaged that the emerging entity will: (i) enjoy high degree of autonomy in managing its affairs and will be managed based on private sector principles and practices; and (ii) be institutionally context appropriate and customized to the Tanzania financial sector landscape to provide an alternative, but sustainable entity in the long run.

4.1.7 To effectively manage the transformation process, the project will adopt a gradual and flexible approach which builds on the lessons learned during the initial phase and industry best practices. The existing PSC will initiate and steer the transformation process with the aim of completing it by the 3<sup>rd</sup> year of project implementation. A new Board of Directors will be appointed by the Borrower comprising of adequate number of members which shall include representatives of each of the Ministries of Finance and Economic Affairs of Tanzania Mainland and Zanzibar; the Bank of Tanzania (BOT) and candidates from the private sector with integrity and proven track record in finance and banking. Given the demonstrated competence and efficiency during the implementation of SELF, the current management and staff of the project will be retained while providing remuneration commensurate to the prevailing market rates.

4.1.8 *Procurement Arrangements:* Procurement of goods and acquisition of consulting services financed by the Bank will be in accordance with the Bank's *Rules and Procedures for Procurement of Goods and Works* or, as appropriate, *Rules and Procedures for the Use of Consultants*, using the relevant Bank Standard Bidding Documents. Given the limited goods to be procured and in order to gain efficiency and economy, SELF will outsource procurement services to qualified private sector services providers. Annex B5 presents detailed project Procurement Arrangements.

Table 4.1 Summary Procurement Arrangements (UA million)

CATEGORIES	ICB	NCB	SHORTLIST	OTHER	TOTAL
<b>1.GOODS</b>					
Equipment					
1.1 Computers, office equipment, furniture				0.035 (0.035)	0.035 (0.035)
1.2 Four (4) Vehicles				0.168 (0.168)	0.168 (0.168)
1.3 MIS equipment				0.045 (0.045)	0.045 (0.045)
<b>2. SERVICES</b>					
2.1 Sensitization- Outreach and Monitoring				0.622 (0.622)	0.622 (0.622)
2.2 Training under capacity building				1.553 (1.553)	1.553 (1.553)
2.3 T.A. under Outreach and Monitoring			1.857 (1.857)		1.857 (1.857)
2.4 T.A. under capacity building			0.358 (0.358)		0.358 (0.358)
<b>3. MISCELLANEOUS</b>					
3.1 Financial services				14.708 (14.708)	14.708(14.708)

<b>4. Operating Cost</b>					
4.1 Operating Costs- SELF				2.654 (0.654)	2.654 (0.654)
<b>TOTAL</b>			<b>2.215 (2.215)</b>	<b>19.785 (17.785)</b>	<b>22.000(20.000)</b>

Shortlist applies to the use of consulting services. Others may be Shopping and Direct Contracting. Figures in parenthesis are financed by ADF.

4.1.9 Disbursement Arrangements: ADF loan resources will be deposited into two accounts: An Account for the Financial Services Component shall be opened by the Borrower at BOT. The Account will be replenished in two tranches upon satisfaction of the conditions associated with Bank's intervention; and Special Account (SA) specifically earmarked for the Institutional Capacity Building component at BOT. Upon request by the Borrower, Direct Payment method will be used to make payments directly to third parties in respect of goods or services already delivered to the Borrower or goods expected to be delivered, and for external audit services. In addition, the Borrower will open one Local Currency Account (LCA). Funds will be withdrawn from the SA to be deposited in the LCA to meet project expenditures. Expenditures should be committed to the items eligible under the loan and should cover a previously approved program of work and activities for a period of 4 months. Funds advanced under the Special Account shall be fully justified within a maximum of 12 months. The Special Account will be replenished from time to time on condition that the immediately preceding advance has been utilized and justified up to at least 50 percent and the other older advances have been fully justified.

4.1.10 In terms of fund flow, MFI's loan applications will be appraised by SELF based on eligibility criteria stipulated in the Credit Operations Manual. Upon disbursement of loan resources, the concerned intermediary will initiate on-lending loan resources to end clients whose applications were appraised based on criteria which include feasibility of the investment and its profitability. Transfer of funds to eligible MFIs is by the Electronic Funds Transfer (EFT) method to ascertain on authenticity of transaction before payment is effected. Upon maturity of the loan the intermediary MFIs/SACCOSs will repay the loan plus interest to a Repayment Collection Account (RCA).

4.1.11 Financial Management Reporting and Auditing: A detailed review of the financial management systems of SELF Project, by the Bank appraisal mission has concluded that the financial management and reporting systems in place are adequate. The Audit Committee and the IAU shall be instituted according to the respective Terms of References to provide internal control procedures over payroll, cash, movable assets and procurement and payments, among others. There is segregation of functions, particularly the following: authorization of transactions, recording the transaction, maintaining the assets register and the specification of authority limits on personnel. The staffing arrangements in the accounts departments are adequate for the Project's activities. The current fund flow arrangements that are assumed to be maintained are secure, efficient and helpful to the GoT. The current system of external audit arrangement for the project is acceptable; it provides reasonable assurance on auditor independence and quality of work. SELF Project will be responsible for the preparation and submission of disbursement applications. The Controller and Auditor General (CAG) or an external auditing firm appointed by the CAG and acceptable to the Fund will undertake annual audit of the project accounts. Certified copies of audited accounts will be submitted to the Bank by the MoFEA within six months after the end of each financial year.

## **4.2 Monitoring**

Monitoring and evaluation will be an integral part of the project. SELF management will assume overall responsibility and accountability for project monitoring and outcomes. SELF will report on all activities of the project, through compiling data on project outputs and results in an agreed format which will include gender disaggregated data; this will also include periodic performance reports. A mid-term assessment will be undertaken 2.5 years after the start of the implementation to provide for re-alignment as necessary. SELF will submit to the Bank Quarterly Project Progress Reports in accordance with the established format

covering all aspects of the project, within 30 days following the end of each quarter. In addition, due to the participatory demand-driven nature of the project, a client survey (largely using community monitoring tools) will be carried out prior to the mid-term review of the project in order to assess the beneficiary perceptions on the implementation of the project and its effects on the lives of the beneficiaries.

*Table 4.2 Monitoring Progress/Feedback loop*

<b>Timeframe</b>	<b>Milestone</b>	<b>Monitoring process / feedback loop</b>
5 May 2010	Loan approval	Bank
28 May 2010	Loan Signature	Bank/Borrower
June 2010	Loan effectiveness	Launching Mission & close follow-up by TZFO
July 2010	Commencement of implementation	SELF and Bank (OSHD/TZFO) to closely monitor project implementation through quarterly field visits and collection of socio-economic data to assess progress towards targets set in the logframe. Quarterly progress reports will also be prepared by SELF.
30 June in 2011, 2012, 2013, 2014, and 2015	Audit Report	Annual audit of project accounts will be prepared by the office of the Controller and Auditor General. In addition, SELF's Internal Audit Unit will closely monitor and control utilization of loan resources.
June 2015	Project completion	Bank and SELF to prepare a joint Project Completion Report (PCR).

### **4.3 Governance**

4.3.1 In cluster 3 of MKUKUTA the Government seeks to address Governance issues within the following broad outcomes: ensure good governance and rule; leaders and public servants are accountable to the people; democracy, political and social tolerance are deepening and peace stability, national unit are cultivated sustained. Recent figures show that Tanzania is making progress in addressing governance issues since 2008 when the Bank, through TZFO, has chaired the Development Partners Coordination Group on Governance. The peaceful conduct of the October 2009 elections was found commendable. A number of initiatives have taken place to address corruption such as National Governance and Corruption Survey, National Anti-Corruption Strategy and Action Plan Phase II (NACSAP II); and the Prevention and Combating of Corruption Bureau (PCCB). On the whole, the Government's governance agenda is comprehensive and well focused.

4.3.2 The BoT shifted its focus on the supervision of only deposit taking financial institutions. The MoFEA has, therefore, assumed the responsibility of establishing a regulatory framework for non-deposit taking institutions which include MFIs and SACCOS. SELF will support the MoFEA, through the provision of technical assistance to establish an independent Apex institution that will regulate and oversee the sub-sector.

4.3.3 As explained in section 4.1 SELF's governance structure is constituted of the following two key bodies with clear roles and responsibilities: the PSC – to be transformed to a Board of Directors - which provides policy guidance and operational oversight, and SELF Management Team responsible for the day-to-day management and administration of the business. The PSC is the highest authority in decision-making. It approves operational and business policies and supervises management. The PSC chaired by the Permanent Secretary of the MoFEA is comprised of public, private and industry representatives and enjoys high levels of independence with no interference from the Borrower. Following SELF restructuring, the new Board will have a sub-committee on Human Resources and Audit to enable discharge its function adequately. SELF is led by a Project Manager to become Chief Executive Officer with Masters Degrees in Agricultural Economics and Entrepreneurship and Enterprise Development with 15 year of experience as zonal Chief Operations Officer (COO) and National Microfinance Coordinator for the National Bank of Commerce and National microfinance Bank in Tanzania respectively. The CEO is supported by a lean competent Management Team most of

whom hold post-graduate degrees at Masters Level and possess significant experience in microfinance. These include competitively recruited Finance Controller, Capacity Building Officer, Monitoring and Evaluation Officer, two Loan/credit Officers and the Promotion and Marketing Officer. – see Annex B7.

4.3.3 The success of the initial intervention (SELF I) was primarily attributed to the continued Government non interference of SELF operations and strong leadership and oversight provided by the PSC; high level of competence and efficiency of the Management Team which demonstrated financial prudence and management and adherence to industry best practices. As a result, the Controller and Auditor General issued un-qualified opinion on all SELF Annual Statement of Accounts.

#### 4.4 Sustainability

4.4.1 SELF has defined a clear and sustainable exit strategy. Results from SELF PCR and analysis of its historical (2006/09) financial records show that SELF is already sustainable. The financial projections also indicate that SELF II project will earn sufficient revenue from financial income (interest income, commissions and fees) to cover its operating costs right from YR2. Its operating self-sufficiency (ability to meet the operating costs from its income) is projected to improve from 83% in Y1 to 129% in YR5, an overall average of 124% in the 5years of project implementation. With such performance it is conceivable that SELF will reach financial self-sufficiency (FSS relates to its ability to meet all its financial costs including inflation) of 73%.

4.4.2 The projections further indicate that in the first three years of project implementation, the loan portfolio will grow by about 75% p.a. on the average with a minimum loan repayment rate of 95%. By YR5, loan disbursements of TSHS.91.16 billion to 2,040 financial intermediaries (FIs) are projected. As a result, about 820,000 clients (4,100,000 beneficiaries) will access credit by project completion. SELF sustainability will also be assured by: (i) continued Government commitment to provide SELF adequate financial support; (ii) intensified sensitization and awareness raising of local communities and leadership; (iii) deepened outreach into rural areas; and (iv) transformation of SELF to corporate entity which will provide high degree of autonomy in managing its resources. The transformation of SELF to corporate entity is in line with the industry best practices.

#### 4.5 Risk Management

*Table 4.5: Potential Risk and Mitigating Measures*

Potential Risks	Risk Mitigation Measures
Lack of funds for on-lending to end clients and capacity building	GoT to maintain provision of counterpart funding to SELF. SELF to also consider attracting equity after transformation.
Lack of effective industry coordination and oversight.	SELF II to support establishment of Microfinance Unit in the MOFEA to coordinate industry activities and provide oversight.
Poor governance among Intermediary MFIs and financial illiteracy of the borrowers	Intensified training, sensitization and awareness raising of MFI staff and their clients.

#### 4.6 Knowledge Building

4.6.1 The project will enhance the knowledge of the staff of SELF, MoFEA, MFIs and target clients on financial management, accounting, micro-loan appraisal and management, etc. In addition, the project will invest on knowledge building through the conduct of beneficiary assessment studies; research and development of new products that respond to clients' needs; innovation on financial service delivery in remote rural areas; outcome and impact assessment studies; etc. All publications produced by SELF will be shared with the Bank in order to have it circulated to similar operations in the RMCs. The finding and lessons learned will be also captured in OPEV and ORQR reports for wider dissemination.

## V LEGAL INSTRUMENTS AND AUTHORITY

### 5.1. *Legal instrument*

An ADF loan to the United Republic of Tanzania will be used to finance this project.

### 5.2. *Conditions associated with the Bank's intervention*

#### A. *Conditions Precedent to Entry into Force of the Loan Agreement*

(i) The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the applicable provisions of section 12.01 of the *General Conditions Applicable to Loan Agreements and Guarantee Agreements of the African Development Fund*.

#### B. *Conditions Precedent to First Disbursement*

Section 5.01. Conditions Precedent to First Disbursement relating to the Institutional Capacity Building Component. The obligations of the Fund to make the first disbursement of the portion of the Loan relating to the Institutional Capacity Building Component of the Project (the "ICB Component") shall be conditional upon the entry into force of the Loan Agreement and the fulfilment by the Borrower of the following conditions:

- (i) The Borrower shall provide evidence, in form and substance satisfactory to the Fund, of having opened a foreign currency special account with BOT for the deposit of proceeds of the portion of the Loan required for the ICB Component (the "ICB Account"); and
- (ii) The Borrower shall provide evidence, in form and substance satisfactory to the Fund, of having opened a local currency account with a bank acceptable to the Fund for the transfer of funds from the ICB Account.

Section 5.02. Conditions Precedent to First Disbursement relating to the Financial Services Component. The obligations of the Fund to make the first disbursement of the portion of the Loan relating to the Financial Services Component of the Project (the "FS Component") in an amount of Eight Million Eight Hundred Twenty Four Thousand and Five Hundred and Three Units of Account (UA 8,824,503) shall be conditional upon the entry into force of the Loan Agreement and the fulfilment by the Borrower of the following condition:

- (i) The Borrower shall provide evidence, in form and substance satisfactory to the Fund, of having opened a foreign currency account with BOT for the deposit of proceeds of the portion of the Loan required for the FS Component (the "FS Account").

Section 5.03. Conditions Precedent to Second Disbursement relating to the Financial Services Component. The obligation of the Fund to make the second disbursement of the portion of the Loan relating to the FS Component in an amount of Five Million Eight Hundred Eighty Three Thousand and Two Units of Account (UA 5,883,002) shall be conditional upon the fulfilment by the Borrower of the following condition:

- (i) The Borrower shall provide evidence, in form and substance satisfactory to the Fund, that SELF transformation to a corporate entity has been completed by submitting the articles of incorporation, memorandum and articles of association.

### *C. Other Conditions*

Section 6.01. Under this Agreement, the Borrower undertakes:

- (i) To transfer to SELF all amounts disbursed to the Borrower under the Loan Agreement and to ensure that all such transferred amounts are utilized by SELF for the purposes set forth in the Loan Agreement;

### **5.3. Compliance with Bank Policies**

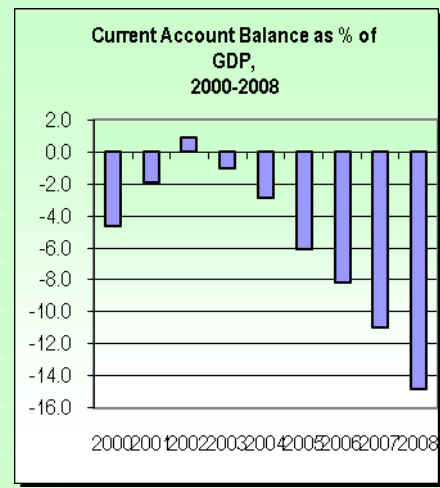
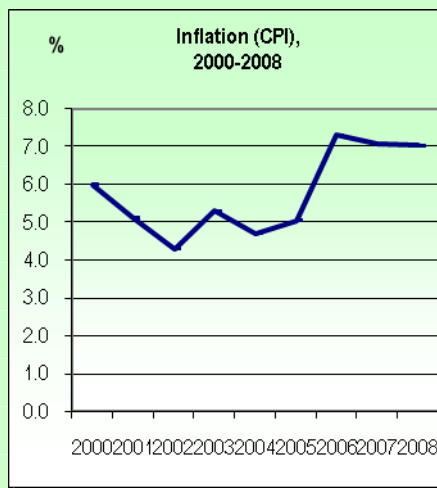
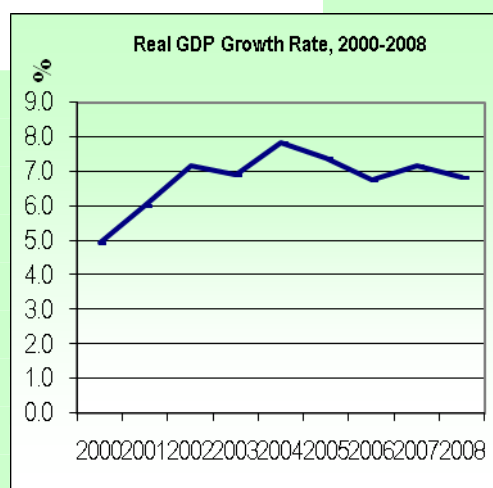
This project complies with Bank's microfinance policy which stipulates provision of inclusive microfinance service, capacity building and adherence to industry best practices.

## **VI – RECOMMENDATION**

Management recommends that the Board of Directors approve the proposed ADF loan of UA 20 million to the United Republic of Tanzania for the purposes and subject to the conditions stipulated in this report.

## APPENDIX I: Tanzania: Selected Macroeconomic Indicators

Indicators	Unit	2000	2003	2004	2005	2006	2007	2008
<b>National Accounts</b>								
GNI at Current Prices	Million US \$	9,139	10,965	12,003	13,082	13,811	16,181	...
GNI per Capita	US\$	270	300	320	340	350	400	...
GDP at Current Prices	Million US \$	10,185.8	11,659.1	12,825.9	14,142.0	14,331.2	16,825.5	18 345.7
GDP at 2000 Constant prices	Million US \$	9,066.5	11,008.0	11,869.7	12,744.5	13,603.1	14,575.5	15 571.1
Real GDP Growth Rate	%	4.9	6.9	7.8	7.4	6.7	7.1	6.8
Real per Capita GDP Growth Rate	%	2.4	4.2	5.1	4.7	4.1	4.5	4.3
Gross Domestic Investment	% GDP	16.8	19.2	22.6	25.1	27.6	29.6	32.4
Public Investment	% GDP	5.7	7.5	8.5	8.4	7.9	7.8	9.3
Private Investment	% GDP	11.2	11.7	14.0	16.7	19.7	21.8	23.1
Gross National Savings	% GDP	10.8	14.6	18.5	20.5	19.5	18.5	17.1
<b>Prices and Money</b>								
Inflation (CPI)	%	6.0	5.3	4.7	5.0	7.3	7.1	7.0
Exchange Rate (Annual Average)	local currency/US\$	800.4	1,038.4	1,089.3	1,128.9	1,251.9	1,245.0	1,194.3
Monetary Growth (M2)	%	14.8	18.0	13.5	34.8	21.5	20.5	8.6
Money and Quasi Money as % of GDP	%	17.1	23.0	22.6	26.6	28.8	29.7	30.8
<b>Government Finance</b>								
Total Revenue and Grants	% GDP	13.8	16.3	15.0	18.5	18.1	20.6	24.9
Total Expenditure and Net Lending	% GDP	15.2	17.6	19.3	21.7	23.1	25.0	24.9
Overall Deficit (-) / Surplus (+)	% GDP	-1.4	-1.3	-4.3	-3.2	-4.9	-4.0	0.0
<b>External Sector</b>								
Exports Volume Growth (Goods)	%	27.5	18.2	17.8	17.7	2.5	-6.6	6.9
Imports Volume Growth (Goods)	%	-3.0	0.1	9.5	9.0	3.4	19.1	12.6
Terms of Trade Growth	%	-3.8	-17.4	-12.2	-13.1	-10.7	17.7	-10.9
Current Account Balance	Million US \$	-469.6	-118.1	-366.7	-864.3	-1,171.6	-1,838.6	-2,713.3
Current Account Balance	% GDP	-4.6	-1.0	-2.9	-6.1	-8.2	-10.9	-14.8
External Reserves	months of imports	5.7	10.1	9.3	6.4	5.8	6.1	4.5
<b>Debt and Financial Flows</b>								
Debt Service	% exports	23.0	11.4	10.8	8.7	4.4	132.1	1.1
External Debt	% GDP	70.2	52.5	48.5	45.0	45.5	39.7	37.3
Net Total Financial Flows	Million US \$	1,184.4	1,640.3	1,779.4	1,666.8	1,980.2	2,343.3	...
Net Official Development Assistance	Million US \$	1,019.4	1,721.4	1,764.5	1,488.7	1,825.3	2,810.8	...
Net Foreign Direct Investment	Million US \$	216.0	308.2	330.6	567.9	521.7	599.5	...



Source: ADB Statistics Department; IMF: World Economic Outlook, September 2008 and International Financial Statistics, October 2008; ADB Statistics Department: Development Data Platform Database, April 2009. United Nations: OECD, Reporting System Division, January 2009.

Notes: Data Not Available

## APPENDIX II: Table of ADF Portfolio in Tanzania

Sector	Project Name	Approval	Signature	Effective	Net Commit. (UAm)	Disb. Amount (UAm)
Agriculture	District Agricultural Sector Investment	24-Nov-04	11-Feb-05	20-Jul-05	36.00	16.66
	District Agricultural Sector Investment	24-Nov-04	11-Feb-05	20-Jul-05	7.00	6.72
	Agriculture Sector Development Program	5-Sep-07	19-Nov-07	20-Feb-08	40.00	36.17
	Prog. D'Amenag. Lac Tanganyika	17-Nov-04	11-Feb-05	9-May-06	4.99	0.18
Agric. Sub Total					87.99	59.73
Multi-Sector	Crdb Bank Sme Partial Credit Guarantee F	22-Jul-08	0-Jan-00	0-Jan-00	0.00	0.00
	Crdb Bank Sme Partial Credit Guarantee F	5-Aug-08	5-Aug-08	5-Aug-08	0.64	0.00
Multi-Sect. Sub Total					0.64	0.00
Power	Electricity V	14-Dec-07	6-Mar-08	28-Nov-08	28.68	0.00
	Electricity V	14-Dec-07	6-Mar-08	0-Jan-00	1.32	0.00
Power Sub Total					30.00	0.00
Social	Program In Support Of Sec Edu Dev Plan	5-Sep-07	19-Nov-07	14-Mar-08	20.00	20.00
	Support to Strategic Action Plan for Vocational & Technical Education	9-Jul-03	15-Sep-03	16-Feb-04	14.22	8.12
	Support to Strategic Action Plan for Vocational & Technical Education	9-Jul-03	15-Sep-03	16-Feb-04	1.60	0.50
	Support To Maternal Mortality Reduction	11-Oct-06	29-Nov-06	5-Mar-07	40.00	7.95
Social. Sub Total					75.82	36.57
Transport	Roads Rehabilitation/Upgrading Project	3-Sep-01	28-Sep-01	5-Nov-01	38.65	15.57
	Roads Rehabilitation/Upgrading Project	3-Sep-01	28-Sep-01	0-Jan-00	3.76	3.76
	Zanzibar Roads Upgrading Project	9-Jun-04	24-Jun-04	5-Oct-04	16.22	9.04
	Zanzibar Roads Upgrading Project	9-Jun-04	24-Jun-04	5-Oct-04	0.71	0.25
	Singida-Babati-Minjingu Road Project	17-Sep-07	19-Nov-07	13-Feb-08	60.00	10.07
	Tanzania Road Sector Support Project	2-Dec-09	0-Jan-00	0-Jan-00	0.00	0.00
Transport Total					119.34	38.70
Water Sup/Sanit	Strategic Sanitation Plan	22-Nov-07	10-Apr-08	20-Nov-08	0.58	0.27
	Dar Es Salaam Water Supply & Sanitation	17-Dec-01	29-May-02	19-Nov-03	36.94	26.56
	Dar Es Salaam Water Supply & Sanitation	17-Dec-01	29-May-02	19-Nov-03	1.31	1.17
	Dar Es Salaam Water Supply & Sanitation	17-Dec-01	29-May-02	0-Jan-00	0.58	0.58
	Zanzibar Water And Sanitation Project	11-Nov-08	22-Dec-08	23-Jul-09	25.00	0.00
	Zanzibar Water And Sanitation Project	11-Nov-08	22-Dec-08	22-Dec-08	2.79	0.00
	Monduli District Water Project	27-Nov-03	10-Feb-04	10-Feb-04	15.51	14.62
	Rural Water Supply & Sanitation Program(	13-Sep-06	29-Nov-06	14-Mar-07	45.00	26.69
	Rural Water Supply & Sanitation Program(	13-Sep-06	29-Nov-06	14-Mar-07	10.00	10.00
WSS Sub Total					67.20	28.57
<b>Grand Total</b>					<b>380.99</b>	<b>163.58</b>

Source: SAP, OREA, March, 2010

Note: PP = Problematic Project, PPP = Potentially Problematic Project

### Appendix III: Map of the Project Area



Language: English  
Original: English



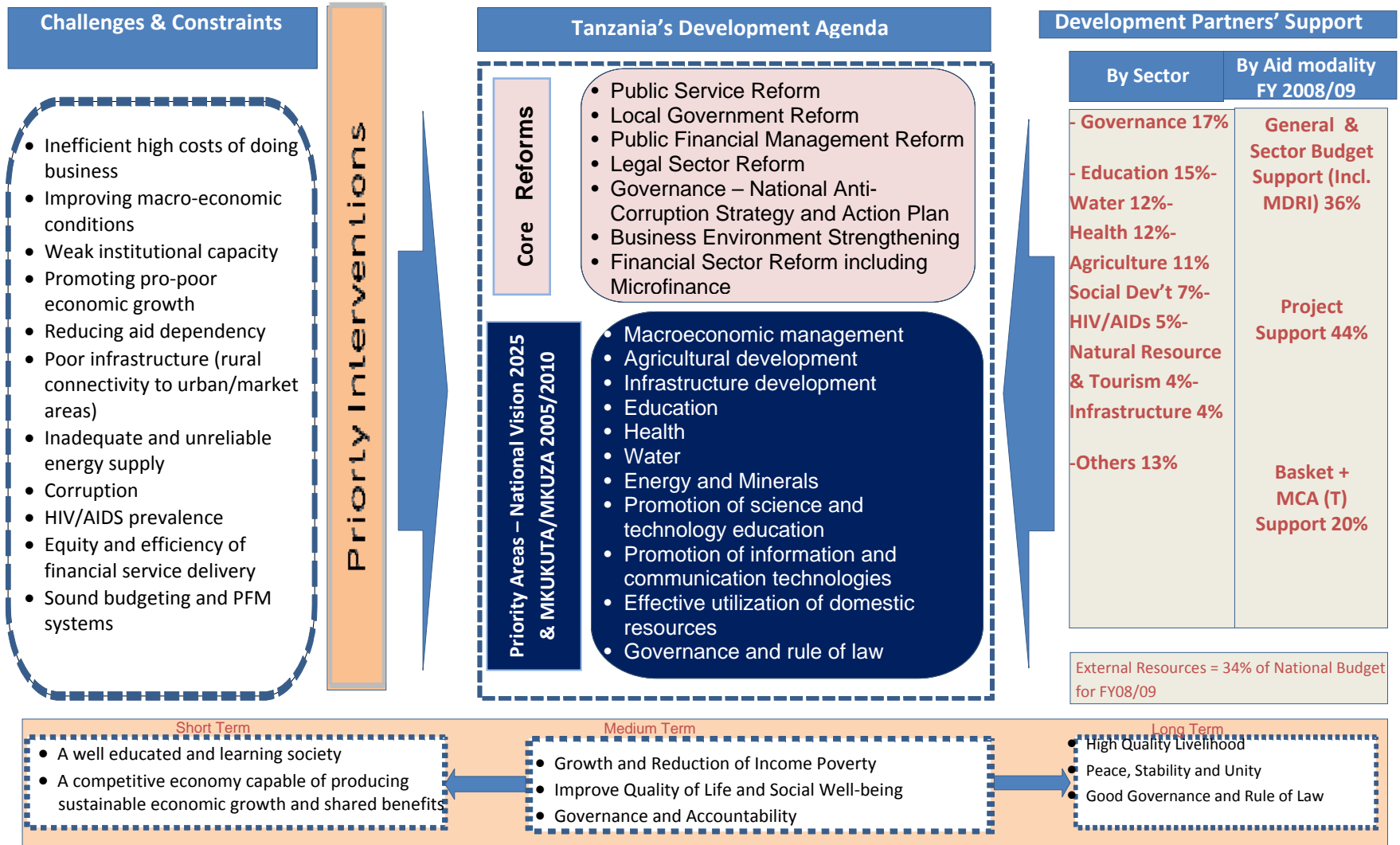
**PROJECT: SMALL ENTREPRENEURS LOAN FACILITY II (SELF II)**  
**COUNTRY: TANZANIA**

**TECHNICAL ANNEXES**

*Date: April 2010*

<b>Appraisal Team</b>	Team Leader: A. Yahie, Socio-economist, OSHD/KEFO Team Members: O. Leo, Social Sector Specialist, TZFO  Country Manager: S Moyo Sector Manager: S. Pitamber Sector Ag. Director: T. B. Ilunga Regional Director: D Gaye
<b>Peer Reviewers</b>	J. Cunha, Economist, OSHD. C. Muthuthi, Financial Economist, OSGE G. Kyokunda, Investment Specialist, OPSM N. Toure-sy, Microfinance Specialist, OSAN

# Tanzania's Development Agenda and Development Partner's Support Annex I



## **TECHNICAL ANNEX A**

### **SECTOR BRIEF**

Financial services make it possible for households to take full advantage of business opportunities, respond adequately to unexpected shocks, leverage assets, and transfer resources safely. While access to high quality and diverse financial services is key to sustained economic growth, the design and mode of delivery of the financial services are instrumental in inducing participation of all segments of the population. Tanzania is now implementing its Second Generation Financial Reforms (2006-2011), which like in the first reforms, embraces financial inclusion so as to build a vibrant microfinance industry which accommodates a wider participation. Thus, with regards to the microfinance industry, the reforms have:

- Developed and adopted the microfinance policy in 2000
- Developed a legal framework for microfinance operations which is accommodated in the Financial Laws (Miscellaneous amendment) Act of 2003
- Created apex organizations for microfinance institutions and SACCOS including TAMFI and SCCULT

### **2. Demand for Microfinance services**

The Government of Tanzania has been supportive of the microfinance industry and it clearly views microfinance as an important tool for successful implementation of MKUKUTA. The financial sector has undergone major changes from the originally state-owned and controlled system to a liberalized financial sector. Principal elements of reform included market interest rates, restructuring of state-owned financial institutions, allowing entry of local and private banks into the market, and strengthening of Savings and Credit Cooperative Societies (SACCOs) as grass root providers of financial services.

These far-reaching reforms have assisted to diversify the microfinance industry. However, despite the progress, Tanzania's microfinance industry remains relatively young, yet at the nascent stage (Finscope Survey 2006). The report reveals that access to financial services is extremely low. The study confirms a large segment 54% of the adult population (45% of urban, 57% of rural) has no access at all to financial services, either formal or informal. Only 9% has a formal bank account (use formal financial services) (11% men, 5% women, 16% urban and 4% rural). 2% has access to semi-formal finance (NGOs, SACCOs) and 35% has access to informal finance like ROSCAs / ASCAs and moneylenders. The data shows a significant informal market, also reveals the substantial gap between the urban and rural populations. The vast number of people using the informal market represents future customers who may be open to learning about the advantages of having formal financial services as well as being given the ability to access them. Beyond loans and savings, financial literacy is close to nil.

On the supply side, the principal providers of financial services to poor and low income households in Tanzania consist of licensed commercial banks, regional and rural unit financial

institutions, SACCOS and several local and international NGOs. By December 2006, there were over 3,500 SACCOS with approximately 420,000 members. The informal savings and credit associations (*Village Savings and Loan Associations (VSLA)*) were 158 with a total membership of 4,552 (70% women) whereas the Non Cooperative and Cooperative MFIs were estimated to have 200,000 active borrowers. The total bank assets stood at Tshs. 6.6 Trillion, total customer deposits amounted to Tshs. 5.3 Trillion, with Tshs. 2.4 Trillion outstanding in loans and advances. The sector counted 294 bank branches and 176 ATMs, and employed 6,400 Tanzanians. The bank figures show, there is excess liquidity in the formal banking sector but the Government has been continuously reducing the level and volatility of T-bill yields to further encourage lending to the productive sectors as well as product innovations (e.g. unsecured loans, mortgage finance, leasing) for wider needs coverage.

The Tanzanian rural community is increasingly underserved by the fact that the banks are commercial oriented and largely operate in urban areas. The non Co-operative and Co-operative MFIs microfinance players are credit-driven and mainly based in urban areas and peri urban. Compared to other institutions, SACCOS have a better rural coverage as about 60% of them can be classified as rural and 40% as urban. However, the institutional capacity of most SACCOS in Tanzania is weak, with insufficient full-time staff; weak capacity to provide training to functionaries; inadequate record keeping systems and appropriate facilities. The majority of rural-based SACCOS are very small in terms of membership, savings and therefore loan portfolio. Sustainability of such stand-alone rural SACCOS needs strengthening, due to sparse population, limitations in infrastructure (roads, power, and communication); subsistence economy with limited business accentuated by seasonality and difficult loan diversification thus high risks.

The share of external resources in Tanzania decreased from 42% in FY 2007/08 to 34% in FY 2008/09 mainly due to the increase in domestic resources and Government's desire to finance all recurrent expenditures with domestic resources. The external resources by donor for FY 2008/09 show that, the World Bank is the largest donor providing 27%, followed by the AfDB and DfID each providing 15% and 13%, respectively. The EU and the Netherlands are the fourth and fifth largest donors accounting for 7% and 6% respectively. Norway, Denmark and Sweden each contributed 5% of the external resources in FY 2008/09; Canada and Ireland provided 4% each; and Germany and Japan provided 3% and 2%, respectively. The rest (Finland, Switzerland, Belgium, USA, UN-system and OPEC Fund) contributed 6%.

In line with the national development agenda (MKUKUTA/MKUZA 2005-2010 and National Vision 2025), the Government of Tanzania is according priority to sectors of economic infrastructure and social services. In FY 2008/09 the six sectors under the umbrella of economic infrastructure and social services were allocated about 59% of the total budget. The sectors are education 20%, infrastructure 14%, health 11%, agriculture 6%, energy and minerals 5% and water 3%.

The Government of Tanzania continues to put more emphasis on macro-economic management to accelerate economic growth which is a pre-condition for poverty reduction and improving the social wellbeing of the Tanzanian population. Strengthening the public financial management

systems and processes, good governance and accountability in order to ensure that public resources are effectively and efficiently utilised and managed, as well as ensuring rule of law are high on the agenda. The Government also continues to maintain good relations with its development partners and seeks their support for the Tanzania development agenda, while at the same time striving to widen its domestic revenue base and gradually reducing aid dependency.

## TECHNICAL ANNEX B1

### LESSONS LEARNED

*Table B1.1: Lessons Learned and Reflected in Project Design*

Project	Intervention Areas	Lessons Learnt	Remarks on how lessons are mainstreamed into the SELF Project
SELF (1999-2007)  UA 8 million  (completed)	Financial services  Outreach and monitoring  Sensitization & awareness raising  Capacity Building	(i) Limitations imposed by the nature of a “Project” due to its short-term and limited life span.  (ii) Weak market outreach particularly in rural areas, and  (iii) Weak Government oversight and Coordination	<p>(i) Transform SELF to a self sustaining microfinance institution in the long run.</p> <p>(ii) SELF to replicate the unique model of combining credit with capacity building as it augments entrepreneurial capacity to deliver services which in turn increases client’s financial literacy and demand for financial services. SELF to develop and test innovative new products which are responsive to the needs of rural clients. These would include micro-insurance in health, weather, funeral as well as targeted products for groups such as unemployed graduates from VETA institutions and the Youth Street Venders known as Machingas; and</p> <p>(iii) SELF to support strengthening: (i) the microfinance Unit in the MoFEA to provide oversee and coordinate the industry; and (ii) TAMFI.</p> <p>In general the SELF benefited from the lessons learned of the Uganda Rural Microfinance Support Project which has gone through a successful transformation to a corporate entity.</p>

## TECHNICAL ANNEX B2. Project Costs

*Table B2.1: Provisional List of Goods and Services*

COMPONENT	ADF LOAN			GOT		TOTAL			%	%	%
	F.C.	L.C.	Total	L.C.	Total	F.C.	L.C.	Total			
<b>GOODS</b>											
Computers & accessories	0.016	0.000	0.016	0.000	0.000	0.016	0.000	0.016	6.6	100.0	0.0
Photocopier	0.004	0.000	0.004	0.000	0.000	0.004	0.000	0.004	1.7	100.0	0.0
Vehicles	0.160	0.000	0.160	0.000	0.000	0.160	0.000	0.160	67.7	100.0	0.0
Office Furniture	0.010	0.000	0.010	0.000	0.000	0.010	0.000	0.010	4.2	100.0	0.0
Fax machine	0.001	0.000	0.001	0.000	0.000	0.001	0.000	0.001	0.5	100.0	0.0
Air conditioners	0.003	0.000	0.003	0.000	0.000	0.003	0.000	0.003	1.2	100.0	0.0
MIS Equipment	0.043	0.000	0.043	0.000	0.000	0.043	0.000	0.043	18.1	100.0	0.0
<b>TOTAL GOODS</b>	<b>0.236</b>	<b>0.000</b>	<b>0.236</b>	<b>0.000</b>	<b>0.000</b>	<b>0.236</b>	<b>0.000</b>	<b>0.236</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>
<b>SERVICES</b>											
<b>Training-Sensitization</b>											
Local leaders Sensitization	0.096	0.045	0.141	0.000	0.000	0.096	0.045	0.141	23.7	100.0	0.0
Promotional materials	0.084	0.039	0.123	0.000	0.000	0.084	0.039	0.123	20.7	100.0	0.0
MFIs Institutional Support	0.156	0.073	0.228	0.000	0.000	0.156	0.073	0.228	38.5	100.0	0.0
Radio TV documentaries	0.069	0.032	0.101	0.000	0.000	0.069	0.032	0.101	17.0	100.0	0.0
<b>Sub-Total</b>	<b>0.404</b>	<b>0.188</b>	<b>0.592</b>	<b>0.000</b>	<b>0.000</b>	<b>0.404</b>	<b>0.188</b>	<b>0.592</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>
<b>Training-CB</b>											
Study tours	0.222	0.067	0.289	0.000	0.000	0.222	0.067	0.289	19.5	19.5	0.0
International Courses	0.222	0.067	0.289	0.000	0.000	0.222	0.067	0.289	19.5	19.5	0.0
National W/shop	0.138	0.064	0.203	0.000	0.000	0.138	0.064	0.203	13.7	13.7	0.0
MFIs Personnel Training	0.168	0.078	0.246	0.000	0.000	0.168	0.078	0.246	16.6	16.6	0.0
Beneficiaries	0.258	0.120	0.378	0.000	0.000	0.258	0.120	0.378	25.6	25.6	0.0
BDS training	0.051	0.024	0.074	0.000	0.000	0.051	0.024	0.074	5.0	5.0	0.0
<b>Sub-Total Training CB</b>	<b>1.058</b>	<b>0.421</b>	<b>1.479</b>	<b>0.000</b>	<b>0.000</b>	<b>1.058</b>	<b>0.421</b>	<b>1.479</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>
<b>TA Out. &amp; Monitoring</b>											
Loan products Review study	0.027	0.013	0.040	0.000	0.000	0.027	0.013	0.040	2.2	100.0	0.0
Develop & test new products	0.032	0.015	0.047	0.000	0.000	0.032	0.015	0.047	2.7	100.0	0.0
SELF Transformation Study	0.042	0.020	0.062	0.000	0.000	0.042	0.020	0.062	3.5	100.0	0.0
Baseline Survey	0.039	0.018	0.057	0.000	0.000	0.039	0.018	0.057	3.2	100.0	0.0
Conduct BA Survey	0.058	0.027	0.086	0.000	0.000	0.058	0.027	0.086	4.8	100.0	0.0
Proj. Monit. and Reporting	0.043	0.020	0.063	0.000	0.000	0.043	0.020	0.063	3.6	100.0	0.0
Stra. Ann.perf. Review	0.054	0.025	0.080	0.000	0.000	0.054	0.025	0.080	4.5	100.0	0.0
Impact Assessment	0.039	0.018	0.057	0.000	0.000	0.039	0.018	0.057	3.2	100.0	0.0
Dissemin.of Research Results	0.027	0.013	0.040	0.000	0.000	0.027	0.013	0.040	2.2	100.0	0.0
Midterm Review	0.016	0.008	0.024	0.000	0.000	0.016	0.008	0.024	1.3	100.0	0.0
PCR	0.016	0.008	0.024	0.000	0.000	0.016	0.008	0.024	1.3	100.0	0.0
Loan appraisal and Follow-up	0.613	0.286	0.900	0.000	0.000	0.613	0.286	0.900	50.9	100.0	0.0
Annual General Meeting	0.085	0.129	0.214	0.000	0.000	0.085	0.129	0.214	12.1	100.0	0.0
PSC Quartely Meetings	0.031	0.045	0.076	0.000	0.000	0.031	0.045	0.076	4.3	100.0	0.0
<b>Sub-Total TA Out and M&amp;E</b>	<b>1.124</b>	<b>0.644</b>	<b>1.768</b>	<b>0.000</b>	<b>0.000</b>	<b>1.124</b>	<b>0.644</b>	<b>1.768</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

<b>TA Capacity Building</b>											
Institutional support to MoFEA	0.151	0.070	0.221	0.000	0.000	0.151	0.070	0.221	64.7	100.0	0.0
Training Needs Assessment	0.033	0.015	0.048	0.000	0.000	0.033	0.015	0.048	14.0	100.0	0.0
Project annual audit	0.028	0.013	0.041	0.000	0.000	0.028	0.013	0.041	12.0	100.0	0.0
Retention of Legal Consel	0.021	0.010	0.031	0.000	0.000	0.021	0.010	0.031	9.2	100.0	0.0
<b>Sub-Total TA CB</b>	<b>0.233</b>	<b>0.109</b>	<b>0.341</b>	<b>0.000</b>	<b>0.000</b>	<b>0.233</b>	<b>0.109</b>	<b>0.341</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>
<b>TOTAL SERVICES</b>	<b>2.819</b>	<b>1.362</b>	<b>4.181</b>	<b>0.000</b>	<b>0.000</b>	<b>2.819</b>	<b>1.362</b>	<b>4.181</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>
<b>MISCELLANEOUS</b>											
<b>Credit Fund</b>	<b>10.324</b>	<b>3.683</b>	<b>14.007</b>	<b>0.000</b>	<b>0.000</b>	<b>10.324</b>	<b>3.683</b>	<b>14.007</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>
<b>Operating Cost-SELF</b>											
Salaries-HQ	0.000	0.412	0.412	1.260	1.260	0.000	1.672	1.672	66.1	16.3	49.8
Salaries-FH 1	0.000	0.032	0.032	0.097	0.097	0.000	0.128	0.128	5.1	1.3	3.8
Salaries-FH II	0.000	0.011	0.011	0.032	0.032	0.000	0.043	0.043	0.3	0.4	1.3
Pension 15%	0.000	0.068	0.068	0.208	0.208	0.000	0.276	0.276	10.9	2.7	8.2
Communication	0.000	0.017	0.017	0.051	0.051	0.000	0.068	0.068	2.7	0.7	2.0
Fuel	0.000	0.020	0.020	0.062	0.062	0.000	0.082	0.082	3.2	0.8	2.4
Vehicle and Equipment maintenance	0.000	0.016	0.016	0.049	0.049	0.000	0.065	0.065	2.6	0.6	1.9
Motor Vehicle Insurance	0.000	0.008	0.008	0.023	0.023	0.000	0.031	0.031	1.2	0.3	0.9
Office Supplies	0.000	0.003	0.003	0.010	0.010	0.000	0.013	0.013	0.5	0.1	0.4
Electricity & Ulilities	0.000	0.003	0.003	0.010	0.010	0.000	0.014	0.014	0.5	0.1	0.4
Office Rent	0.000	0.029	0.029	0.089	0.089	0.000	0.118	0.118	4.7	1.1	3.5
Bank charges	0.000	0.005	0.005	0.014	0.014	0.000	0.018	0.018	0.7	0.2	0.5
<b>Sub-Total OC</b>	<b>0.000</b>	<b>0.623</b>	<b>0.623</b>	<b>1.905</b>	<b>1.905</b>	<b>0.000</b>	<b>2.528</b>	<b>2.528</b>	<b>100.0</b>	<b>24.6</b>	<b>75.4</b>
<b>MISCELLANEOUS</b>	<b>10.324</b>	<b>4.306</b>	<b>14.630</b>	<b>1.905</b>	<b>1.905</b>	<b>10.324</b>	<b>6.211</b>	<b>16.535</b>	<b>2.000</b>	<b>1.246</b>	<b>0.754</b>
<b>Base Cost</b>	<b>13.379</b>	<b>5.668</b>	<b>19.048</b>	<b>1.905</b>	<b>1.905</b>	<b>13.379</b>	<b>7.573</b>	<b>20.952</b>	<b>100.0</b>	<b>90.9</b>	<b>9.1</b>
Price Contingency	0.669	0.283	0.952	0.095	0.095	0.669	0.379	1.048			
<b>TOTAL COST</b>	<b>14.048</b>	<b>5.952</b>	<b>20.000</b>	<b>2.000</b>	<b>2.000</b>	<b>14.048</b>	<b>7.952</b>	<b>22.000</b>	<b>100.0</b>	<b>90.9</b>	<b>9.1</b>

## TECHNICAL ANNEX B3

### IMPLEMENTATION ARRANGEMENTS

The proposed project will be implemented using the existing SELF institutional arrangements. This entails the following structures.

Project Executing Agency The Ministry of Finance and Economic Affairs (MoFEA) will be designated as the Project Executing Agency. The Microfinance Unit in the MoFEA will oversee the implementation of the Project. The project will be implemented under the following institutional arrangement.

Project Steering Committee (PSC): SELF is headed by an 8 member Project Steering Committee (PSC). PSC is charged with the responsibility of overseeing overall policy and project management and implementation. The PSC chaired by the Deputy Permanent Secretary of the MoFEA will meet at least quarterly to: (i) provide oversight and formulate project policy; (ii) review and approve project operating procedure and practices; (iii) review and approve SELF annual work plans and operating budgets; (iv) review SELF quarterly progress reports; (v) review the annual audit reports; (vi) convene at the end of each project implementation year an Annual General Meeting of stakeholders; and (vii) review and decide on any other matters concerning the project.

Small Entrepreneurs Loan Facility (SELF): SELF was established in 2000, will be responsible for the day to day management of Project activities. SELF has a lean organizational set up based in Dar Es Salaam and has no regional offices. SELF is headed by a Manager supported by 10 professionals with adequate skills mix. These comprise of Financial Controller, Two Credit Officers, Capacity Building Officer, Monitoring and Evaluation Officer, Management Information Systems officer, Marketing and Outreach Officer and Accounts Assistant. An Internal Auditor, Human Resources Officer and Executive Secretary/Office Attendant will also be recruited. SELF will wholesale loan funds to intermediaries such as SACCOs and MFIs at a market interest rates applicable to the relevant loan product. The prevailing SELF interest rate structure is competitive. The five products that it currently promotes attract an average interest rate of 14% compared to the overall market lending rate of 12.26%. The intermediaries will on-lend credit funds to enterprises in rural areas at a rate of interest that will enable them to recover the cost of capital plus a margin of profit. The processing of loans to intermediaries will be governed by the eligibility criteria (see last paragraph page 19 of this annex for details) which are stipulated in the existing Credit Operations Manual. In addition, SELF will outsource institutional and business development services from viable service providers already available nation-wide in the private and public sector.

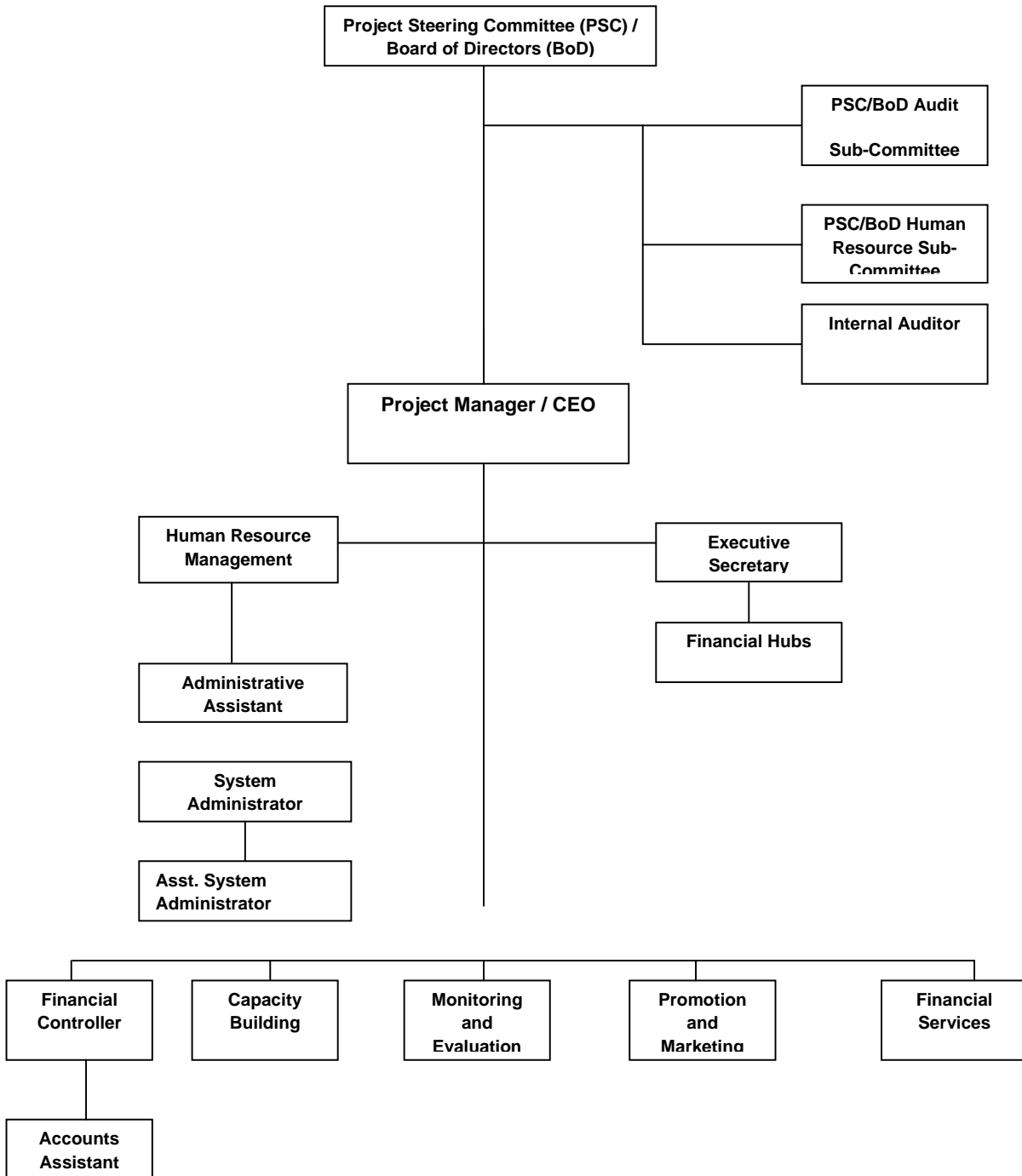
The Financial Hubs: Considering the geographical size of the country and the need to be closer to clients and deepen outreach, the project will establish two *Financial Hubs (FHs)* which shall be established at strategic locations with a catchment of several regions. To smoothen the transformation process and to minimize cost of transformation, the FHs will be established gradually in year 2 and 4 of project implementation. The Borrower will develop criteria for the selection of the locations of FHs and implementation arrangements. Each FH will be staffed with a Credit Officer, Finance and Administration Officer and a Driver/Office Attendant. The FH will be responsible to: (i) closely liaise with SELF partner intermediary entities in the catchment region and closely follow-up on outstanding loans; (ii) solicit new applications from partner intermediaries and provide technical

backstopping; (iii) undertake awareness raising and sensitization of both intermediaries and their clients on microfinance best practices; (iv) compile and assemble basic socio-economic data of partners in their catchment of regions; and (v) promote and market SELF financial products that the rural clients could access. This mechanism will accelerate outreach while supporting close follow-up and monitoring to ensure financial sustainability.

*Transformation of SELF to a Corporate Entity:* In line with the Government's financial sector reform SELF will be transformed into an autonomous corporate entity. It is envisaged that it will comprise of: (i) a Board of Directors to be appointed by the Borrower - to replace the PSC - which will oversee the entity and provide policy and operational guidance; and (ii) the existing SELF organization set up which will continue to play its original mandate. It is envisaged that the emerging entity will: (i) enjoy high degree of autonomy in managing its affairs; be customized to the Tanzania financial sector landscape to provide an alternative, but sustainable entity in the long run. A transformation strategy and plan will be supported by the project.

To effectively manage the transformation process, the project will adopt a gradual and flexible approach which builds on the lessons learned during the initial phase and industry best practices. The existing PSC will initiate and steer the transformation process with the aim of completing it by the 3<sup>rd</sup> year of project implementation. A new Board of Directors will be appointed by the Borrower comprising of adequate number of members which shall include representatives of each of the Ministries of Finance and Economic Affairs of Tanzania Mainland and Zanzibar; the Bank of Tanzania (BOT) and candidates with integrity and proven track record in finance and banking. Given the demonstrated competence and efficiency during the implementation of SELF, the current management and staff of the project will be retained while providing remuneration commensurate to the prevailing market rates.

## SELF II PROPOSED ORGANISATIONAL CHART



**TECHNICAL ANNEX B4**  
**FINANCIAL MANAGEMENT, DISBURSEMENT, FUNDS FLOW AND AUDITING**  
**ARRANGEMENTS**

**Financial Management Review**

The Small Entrepreneurs Loan Facility (SELF) was launched in 1999 with objective of enhancing access of financial services by the low income people, especially in rural areas. SELF was started on pilot basis in six regions which were then ranked as the poorest in Tanzania to provide wholesale credit to Microfinance institutions (MFIs, which in turn retail to final clients with income generating activities IGAs. SELF is currently operating from Dar es Salaam.

The financial management review of the Small Entrepreneurs Loan Facility (SELF) Project covered the evaluation of the adequacy and suitability of: the budgeting processes; staffing arrangements; funds flow arrangements; the accounting procedures; reporting and monitoring; internal control procedures and external audit arrangements.

**The Oversight Role of the Audit Committee:** The Audit Committee (AC) is the oversight body meant to assist the PSC in fulfilling its responsibilities to various stakeholders. SELF Project will form an Audit Committee whose purpose will be to assist the PSC in fulfilling its responsibilities of aligning to governance responsibility. The Terms of Reference (ToR) of the SELF Audit Committee will be in line with international standards and best practices. The Audit Committee is expected to meet at least four times per year and more frequently as need be and as determined by the chairperson. The Audit Committee is expected to be established within six months after the loan is declared effective.

**Budgeting:** The SELF Project prepares quarterly budgets of expected activities. The quality of budgeting has been improving as budget variance has been decreasing as per the yearly budget monitoring and variance reports. For the year 2007/8, the overall budget variance was 4.32% while, in 2008/9, the overall variance was 3.59%.

**Staffing:** One of the most important factors impacting on project implementation and consequently the achievement of project objective is the quality and quantity of personnel (staff) managing SELF. Satisfactory staff arrangements ensure that key staff who implement projects should: (1) have the requisite qualifications and experience for the type of project; (2) have clear job descriptions; (3) have clear reporting lines; (4) be in sufficient numbers and (5) must be held accountable. Relating to financial management at the SELF Project, staffing arrangements are satisfactory. There are two account and finance positions with clear job descriptions and clear reporting lines in the accounting and finance department namely: the Financial Controller and the Accounts Assistant who are both qualified professional accountants and conversant with Bank disbursement procedures. The allocation of duties between these positions allows for proper segregation of duties and provides for checks within the systems.

**Funds Flow and Fund Management Arrangements:** The ADF resources for the Financial Service Component shall be deposited in a foreign currency Special Account "Financial Services Component." Once loans have been approved for MFIs, an equivalent amount in local currency

shall be electronically transferred to the concerned MFIs bank account. Once a loan has been approved the MFI shall be required to open an account in name of MFI/SELF that shall be credited with approved loan amount. The MFIs shall be advised to open such account in a bank branches near their localities. This arrangement will arrest co-mingling of fund sourced by MFIs from other parties but shall also facilitate audit trail of Project resources. ADF resources for the other activities such as capacity building, technical assistance and operational costs will be deposited in a foreign currency Special “Institutional Capacity Building Component” To finance any activity under this component, an equivalent amount in local currency shall be transferred to the Operating Budget Account. All counterpart funds disbursed, to Project, by the GOT shall be deposited in a separate bank account that will be opened in order to enable proper tracking and monitoring of these funds.

SELF special account will be opened at the Bank of Tanzania (BoT) and the signatories will include SELF Manager, the Financial Controller, the Promotion and Marketing Officer and the Accounts Assistant. SELF Manager and Promotion and Marketing Officer shall sign in Category A and Financial Controller and Accounts Assistant shall sign in Category B. For a transaction to be effective two signatures at least one from Category A is mandatory. The Bank is expected to replenish the forex (Special Accounts) after SELF Project has provided valid justification for the use of at least 50% of the immediate preceding advance and 100% of the other older advances as per Bank disbursement rules and procedures. The practices over the management of SELF funds are satisfactory. This is primarily drawn from experience of operating during initial phase, whereby over the entire period of operation, SELF was audited and all Audit Reports have been unqualified.

**Accounting System and Procedures:** SELF’s framework for accounting procedures is the Accounting, Financial Policies and Procedures Manual (AFPM) revised and approved by PSC and complying with IFRS. It is reflective of best practices in Accounting Procedures. It is comprehensive with adequate controls, checks and balances for processes and procedures. Actual accounting procedures are dual i.e. manual and computerized. SELF installed ORACLE BUSINESS SUITE for all its operations. This financial hubs/will also be linked to this system. The installation of the system and migration of all historical data has been completed in the year 2008 and all project accounting and reporting will be done using the system. During the migration, all the relevant staff were trained.

ORACLE BUSINESS SUITE is a local area network at head office. It has a formal/official chart of accounts that covers all activities and expenditures analysis in the cashbook which is consistent with the chart of accounts. Reporting in ORACLE is comprehensive and detailed and in line with the chart of accounts. It integrates accounting with other activities such as human resource, fixed assets management, document management system, auditing, procurement system, budgeting, stores management etc and in so doing facilitate integrated reporting and monitoring. Oracle Business Suite enhances the accounting procedures at SELF- and improves data integrity, reduce transaction costs, enhance ownership and speed up reporting.

**Accounting Records:** Accounting records assist in helping SELF Management determine the state of SELF at any point in time and in justifying/accounting for the use of project resources to

Borrower, Development Partners, and MFIs. Furthermore, they form the basis for all monitoring and reporting of project activities. They include internally as well as externally generated documents such as purchase invoices etc. They could be manually as well as computer generated. Whatever be the case, project accounting records must be complete, accurate, reliable, timely, filed orderly and secured.

The accounting records generated and maintained are sufficient although basic. The manual and computerized records include: cash books; purchase & expense invoices; a cheque register; an expenditure book; replenishment request register; bank statements; an advance received register and a fixed asset register. Keeping and maintenance of records was found satisfactory. The manual records generated and maintained include: portfolio reports; accountability for operations accounts reports; bank reconciliations; monthly activity reports; quarterly work plans and budgets and minutes of staff and PSC meetings.

**Reporting and Monitoring:** Reports are the means by which SELF communicates and accounts to oversight institutions, development partners and other stakeholders on the use of funds etc. Suitable reporting and monitoring arrangements ensure that financial and management reports are: (i) prepared in accordance with acceptable standards in a timely manner; (ii) frequency of the financial and management reports is appropriate for the entity compare actual with budgeted activities. (iii) reporting responsibilities specify what reports are to be prepared, their content, the assumptions and how they are to be used have been established. Finally, suitable reporting requirements ensure that the distribution of financial and management reports is properly controlled

SELF reporting arrangements are found acceptable. Quarterly management progress reports and quarterly Budget Performance reports (comparing planned budgeted with actual activities) addressed to SELF Steering Committee are produced by the accounts department. The summarization and presentation of information in these reports is reasonable – it facilitates an understanding of Project activities. A major strength towards these reports is that they are produced on a timely basis for proper decision-making purposes.

In addition to the above, SELF produces annual financial statements addressed to the Ministry of Finance and Economic Affairs and audited by the Controller and Auditor General. These financial statements comprise: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, Project background information and notes to the annual financial statements. The accounting and auditing standards used in preparing and auditing the financial statements are those approved by the International Accounting and Auditing Standards Board. Like the quarterly consolidated management and budget performance reports, the annual financial statements facilitate an understanding of SELF's activities.

**Internal Control Procedures:** The framework for internal control procedures at SELF is the Accounting, Financial Policies and Procedures applied by GOT and which comply with IFRS requirements. It is reflective of best practices in internal controls. It is comprehensive with adequate controls, checks and balances for processes and procedures at SELF.

Controls over the transfer of funds to eligible MFIs are adequate. Funds are transferred from the SELF account (Financial Services Account) to each MFI based on an approved quarterly work plan for the disbursement of credit funds. Transfer of funds is by the Electronic Funds Transfer (EFT) method. Requests for EFT must be signed by two signatories to the account. There are two categories of signatories (Category A and Category B), to each local bank account that must be signed before a transaction is to be effected by the local bank and that one of the signatories must be in Category A.

Controls over payments (the principal means of using the administrative funds) are equally adequate. Purchases are from pre-qualified suppliers. Furthermore, invoices submitted to the accounts department for payment must be accompanied by a Goods Received Note and a Local Purchase Order (LPO) approved by SELF Manager and Financial Controller. Payments to beneficiaries are principally by Electronic Funds Transfers (EFT) and use of bank cheques. Like cheques, requests for an EFT must be signed by two signatories to the account. A List of cheques issued by Project is submitted to the Bank branch to countercheck and authenticate payee and transaction nature prior to payment. In a number of occasions, the banks enquire from SELF, on EFT and cheques, to ascertain on authenticity of transaction before paying.

There are satisfactory controls over payroll. Preparation of payroll is by the accounts departments and approval of the payroll is first by SELF Manager. There are no cash payments.

Controls over eligibility for loans are satisfactory. Loans are only given to registered Non-Governmental Organizations (NGOs), Microfinance Institutions, and Savings and Credit Cooperatives (SACCOs). Such institutions must have necessary legal powers to borrow and clearly stipulated in institution's Memorandum and Articles of Association. Loans are not given to individuals. The criteria for eligibility, review and approval process are pre-specified, standardized and simplified. The process is guided by SELF Credit Operations Manual. This manual was developed during the initial phase of the SELF and will be updated as necessary during the operation of the SELF II.

SELF maintains a Petty-cash Imprest system with adequate controls. The maximum payout from petty-cash is TZS 200,000 (US\$ 100) which caters for office refreshment such as tea, mineral water, postages, etc. The petty-cash is maintained by the Administrative Assistant. Reconciliations are regularly prepared and reviewed by the Financial Controller. However, the types of operating costs to be paid (or not to be paid) out of the Petty-cash are specified. Consequently, payments for utilities such as water, electricity and telephone etc are not paid out of petty-cash.

Furthermore, monthly general ledger accounts are produced, reviewed, and signed-off by the Financial Controller. Reconciliations of bank accounts, fixed assets register, general ledgers and other accounts are carried out monthly and reviewed by the Financial Controller and signed off as evidence of the review. Control over movable fixed assets of SELF e.g. vehicles, office computers etc appears to be satisfactory. All project vehicles and office equipments at headquarter are visibly labeled.

**Internal Audit Arrangements:** SELF does not have an Internal Audit Unit (IAU) at present. It is however noted that following growth in area of operation and magnitude of activities as well as growth in the number of personnel, the role of Internal Audit is now vital and will be needed to ensure internal control and compliance, are enforced, so as to ensure attainment of objectives, efficiently and effectively. The Terms of Reference (ToR) of the IAU that are broad and clearly define evaluating the adequacy and effectiveness of risk management, control and governance processes/procedures have been prepared . The reporting lines of the IAU shall be to report to the Audit Committee of SELF Steering Committee (PSC). This is necessary measure to have operational independence. For example, IAU shall have unrestricted access to all records, property and personnel including the chairperson of the PSC. The IAU shall be headed by an Internal Auditor – professional accountant and certified internal auditor (CIA) with adequate experience. The Internal auditor is expected to be in place at SELF six months after the loan is declared effective

**External Audit Arrangements:** The external audit arrangements for SELF Project are satisfactory and follow standard Government of Tanzania procedures. Responsibility for the audit of SELF II Project is that of the Controller and Auditor General (CAG) of Tanzania. The financial statements are audited annually and CAG's report and Project Management's replies to CAG's queries, observations and recommendations are submitted to PSC for consent prior to submission to GOT and the Bank. Since, inception, SELF has received unqualified reports from CAG.

The Terms of Reference (ToR) for the external auditors will be the standard comprehensive ToR for external auditors of Bank financed projects that will also include information on the micro-credit component. Review of all CAG's submission, from 2000 to 2008; for Project's audited financial statements indicated that the auditors performed in accordance with the ToR. All audited accounts included management letters and were unqualified.

**Disbursement Arrangements:** ADF loan resources will be deposited into two accounts: An Account for the Financial Services Component shall be opened by the Borrower at BOT. The Account will be replenished in two tranches upon satisfaction of the conditions associated with Bank's intervention; and Special Account (SA) specifically earmarked for the Institutional Capacity Building component at BOT. Upon request by the Borrower, Direct Payment method will be used to make payments directly to third parties in respect of goods or services already delivered to the Borrower or goods expected to be delivered, and for external audit services. In addition, the Borrower will open one Local Currency Account (LCA). Funds will be withdrawn from the SA to be deposited in the LCA to meet project expenditures. Expenditures should be committed to the items eligible under the loan and should cover a previously approved program of work and activities for a period of 4 months. Funds advanced under the Special Account shall be fully justified within a maximum of 12 months. The Special Account will be replenished from time to time on condition that the immediately preceding advance has been utilized and justified up to at least 50 percent and the other older advances have been fully justified.

**Financial Reporting and Auditing:** A detailed review of the financial management systems of SELF, by the Bank appraisal mission has concluded that the financial management and reporting

systems in place are adequate. The budgeting processes are reasonable; they include all project activities and the realism and consistency of the assumptions is improving. The Audit Committee and the IAU that shall be instituted will enhance internal control procedures over payroll, cash, movable assets and procurement and payments, among others. There is segregation of functions, particularly the following: authorization of transactions, recording the transaction, maintaining the assets register and the specification of authority limits on personnel.

The staffing arrangements in the accounts departments are adequate for SELF activities. The current fund flow arrangements that are assumed to be maintained and are secure, efficient and helpful to the GoT. The current system of external audit arrangement for SELF is acceptable; it provides reasonable assurance on auditor independence and quality of work.

SELF will be responsible for the preparation and submission of disbursement applications. The National Office of the Controller and Auditor General (CAG) or an external auditing firm recruited by the Project together with the CAG will undertake annual audit of SELF accounts. The recruitment of external auditors will be done in accordance with Bank's Rules and Procedures for the recruitment of Consultants.

The Ministry of Finance and Economic Affairs shall submit to the Bank audited financial statements at least 6 months after the end of the financial year. CAG, during its annual audits, would express an opinion on the utilization of the Loan's proceeds, and compliance with the Loan Agreement. In addition to the audit report, the CAG will be required to submit a management letter giving observations and comments, and providing recommendations for improvement in accounting systems and controls. Project Management's response to the issues raised by CAG will be an integral part of the management letter and audit report. They will also make recommendations for improving any systemic weaknesses if identified. Follow-up procedures for audit recommendations would be in line with Bank practice.

**Disbursement Letter:** The Bank and the Borrower have agreed on the Disbursement Letter at negotiations. The Disbursement Letter sets out and summarizes all the disbursement arrangements and procedures under SELF. The letter will have as attachments, the Bank's Disbursement Handbook.

## TECHNICAL ANNEX B5

### PROCUREMENT ARRANGEMENTS

All procurement of goods and services financed by ADF will be in accordance with the Bank's Rules and Procedures for the Procurement of Goods and Works or as appropriate, the Rules and Procedures for the Use of Consultants, using the relevant Bank Standard Bidding Documents. SELF will be responsible for the procurement of goods consulting services, training and miscellaneous items. However, given the limited goods to be procured and in order to gain efficiency and economy, SELF will outsource procurement services to qualified private sector services providers.

Table 5.1 : Procurement Arrangements (UA million)

CATEGORIES	ICB	NCB	SHORTLIST	OTHER	TOTAL
<b>1.GOODS</b>					
Equipment					
1.1 Computers, office equipment, furniture				0.035 (0.035)	0.035 (0.035)
1.2 Four (4) Vehicles (station wagons)				0.168 (0.168)	0.168 (0.168)
1.3 MIS equipment				0.045 (0.045)	0.045 (0.045)
<b>2. SERVICES</b>					
2.1 Sensitization- Outreach and Monitoring				0.622 (0.622)	0.622 (0.622)
2.2 Training under capacity building				1.553 (1.553)	1.553 (1.553)
2.3 T.A. under Outreach and Monitoring			1.857 (1.857)		1.857 (1.857)
2.4 T.A. under capacity building			0.358 (0.358)		0.358 (0.358)
<b>3. MISCELLANEOUS</b>					
3.1 Credit Fund				14.708 (14.708)	14.708(14.708)
<b>4. Operating Cost</b>					
4.1 Operating Costs- SELF				2.654 (0.654)	2.654 (0.654)
<b>TOTAL</b>			<b>2.215 (2.215)</b>	<b>19.785 (17.785)</b>	<b>22.000(20.000)</b>

Shortlist applies to the use of consulting services. Others may be Direct Contracting or shopping. Figures in brackets [ ] are financed by ADF.

**Goods:** Contracts for goods covering Office Equipment, Vehicles and MIS Equipment valued in total at UA 248,000 and not more than UA 168,000 each will be procured through Shopping. This is because the items are small in value and are readily available locally.

**Consulting Services:** Procurement of consulting services for technical assistance under outreach, monitoring and capacity building will be carried out by consulting firms and individual consultants through contracts valued at UA 1,857,000 in aggregate. The process for selecting firms shall be through short list and the selection method shall be quality and cost based selection. However, for individual consultants, the selection method shall be through the Bank's procedure for selection of individual consultants. For contract amounts valued at less than UA200,000 for Firms and UA50,000 for individuals, the Borrower may limit advertisement of the procurement to national or regional newspapers. However, any eligible consultant, regional or not, who wishes to provide the requested services, may express his desire to be short-listed. For contract amounts valued at more than UA200,000

for Firms and UA50,000 for individuals, advertisement of the procurement must be placed in the UNDB online and ADB website.

**Training:** The project will formulate an annual training plan and budget which will be submitted to the Bank for prior review and approval. The annual training will include: (i) the proposed training; (ii) the justification for the training and how it will lead to effective project performance and outcomes; (iii) the personnel to be trained; (iv) the selection method of individuals or institutions conducting such training; (v) the institution that will conduct training, if already selected (vii) the estimated cost of training. Upon completion of training the trainees and trainers will be required to prepare a report on the training received. The selection of candidates for training shall be done through Government procedures and these procedures shall ensure equal opportunity to all eligible participants. This covers training under Outreach and Monitoring valued in aggregate at UA 622,000 and training under Institutional Capacity Building valued in aggregate at UA 1,553,000

**Operating Cost:** Operating cost valued in aggregate at UA 2,654,000 which includes financial allocations for salaries of staff and SELF administrative expenses will be procured through Government procedures as articulated in the SELF Manual.

**Miscellaneous:** The Financial Services component is valued in aggregate at UA 14,708,000 will be made available to some 2040 MFIs. In order for the MFIs to access resources they are expected to meet the following eligibility criteria: (i) the organization being registered and a legal entity with acknowledged Board of Directors (BOD), qualified staff and identifiable and well equipped office; (ii) having a good track record of performing micro finance for at least a year, submit a 3 year business plan and demonstrate ability to sustain the program after SELF-project funding; (iii) submission of a certificate of maximum liability in case of SACCOs as well as Annual General Meeting (AGM) authorization to borrow; (iv) a letter of consent that authorizes management to borrow. The MFIs will subsequently give out loans to beneficiaries, ensuring women constitute 50%, and repay the loans as per the conditions specified in the SELF Credit Manual.

◆ **General Procurement Notice:** The text of a General Procurement Notice (GPN) will be agreed with the Borrower during loan negotiations and it will be issued for publication in UN Development Business Journal, upon approval by the Board of Directors of the Loan Proposal.

◆ **Review Procedures:** For contracts under prior review, the following documents are subject to review and approval by the Bank before promulgation: ○ Specific Procurement Notices, ○ Tender Documents or Requests for Proposals from Consultants, ○ Tender Evaluation Reports or Reports on Evaluation of Consultants' Proposals, including recommendations for Contract Award, ○ Draft contracts, if these have been amended from the drafts included in the tender invitation documents.

◆ **Executing Agency:** SELF will be responsible for the procurement of goods, consulting services and training services. Considering the limited quantity of goods and services to be procured, it was felt that it will not be economical to recruit a full time procurement officer. As a result, SELF will outsource procurement services from qualified service providers when needed.

**Table 5.2: Details of Other Modes of Procurement (UA million)**

<b>Procedure</b>	<b>Designation</b>	<b>Max per Contract</b>	<b>Max in Aggregate</b>
Shopping	<b>Goods</b>		
	Four (4) station wagons		0.168
	MIS Equipment		0.045
	Computers and Accessories		0.016
	Photocopiers and Fax machines		0.006
	Air conditioners		0.003
	Office Furniture		0.011
		N/A	<b>0.248</b>
Government Procedures	<b>Services</b>		
	Study tours (staff, PSC, MoFEA, PEED)		0.303
	International courses (Staff MoFEA, PEED)		0.303
	National Workshop (staff)		0.213
	MFIs Personnel Training		0.258
	Beneficiaries Training		0.397
	BDS Training		0.078
		N/A	<b>1.553</b>
Government Procedures	Sensitization of local leaders		0.148
	Printing of Promotional Materials		0.129
	Institutional Support to MFIs		0.240
	Radio and Television programs		0.106
		N/A	<b>0.622</b>
Government or SELF procedures	<b>Miscellaneous</b>		
	Financial Services	N/A	<b>14.708</b>
Government Procedures	<b>Operating cost</b> SELF Operating Expenses	N/A	<b>0.968</b>

◆**Procurement Plan:** The Borrower will prepare a procurement plan with procurement arrangements for the first 18 months in conformity with the Loan Agreement and its Rules and accepted by the Bank. The Borrower shall update the Procurement Plan on an annual basis or as needed always covering the next 18 months period of project implementation. Any revisions proposed to the Procurement Plan shall be furnished to the Bank for its prior approval.

## TECHNICAL ANNEX B7

### FINANCIAL AND ECONOMIC ANALYSIS

#### 1. SELF Project Management

The objective of the first Small Entrepreneurs Loan Facility (SELF) was to improve access of the poor to financial services, particularly in rural areas combined with capacity building to augment entrepreneurial capacity to deliver services which in turn increases client demand for financial services. SELF's vision and mission are "reduce poverty in Tanzania through facilitation of microfinance (MF) services that enhance economic opportunity of enterprising rural and urban poor" and "striving to enhance the poor people's access, particularly in rural areas, to microfinance services by way of credit and or savings, sensitisation and catalysing the formation of community based Organisation (CBOs) as well as enhancing capacity of existing MFIs to render better services to target clients" respectively. The vision, missions and objective of SELF were tailored to the objectives of the first pillar of the National Strategy for Growth and Reduction of Poverty – MKUKUTA; the general objective of the National Microfinance Policy (NMP) which is to establish a basis for efficient and effective MF system to serve low income segment of the society and contribute to economic growth and poverty reduction; and the objective of the Rural Financial Services Strategy (RFSS) which is to improve the level of the access to deeper financial services for individuals, households, and enterprises in rural areas.

#### 1.2 Management and Skill Mix

SELF project activities have been implemented by a lean but efficient and effective Project Implementation Unit (PIU). The project is managed by a ten member Board of Directors (BOD)/Project Steering Committee (PSC) representing different stakeholders. The day to day management of the project is the responsibility of the Project Manager supported by six management and three auxiliary staff, three drivers and an office attendant. As shown by the staff profile in Table 1.2, the majority of the staff holds post-graduate degrees at Masters Level and possess significant experience in project management.

**Table 1 1: SELF I Management Staff**

<b>Position</b>	<b>Number</b>	<b>Qualifications</b>	<b>Years of Experience</b>
Project Manager	1	MEED, MSC (Agric Econ), Bsc (Agric)	34
Financial Controller	1	MBA (Fin), CPA (T), NBAA, B.Com	22
Promotion and Marketing Officer	1	MA (Int.Marketing), Dipl ADCM,	13
M & E Officer	1	SELF (Agric. Econ), Dipl Agric. Econ., Cert. M&E	24
Credit Officer I	1	MSC (Agric. Econ), BSC (Agric. Econ)	13
Credit Officer II	1	MA (Econ Pol. & Man.), PGD, BA (Econ)	14
Capacity Building Officer	1	Bsc (Agric. Econ), Dipl. Educ.	17
Systems Administrator	1	BBA, Dipl. Comp. Science, Cert. Network & System Admin.	21
Assistant Accountant	1	BBA, Cert. Book-keeping	22
Administrative Assistant	1	Dipl. IT, Cert. Word Processing	21

Source: SELF Project Management Unit

The first Phase of the project was operational for seven years (June 2000-June 2007) in the Coast, Morogoro, Dodoma, Singida, Mtwara, Lindi regions of Tanzania Mainland and Tanzania Zanzibar; expanded to Arusha, Kilimanjaro, Tanga, Mara, Mwanza, Iringa, Mbeya and Ruvuma in July 2004. The whole country is yet to be covered.

SELF has one main product called ANZA. Good performance and successful completion of the ANZA loan qualifies the client for FLEX, KILIMO, INCUBATOR or LINE of CREDIT Loan products. The loan products are accessed by fulfilling the following eligibility criteria: (i) the organisation being registered and a legal entity with acknowledged BOD, qualified staff and identified well equipped office; (ii) having a good track record of performing micro finance for at least a year, submit a 3 year business plan and demonstrate ability to sustain the programme after SELF-project funding; (iii) submission of a certificate of maximum liability in case of SACCOs as well as Annual General Meeting (AGM) authorisation to borrow; (iv) a letter of consent that authorises management to borrow. The products and their attributes are presented in **Appendix 1**. There is need for SELF to refine and streamline its products so as to make them competitive (there is only one principal product, ANZA that sustains the project) and new products developed.

The SELF Project will continue to be the vehicle for the delivery of SELF II project. The current staff presented in Table 1.3 is well qualified and skilled and is therefore appropriate for this role. Between now and 2014, the following staff strength will be in place to deliver the SELF second phase of the project.

**Table 1 2: SELF Staffing 2009-2014**

Head Office (No.)		Proposed Zone Offices (No. per ZO)	
Project Manager (Chief Executive Officer)	1	Zonal/hub Managers (One for each Zone)	2
Financial Controller	1	Credit Officers ( " )	2
Credit Officers	3	Administrative and Logistics Officers ( " )	2
Promotion & Marketing Officer	1	Drivers ( " )	2
Capacity Building Officer	1		
Human Resources Officer	1		
Internal Auditor	1		
Monitoring & Evaluation Officer	1	-	-
MIS Systems Administrator	1	-	-
Assistant Systems Officer	1	-	-
Assistant Accountant	1	-	-
Executive Secretary	1		
Administrative Assistant/Secretary	1	-	-
Drivers	3	-	-
Office Attendant	1	-	-

Source: Current SELF Project

## 2. SELF Financial Performance Assessment

SELF adopted home-grown model to provide access to financial services to the financially excluded. Its model of intervention is built on: (i) A “stand-alone” microfinance intervention

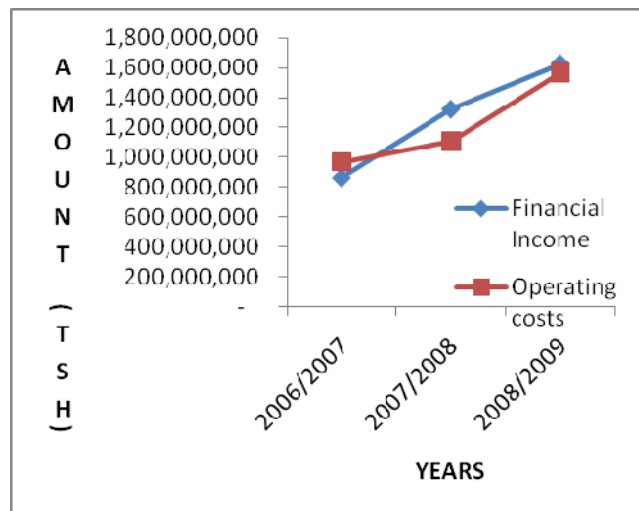
which offered greater opportunities to place microfinance within the broader context of financial sector reforms; (ii) significant autonomy in managing its business within an institutional environment focused on cost recovery and portfolio quality; (iii) adopting a holistic approach to microfinance service delivery by focusing on capacity building, sensitization and awareness raising before injecting credit; (iv) Empowering local government authorities, municipal councils and regional authorities to raise awareness and reach out to more clients in the rural areas. This proved to be an effective operational approach to deepen outreach, create savings and credit culture, and enhance ownership and portfolio quality. While access to high quality and diverse financial services is a key to sustained economic growth and poverty reduction; the design and mode of delivery of the financial services are instrumental in inducing participation of all segments of the population, a role which cannot be left only to the market. The Public Private Partnership synergy will unleash more resources to the market in order to broaden economic participation by citizenry.

SELF performance assessment was based on audited financial statements (Balance Sheets and Income Statements) for the period 2006 – 2008 and un-audited accounts for the FY 2008/2009 presented in **Appendix 2**<sup>1</sup>.

## 2.1 Income and Profitability Assessment

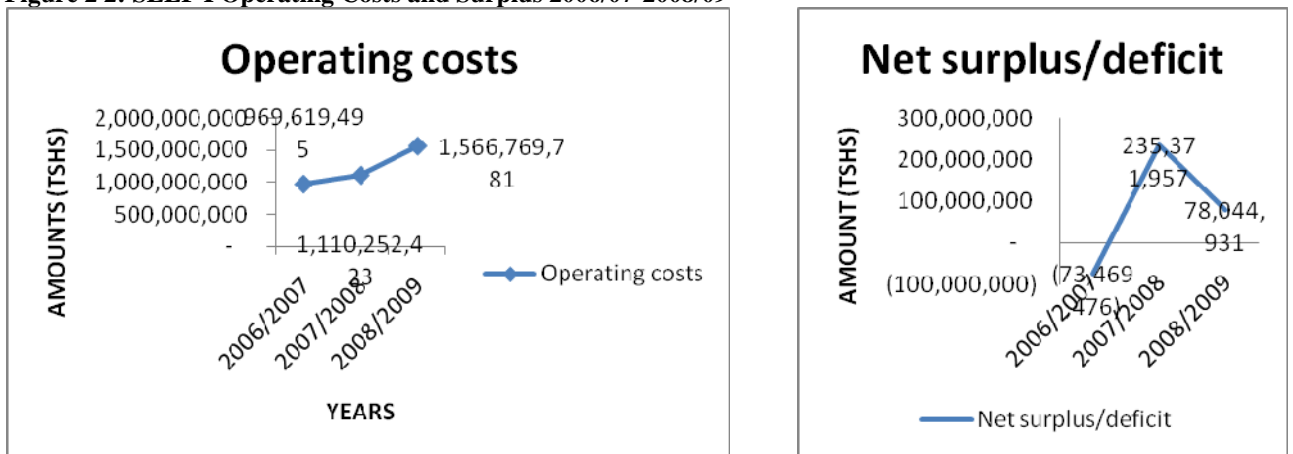
**Figure 2 1: SELF I Profitability 2006/07-2008/09**

SELF Project has since 2007 been sustainable. It covered its operating costs by 119% in FY 2007/08 and 104% in FY 2008/09. The project realised net income of TSHS 235.37 million in FY 2007/08 having recovered from a net deficit of TSHS 73.47 million in FY 2006/07. However, due to increase in operating costs from 10% in FY2006/07 to 15% in FY 2007/08 and 41% in FY 2008/09, there was a decline in net surplus from TSHS 235.37 million of FY 2007/08 to TSHS78.05 million in FY 2008/09 (Figures 2.1 and 2.2). The increase in operating costs was attributed to substantial increase in: (i) travel costs related to increased regional outreach of 243% in FY 2008/09 form 60% in FY 2007/08 forming 15% of total costs; (ii) increase in fuel and vehicle maintenance from 30% in FY 2007/08 to 36% in FY 2008/09 (8% of total costs); (iii) advertisement and publicity that were 7% of total costs in FY 2008/09; (iv) increase in loan provisions from 11% in FY 2006/07 to 18% in 2007/08 and 25% 2008/09.



<sup>1</sup> SELF financial year is June 30, similar to the GOT Fiscal Year.

**Figure 2 2: SELF I Operating Costs and Surplus 2006/07-2008/09**

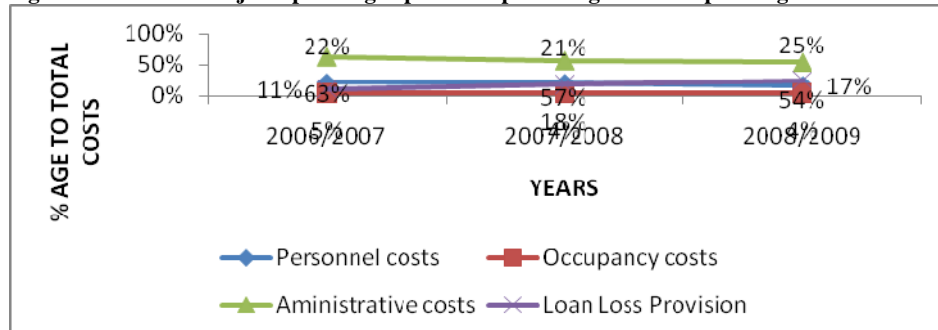


Initially, SELF I project pilot phase operated in Coast, Morogoro, Dodoma, Singida, Mtwara, Lindi regions and Zanzibar. But following satisfactory performance and overwhelming demand for the project services, SELF expanded its services to additional eight regions of Arusha, Kilimanjaro, Tanga, Mara, Mwanza, Iringa, Mbeya and Ruvuma. This meant significant increase in field and M&E visits as well as advertisement and project services promotion costs.

### 2.1.2 Operating Costs Analysis

SELF project costs have over the last three years been prudently managed. The total administrative costs were reduced from 63% in FY 2006/07 to 57% in 2007/08 and farther down to 54% in FY 2008/09. There has been no increase in personnel costs which were only 17% of total operating costs in 2008/09. The project has been occupying good premises and the occupancy costs have been contained from 5% in FY 2006/2007 to a steady 4% of total costs in both 2007/08 and 2008/09 FYs. As stated above the project covered its operating costs by 89% in FY 2006/07; improved to 119% in 2007/08 but declined to 104% in FY 2008/09. The SELF is currently implementing methods to improve loan recovery and reverse the increasing trend of the loan loss provision.

**Figure 2 3: SELF I Project operating expenses as percentage of total operating costs**



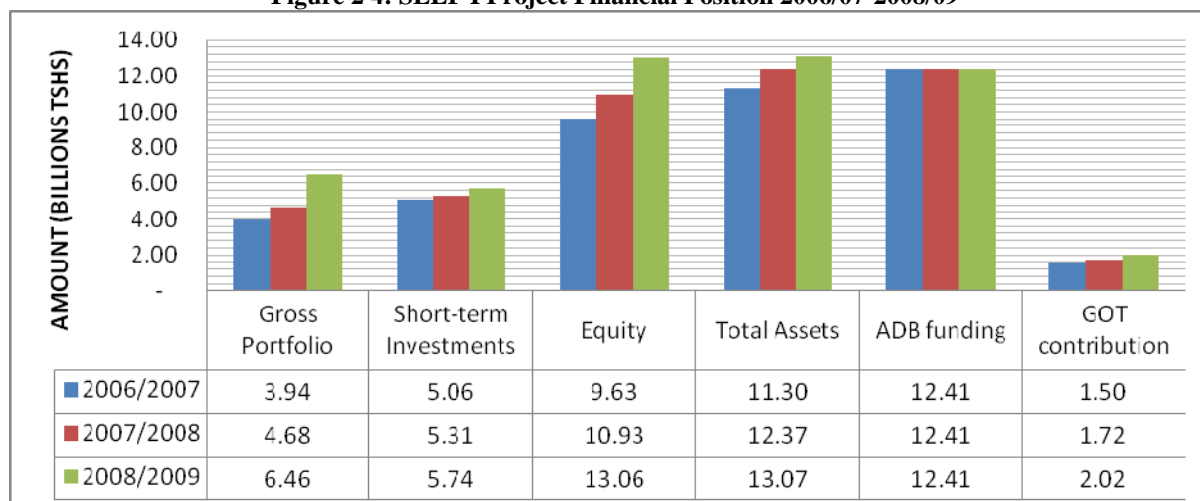
Source: SELF Project Financial Statements 2006/07 - 2008/09

## 2.2 SELF Financial Position Assessment

### 2.2.1 Assets

The overall financial position of the project is presented in Figure 2.4.

**Figure 2 4: SELF I Project Financial Position 2006/07-2008/09**



Source: SELF Project Financial Statements 2006/07 - 2008/09

The total assets of the project increased from 9% in FY 2006/07 to 16% by FY 2008/09 financed by: accumulated equity of TSHS 9.63 billion in FY 2006/07; 10.93 billion in FY 2007/08; and TSHS 13.06 billion in FY 2008/09 (see Figure 2.4). Of the total funding of TSHS 13.91 billion in 2006/07, TSHS 14.13 billion in 2007/08 and TSHS 14.43 billion in 2008/09, GOT contribution was 11%, 12% and 14% respectively. Therefore, the project has enjoyed increasing government support in the last three years.

The average performing assets (cash and bank balances, gross portfolio and investments) were TSHS 11.66 billion in FY 2007/08 and TSHS 12.67 billion in FY 2008/09. In FY 2007/08 and FY 2008/09 the gross portfolio constituted 40% and 51% of the average performing assets (APA) respectively. The gross portfolio grew from TSHS 3.94 billion in 2006/07 to TSHS 4.67 billion in 2007/08 and TSHS 6.46 billion in 2008/09.

Comparatively, short-term investments and cash and bank balances were 45% of average performing assets for both 2007/08 and 2008/09 FYs. SELF invested in short-term investment to the tune of TSHS 5.74 billion in GOT securities as at June 30, 2009. The interest earned was applied to supplement interest, commissions and fees income. The amounts invested were retired and applied in loan disbursements as and when there was demand for credit funds. By June 2009, net total fixed assets were TSHS 0.31 billion as presented in Table 2.1.

**Table 2 1: SELF I Project Fixed Assets as at June 30, 2009**

<b>ASSET</b>	<b>VALUE NET OF DEPRECIATION(TSHS)</b>
Motor Vehicles	109,336,743
Computers and Equipment	192,175,554
Office Furniture and Fittings	5,586,009
<b>TOTAL</b>	<b>307,098,305</b>

Source: SELF Project Financial Statements

Most of the assets are in good condition and will be due for replacement after 4-5 years of useful life . The remaining life of SELF's fixed assets is presented in Table 2.2.

**Table 2 2: SELF I Project Fixed Assets Useful Life**

<b>LOCATION</b>	<b>MOTOR VEHICLES</b>		<b>COMPUTERS</b>		<b>MIS</b>		<b>OFFICE EQUIPMENT &amp; FURNITURE</b>	
	<b>No</b>	<b>Life Remaining (Years)</b>	<b>No</b>	<b>Life Remaining (Years)</b>	<b>No</b>	<b>Life Remaining (Years)</b>	<b>No</b>	<b>Life Remaining (Years)</b>
Head Office	<b>3</b>	<b>4</b>	<b>12</b>	<b>5</b>	<b>1</b>	<b>5</b>	<b>12</b>	<b>5</b>
Zonal/hub Offices	-	-	-	-	-	-	-	-

Source: SELF Project Finance Department

SELF equity is being built from accumulated grants and net surpluses (retained earnings). Total equity grew by 36% from TSHS 9.63 billion as at June 30, 2007 to TSHS 13.06 billion as at June 30, 2009 (Figure 2.4). The project was managed satisfactorily and has great potential to profitably expand its services countrywide. Presented in table 2.3 are factors that made it successful in the past (strength), lessons learned from what hindered it from achieving more (weaknesses), opportunities before it and the challenges likely to threaten its sustainability.

**Table 2 3: SELF I Project SWOT Analysis**

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<ul style="list-style-type: none"> <li>▪ Qualified staff</li> <li>▪ Local leaders support</li> <li>▪ Government support</li> <li>▪ Strong PSC</li> <li>▪ Equipments available</li> <li>▪ Availability of partner MFI's</li> <li>▪ Linkage with TAMFI and partners engaged in poverty reduction initiatives</li> <li>▪ Financial resources available</li> <li>▪ Clear vision and well stated project objectives</li> <li>▪ Flexible and competitive interest on loans</li> <li>▪ Outstanding wholesale Project</li> </ul>	<ul style="list-style-type: none"> <li>▪ No staff Regulation</li> <li>▪ Under Government control leading to slow decision making</li> <li>▪ Inadequate staff incentive scheme</li> <li>▪ Inadequate staffing to expand services countrywide</li> </ul>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ul style="list-style-type: none"> <li>▪ High demand for loans</li> <li>▪ Expansion to cover whole country</li> <li>▪ Emerging new partner MFI's</li> </ul>	<ul style="list-style-type: none"> <li>▪ Change in Government focus for example loss of direction due to political preferences</li> <li>▪ MFI's defaulting</li> </ul>

<ul style="list-style-type: none"> <li>▪ Transform to a wholesale sustainable funding institution</li> <li>▪ Trapping resources from various stakeholders such as development partners (DPs), Equity investors as well as access to commercial borrowing</li> <li>▪ Government commitment to sustainability of SELF</li> <li>▪ Economic and political stability</li> </ul>	<ul style="list-style-type: none"> <li>▪ Staff turnover</li> <li>▪ Lack of entrepreneur spirit and financial literacy among the intended clients and beneficiaries</li> <li>▪ Existing MFI's have grant syndrome</li> <li>▪ Inadequate legal enforcement measures on loan defaulters</li> </ul>
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Key issues from the SWOT analysis include: (i) the need for diversifying funding sources by trapping resources from various stakeholders; (ii) MFIs and NGOs donor syndrome as well as multiple borrowing; (iii) outreach and market and product development to cover asset financing, insurance, guarantees, agricultural financing and tailor made products; and (iv) enhancing collaboration and synergies with other industry players.

The immediate challenge is to transform SELF from a project to a formal institution providing wholesale funding to viable financial intermediaries within the next 5 years. The new structural changes will mean increased need to control operating costs; loan recovery challenges (containing PAR within 5%); motivating staff to avoid high staff turnover; deliver quality products and services sustainably; and maintaining profitability and sustainability of the organisation. There will also be need to develop various operating manuals including staff regulations, refine the current products to be competitive, and develop new ones to meet clients needs.

### 3. FINANCIAL PROJECTIONS

#### 3.1 Assumptions

The SELF financial projections for the next 5 years (June 2009/10 – June 2014) are produced using Microfin Financial Modelling Tool version 4.10 dated May 2009 on the basic assumption that SELF II project will continue from FY 2009/10 but transform into a going concern institution within 5 years of the project implementation. The basis for the projections is the current SELF project historical financial statements for the FYs 2006/07, 2007/08 and 2008/09 summarised in table 3.1 below.

**Table 3 1: SELF I Project Summary Financial Results 2006/07-2008/09**

FY	FY 2006/07	FY 2007/08	FY 2008/09
Net Income after financial support	(73,469,476)	235,371,957	78,044,931
TOTAL ASSETS	11,303,693,468	12,373,191,703	13,068,546,520
TOTAL LIABILITIES & EQUITY	11,303,693,468	12,373,191,703	13,068,546,520

Source: SELF Project Financial Statements

2- Inflation rate of 10% is assumed.

**3- The market and Products:** For outreach, it is assumed that phase two of the project will involve:

- i) heavy sensitisation and promotion of the project (project awareness in target regions)
- ii) Two hub offices will be opened; one in the first 36-48 months and the other in the last 12 months of project implementation
- iii) Head office will be strengthened in terms of capacity and logistical support

All this will enable SELF to reach 2040 financial intermediaries (FIs) with loans by Year 5 of the project implementation. About 820,000 clients of FIs and 4,100,000 household beneficiaries (5 people per household) would have been served assuming 400 clients per FI on the average (Table 3.2). It is also assumed that SELF will **refine its products** currently being provided and **develop new ones** to make them more competitive. Presently, the project provides loans on the basis of performance with the first loans under the ANZA product. This limits access to credit where, for example, an MFI, for one reason or another do not perform and cannot proceed to access FLEX, KILIMO, INCUBATOR or Line of Credit products. It is assumed that in YR 1 of project implementation, there will be substantial start up costs but significant client and portfolio growth especially for the ANZA product. The focus will be regions that easily absorb credit. Therefore, portfolio growth is expected to be over 100% in YR1. For example, Eastern, Lake and Southern Highlands regions will be targeted for substantial increase in MFI clients and portfolio and other zones countrywide will be served following economic and IGA viability.

**Table 3 2: SELFII Market Outreach by 2014**

Product	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
ANZA	142	780	1010	1300	1545	1970
FLEX	6	9	11	14	15	26
KILIMO	7	16	21	30	36	44
INCUBATOR	1	1	0	0	0	0
LINE OF CREDIT	1	1	0	0	0	0
<b>Total</b>	<b>157</b>	<b>807</b>	<b>1042</b>	<b>1344</b>	<b>1596</b>	<b>2040</b>

Source: Financial Projections

**4- Loan terms:** The loan terms for each product will be as presented in Table 3.3 below and detailed in Appendix 1.

**Table 3 3: SELF II Loan Products terms assumptions**

Product	Interest rate (p.a.)	Repayment Conditions	Grace Period	Loan Term (Months)	Loan Application fees
ANZA	11%	Quarterly	3	12-24	2%
FLEX	14%	Quarterly	6	24	2%
KILIMO	11%	Balloon Payment	9	10	2%
INCUBATOR	8%	Bi-Monthly	12	24	2%
LINE OF CREDIT	16%	Monthly	12	36	2%

Source: SELF Project Credit Operations Manual, November 2003

Interest is charged on a flat basis for all products. A loan application fee of 2% is assumed for each of the products offered by SELF. The policy of flexible interest rates and other charges will be maintained.

**Loan sizes:** The average loan sizes for various products will be as shown in Table 3.4.

**Table 3 4: SELF II assumed average loan sizes by Product**

<b>Loan Product</b>	<b>Loan size (TSHS)</b>
ANZA	120,000,000
FLEX	105,000,000
KILIMO	41,000,000
INCUBATOR	150,000,000
LINE OF CREDIT	350,000,000

## **5- Short-term investments**

Any excess funds will be in short-term investments until such a time when the money is required for loan disbursements.

## **6- Human resources**

Zonal/hub offices will be opened starting with 1 in YR2 of project implementation and another in YR5 (2 by YR5). Because of this, another Credit Officer and a Systems Assistant Administrator will be recruited to add to the current 14 staff at HO. A Zonal/Hub Manager, a Credit Officer, Administrative and Logistics Assistant and a driver will also be recruited for the opened Zonal/hub offices. Therefore, the staff strength will be 4 per Zonal/hub office and a total of 16 staff at HO. By YR5, staff available to deliver the SELF II project will be 93 (77 zonal/hub staff to cover 26 regions and 16 at HO). There will be a series of appropriate training programs to further strengthen the capacity of the staff both old and new. It is assumed that SELF as a whole will continue to be profitable and sustainable from YR 2 and the current and newly recruited staff retained to maintain the remarkable performance. Accordingly salary packages and staff incentive schemes will be competitive and continue to improve. In the next five years, decrease in operating costs is assumed following: (i) efficient and optimal use of staff; (ii) increased portfolio and loan sizes; and (iii) up-graded MIS. Salaries and wages are projected to TSHS 2.01 billion for branches/zones and TSHS 0.87 billion for HO on the average over the next five years.

**Table 3 5: Optimal SELF II Zonal/hub Offices and HO staffing and costs next 5 Years**

YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
<b>HUB OFFICES</b>					
Total Number of Hub/Hub Offices staff (optimal)	-	37	49	55	77
No. FSOs	-	33	45	51	69
<b>[A] HUB OFFICES COSTS</b>					
Salaries & Benefits (TSHS bln)	-	1.63	2.28	2.56	3.61
Operating costs (TSHS bln)	-	0.01	0.02	0.02	0.02
<b>Sub-Total</b>	-	<b>1.64</b>	<b>2.30</b>	<b>2.58</b>	<b>3.63</b>
<b>HEAD OFFICE</b>					
Total Number of staff	14	16	16	16	16
<b>[B] HEAD OFFICE COSTS</b>					
Salaries & Benefits (TSHS bln)	0.61	0.75	0.83	0.91	1.00
Operating costs (TSHS bln)	0.32	0.35	0.38	0.41	0.44
<b>Sub-total</b>	<b>0.93</b>	<b>1.10</b>	<b>1.21</b>	<b>1.32</b>	<b>1.44</b>
Total Number of staff	14	53	65	71	93
Total Salaries and Benefits	<b>0.61</b>	<b>2.38</b>	<b>3.11</b>	<b>3.47</b>	4.61
<b>Total Operating Costs (A+B)</b>	<b>0.93</b>	<b>2.74</b>	<b>3.51</b>	<b>3.90</b>	<b>5.07</b>
<b>% Hub costs to total costs</b>	<b>0%</b>	<b>60%</b>	<b>66%</b>	<b>66%</b>	<b>72%</b>

Source: Financial Projections

The SELF phase two project funding for both portfolio and operations is expected from three main sources: ADB, GOT and SELF I reflows. It is assumed that by YR5, ADB will bring in TSH 35.12 billion (TSH 31.87 billion for the portfolio and TSHS 10.13 billion for operations); TSHS 5.13 billion from the GOT for operations; and TSHS 3.95 billion (TSHS 3.26 billion for portfolio and TSHS 0.69 for operations) from SELF I reflows. The ADB releases for portfolio will be in two tranches. The funds for operations shall be released quarterly (see the financial flows to the SELF II project in Table 3.6).

**Table 3 6: Financial Flows and funding Releases for SELF II Project FY 2009/10-June 2014**

PORTFOLIO	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year Total
ADB	20,245,000,000	-	10,622,500,000		-	31, 867,500, 000
SELF I – Reflows	651,060,854	651,060,854	651,060,854	651,060,854	651,060,854	3,255,302,920
<b>Sub-total</b>	<b>11,273,560,584</b>	<b>651,060,854</b>	<b>11,273,560,584</b>	<b>11,273,560,584</b>	<b>651,060,854</b>	<b>35,122,802,920</b>
<b>OPERATIONS</b>						
ADB	2,026,500,000	2,026,500,000	2,026,500,000	2,026,500,000	2,026,500,000	10,132, 500, 000
GOT	1,026,060,000	1,026,060,000	1,026,060,000	1,026,060,000	1,026,060,000	5,130,300,000
SELF I – Reflows	137,760,317	137,760,317	137,760,317	137,760,317	137,760,317	688,801,585
<b>Sub-Total</b>	<b>3,190,320,317</b>	<b>3,190,320,317</b>	<b>3,190,320,317</b>	<b>3,190,320,317</b>	<b>3,190,320,317</b>	<b>15,951,601,585</b>
<b>TOTAL</b>	<b>14,463,880,901</b>	<b>3,841,380,901</b>	<b>14,463,880,901</b>	<b>14,463,880,901</b>	<b>3,841,380,901</b>	<b>51,074,404,505</b>

Source: Financial Projections

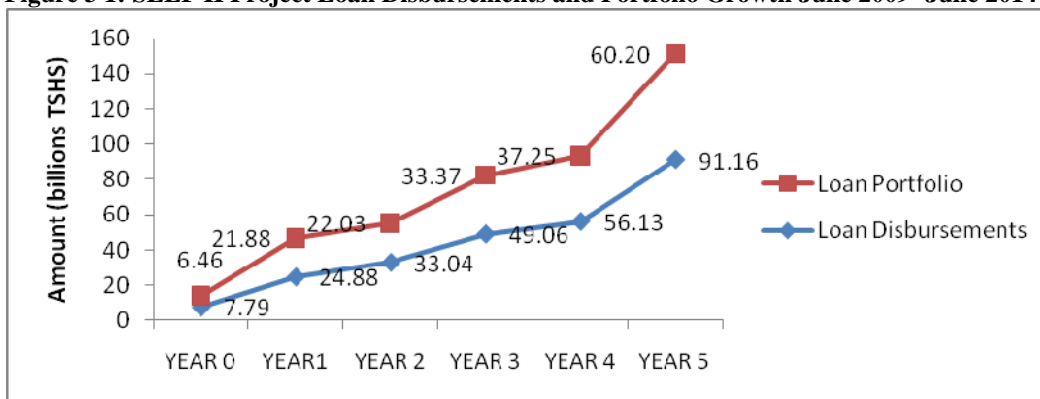
### 3.2 Projections

Based on the above assumptions, the financial statements were projected for the next five years to June 2014.

#### 3.2.1 Loan portfolio projections

The loan portfolio of SELF II is projected to increase from the current TSHS 6.46 billion as at 30 June 2009 to TSHS 21.88 billion at the end of the first year of projections, rising to TSHS 22.03 billion at end of YR2 and TSHS 60.20 by YR 5. Over the 5-year period, loan disbursements and portfolio growth will be as presented in **Figure 3.1**. The growth trend in loan disbursements is expected to increase by the years as more financial resources are released to the project culminating to TSHS.91.16 billion in YR 5. The launching of the second hub in the last 12 months of the project implementation will see disbursement increase from TSHS 56.13 billion to TSHS 91.16 billion and the loan portfolio from TSHS 37.25 billion to TSHS 60.20 billion in YR 5.

**Figure 3 1: SELF II Project Loan Disbursements and Portfolio Growth June 2009 -June 2014**



Source: Financial Projections

#### 3.2.2 Financial Statement Projections

Projected interest on loan portfolio received per annum will increase from TSHS 1.54 billion at the end of the first year, to TSHS 4.55 billion at the end of the second year, to TSHS 5.43 billion at the end of the third year, to TSHS 7.06 billion at the end of year four and TSHS 9.97 billion at the end of the fifth year. This gives an average annual interest income growth of 57%. Year training and promoting the project expenses will cause a loss before grants of TSHS 0.32 billion in Y1 improving to TSHS.1.03 billion in YR 2 and TSHS. 1.84 billion in YR 4 and TSHS. 2.02 billion in YR 5. The project profitability trend continues from YR 2 through to YR 5 of project implementation.

The financial projections indicate that Operational Self – Sufficiency (OSS) is 83% in Years 1, improves to 129% in YR 2 and the project is sustainable thereafter with the OSS of 114% in Year 3; 138% in Year 4; and slightly goes down to 129% in Year 5 (see Table 3.8 below). The overall OSS in the five years of project implementation is projected at 124% on the average. However,

SELF will not be financially self-sufficient throughout the Five Year period of the project. The average FSS during the 5-year period is 65% and it will take more years to achieve FSS.

Balance sheet projections show SELF II's total assets building up gradually from TSHS 26.42 billion at the end of the first year of projections to TSHS 30.50 billion, TSHS 44.85 billion, TSHS 60.36 billion and TSHS 65.43 billion in the second, third, fourth and fifth year of project implementation respectively. This is mainly attributed to substantial growth in loan portfolio; short-term investments and increase in fixed assets as a result of new acquisitions for both HO and hub offices (see Appendix 3). No significant liabilities are projected and equity is expected to grow by 21% p.a. on the average.

The cash flow projections is projected to a positive of TSHS 0.67 billion in year 1, TSHS 0.28 billion in YR 3 and improves to TSHS 0.46 billion by Year 5. Loan disbursements will constitute the most significant cash outflows. Substantial cash inflows will come from loan repayments: TSHS.9.39 billion in Year 1; TSHS. 32.37 billion in Year 2; TSHS. 37.20 in Year 3; TSHS 51.56 billion in Year 4 and TSHS 67.25 billion in Years 5. Equally significant will be donated equity and income from short-term investments (Appendix 3).

### **3.2.3 Ratio Analysis**

Table 3.7 below provides a snapshot of the projected key performance indicators (financial performance ratios, operational performance ratios and portfolio quality ratios) over the 5-Year period on an end of year basis (monthly performance indicators in detailed financial projections).

The yield on portfolio is projected to 20% on the average throughout the project implementation. SELF II is expected to continue controlling costs such that operating cost ratio is projected to improve from 14% in Year 1 to 12% by Year 5. The staffs in both HO and Zonal/hub offices will operate optimally such that the ratio of COs to total number of staff will be 74% by Year 5 which is in accordance with sound practices. On the average, borrowers per CO will be 31 on the average over the project implementation period. SELF II is projected not to suffer liquidity problems (insolvency). The Equity multiplier will be maintained above 100% (1.00 on the average).

As regards sustainability, the projections indicate that SELF II project will earn sufficient revenue from financial income (interest income, commissions and fees) to cover its operating costs right from YR2. Its operating self-sufficiency (ability to meet the operating costs from its income) is projected to improve from 83% in Y1 to 114% in YR3 and 129% in YR5, an overall average of 124% in the 5years of project implementation.

The projections further indicate that in the first three years of project implementation, the loan portfolio will grow by about 75% p.a. on the average. By YR5, loan disbursements of TSHS.91.16 billion to 2,040 financial intermediaries (FIs) are projected. As a result, about 820,000 FIs' clients (4,100,000 households beneficiaries) will access credit by project completion.

The loan portfolio will be managed prudently to avoid un-recovered loans becoming a liability as bad portfolio quality saps energy of the institution due to staff attention being diverted to loan recovery that lead to the cost escalation with additional effort, while income begins to fall as a result of missed interest payments. In order to supply their services on a sustainable basis, it is imperative that SELF II maintains high repayment rates. It is projected that annualised loan write-off ratio will not be more than 2% per annum. The provision for loan losses will not go beyond 5% while the loan repayment will not go below 95%.

**Table 3 7: SELF II Projected key performance indicators June 2009-June 2014**

<b>Growth and Outreach</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Overall Growth in Loan Portfolio	65.64%	29.44%	28.98%	18.75%	27.82%
Number of Active Loans	805	1,042	1,344	1,596	2,040
<b>Efficiency and Productivity</b>					
Yield on Portfolio	21%	19%	20%	20%	20%
Operating Cost Ratio	14%	13%	14%	12%	12%
Borrowers per Credit Officer	30	32	30	31	30
Overhead percentage	100%	41%	37%	37%	31%
Credit Officers as a % of total staff	66%	62%	69%	72%	74%
<b>Portfolio Quality</b>					
Reserve Ratio	5%	5%	5%	5%	5%
Annualised Loan write-off ratio	1.8%	2%	1.3%	1.4%	1.7%
<b>Profitability</b>					
Operational Self-Sufficiency	83%	129%	114%	138%	129%
Financial Self-Sufficiency	36%	73%	62%	67%	73%
<b>Solvency</b>					
Equity Multiplier	1.0	1.0	1.0	1.0	1.0

Source: Financial Projections

Apart from SELF I project, Akiba Bank, CRDB and Post Bank, not many MFIs wholesale loan funds to FIs for on-lending. SELF II project has a comparative advantage over other wholesalers because of its rural and the urban-poor focus. With services nearer to the clients through: the two zonal/hub offices by YR5; retaining the current and recruiting highly skilled and technical staff; and the potential market countrywide; the projections are attainable.

### **Economic and financial analysis of a Sample SELF MFIs**

Six of the MFIs<sup>2</sup> that have accessed loans from the SELF I Project show that the project extended credit to MFIs at different levels of operations ranging from SELFINA with a loan portfolio and total equity of TSH 4. 02 billion and TSH 781.39 million respectively; to CHANGAMOTO LPF with a loan portfolio of TSH 110.74 million and equity of TSH 91.72 million in 2008. It also funded smaller MFIs such as KWA MTORO SACCO and UWANYA SACCO whose equity in 2007 was only TSH 17.93 million and TSH 28.21 million respectively. All the six MFIs recorded increases in loan portfolio due to significant increases in number of clients, savings deposits, long term loans (loans over 12 months) and retired investments. The

<sup>2</sup> Selfina, Wafanyabiashara SACCO, Changamoto LPF, Mwashita SACCO, Uwanya SACCO and Kwa Mtoro SACCO.

loan portfolio growth significantly contributed to increase in total assets by 87% on the average in 2006, 85% in 2007 and 93% in 2008.

The increase in loan portfolio also resulted into an increase in interest income and commissions that enabled the MFIs to meet their operating expenses. Apart from CHANGAMOTO LPF, the MFIs recorded positive net operating income before and after grants. This increased their respective retained earnings and the impact was growth in equity; for example 118% in WAFANYABIASHARA in 2007; and 30% in UWANYA SACCO. On the average, the six MFIs recorded a return on performing assets of 24% and 22% in 2007 and 2008 respectively. For every shilling lent to the six MFIs, the returns range was on the average 10%-47% which was substantially higher than the commercial banks interest on savings deposits of 3% p.a. As regards cash flows, all the six MFIs recorded positive cash flows due to net cash inflows from operation, investment, grants and financing activities.

## APPEDIX 1: SELF Project Current Product Range

<b>PRODUCT</b>	<b>ACTIVITIES FUNDED</b>	<b>PRODUCT CHARACTERISTICS</b>
<b>ANZA</b>	Trade and commerce	-For “first-time” borrowers -Grace period :3 months - Loan term 12-24 months -Interest Rate:11% p.a. flat -Repayment frequency: quarterly -Loan application fee: 2%
	Processing	
	Service provision in Income Generating Activities (IGA)	
<b>KILIMO</b>	Finance agricultural activities	-Loan term: 10 months -Grace period: 9 months -Repayment frequency: one tranche/balloon consisting of loan principal and interest after 10 months -Interest rate:11% flat; charge: 2%
<b>FLEX</b>	“Second loan “after ANZA for any IGA	-Loan term: 24 months -Grace period: 6 months -Interest Rate: 14% flat -Repayment frequency: interest paid monthly during grace period & with principal upon loan maturity
<b>INCUBATOR</b>	Designed for strategic partners of SELF involved in wholesaling credit funds.	-Loan term: 24 months -Grace period: 12 months -Interest Rate:8% flat -Repayment frequency: interest paid monthly during grace period & with principal upon maturity.
<b>LINE OF CREDIT</b>	Long-term funding of IGA	-Loan term: 36 months -Interest Rate: 16% flat paid monthly during grace period & with principal upon loan maturity -Grace period: 12 months

Source: SELF Credit Department

## APPENDIX 2: SELF I Financial Statements FY 2006/07-2008/09

<b>INCOME STATEMENT</b>	<b>FY 06/07</b>	<b>FY 07/08</b>	<b>FY 08/09</b>
Financial income	864,807,231	1,322,161,548	1,626,136,415
Provision for loan losses	(106,086,000)	(201,575,000)	(390,445,100)
<b>Net Financial Margin</b>	<b>758,721,231</b>	<b>1,120,586,548</b>	<b>1,235,691,315</b>
Operating costs	863,533,495	908,677,423	1,176,324,781
Net operating income	(104,812,264)	211,909,125	59,366,534
Net non-operating income/exp	31,342,788	23,462,832	18,678,397
<b>Net income before financial support</b>	<b>(73,469,476)</b>	<b>235,371,957</b>	<b>78,044,931</b>
Financial Support Income	-	-	-
<b>Net income after financial support</b>	<b>(73,469,476)</b>	<b>235,371,957</b>	<b>78,044,931</b>
<b>BALANCE SHEET</b>			<b>FY 08/09</b>
Cash and Bank balances	2,138,803,871	2,183,660,001	950,786,706
Gross Portfolio outstanding	3,939,005,667	4,683,326,887	6,457,606,509
Loan Loss Reserve	(106,086,000)	(201,575,000)	(390,445,100)
<b>Net Portfolio outstanding</b>	<b>3,832,919,667</b>	<b>4,481,751,887</b>	<b>6,067,161,509</b>
Short-term Investments	5,057,996,080	5,314,950,000	5,743,500,000
<b>Current Assets</b>	<b>11,029,719,618</b>	<b>11,980,361,888</b>	<b>12,761,448,215</b>
Furniture and Equipment	387,384,581	537,723,387	547,753,487
Depreciation	(113,410,731)	(144,893,572)	(240,655,182)
<b>Net Fixed Assets</b>	<b>273,973,850</b>	<b>392,829,815</b>	<b>307,098,305</b>
<b>TOTAL ASSETS</b>	<b>11,303,693,468</b>	<b>12,373,191,703</b>	<b>13,068,546,520</b>
<b>TOTAL LIABILITIES</b>	-	-	-
Accumulated Financial Support Equity	11,303,693,468		14,431,902,512
Accumulated Net surplus/deficit	(1,603,303,403)	(1,676,772,880)	(1,441,400,923)
Net Surplus/deficit current period	(73,469,478)	235,371,957	78,044,931
<b>Total Equity</b>	<b>9,626,920,588</b>	<b>10,931,790,780</b>	<b>13,068,546,520</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>11,303,693,468</b>	<b>12,373,191,703</b>	<b>13,068,546,520</b>

Source: SELF Financial Statements

## APPENDIX 3: SELF II Projected Financial Statements June 2009-June 2014

### [A ] INCOME STATEMENT

FINANCIAL STATEMENT	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
<b>[A] INCOME STATEMENTS</b>						
Financial income	1.63	1.54	4.55	5.43	7.06	9.97
Provision for loan losses	(0.39)	(0.81)	(0.57)	(1.00)	(0.89)	(2.10)
<b>Net Financial Margin</b>	<b>1.24</b>	<b>0.72</b>	<b>3.99</b>	<b>4.43</b>	<b>6.17</b>	<b>7.87</b>
Operating costs	(1.18)	(1.05)	(2.96)	(3.76)	(4.23)	(5.62)
Net operating income	0.06	(0.32)	1.03	0.67	1.94	2.25
Net non-operating income/exp	0.19	-	-	-	-	-
Financial support (Grant) Income	-	13.68	3.05	13.68	13.68	3.05
<b>Net income after financial support</b>	<b>0.08</b>	<b>13.35</b>	<b>4.08</b>	<b>14.35</b>	<b>15.62</b>	<b>5.30</b>
<b>[B] BALANCE SHEET</b>						
Cash and Bank balances	0.95	0.67	0.16	0.28	0.27	0.46
Gross Portfolio outstanding	6.46	21.83	22.03	33.37	37.25	60.20
Loan Loss Reserve	(0.39)	(1.08)	(1.17)	(1.66)	(1.86)	(3.00)
<b>Net Portfolio outstanding</b>	<b>6.07</b>	<b>20.75</b>	<b>20.86</b>	<b>31.71</b>	<b>35.39</b>	<b>57.20</b>
Short-term Investments	5.74	4.81	9.02	12.46	23.90	6.56
<b>Current Assets</b>	<b>12.76</b>	<b>26.23</b>	<b>30.04</b>	<b>44.45</b>	<b>59.56</b>	<b>64.22</b>
Furniture and Equipment	0.55	0.55	1.04	1.24	1.90	2.74
Depreciation	(0.24)	(0.36)	(0.58)	(0.84)	(1.0)	(1.18)
<b>Net Fixed Assets</b>	<b>0.31</b>	<b>0.19</b>	<b>0.47</b>	<b>0.40</b>	<b>0.91</b>	<b>1.55</b>
<b>TOTAL ASSETS</b>	<b>13.07</b>	<b>26.42</b>	<b>30.50</b>	<b>44.85</b>	<b>60.57</b>	<b>65.77</b>
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Accumulated donated Equity	12.29	28.10	31.26	44.84	58.51	61.56
Accumulated Net surplus/deficit	0.78	(1.68)	(0.66)	0.01	1.96	4.21
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>13.07</b>	<b>26.42</b>	<b>30.50</b>	<b>44.85</b>	<b>60.47</b>	<b>65.77</b>
<b>[C] CASH FLOW PROJECTIONS</b>						
<b>Cash flow from operating Activities:</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	
Net Operating income	(0.32)	1.03	0.67	1.94	2.25	
Depreciation and amortisation	0.12	0.22	0.26	0.34	0.55	
Loan loss provision	0.81	0.57	1.00	0.89	2.10	
Loan repayments	9.39	32.37	37.20	51.56	67.25	
Loan Disbursements	(24.88)	(33.04)	(49.06)	(56.13)	(91.16)	
Increase/Decrease in investment activities	0.93	(4.21)	(3.44)	(11.44)	17.34	
<b>Net Cash from operating activities</b>	<b>(13.96)</b>	<b>(3.07)</b>	<b>(13.36)</b>	<b>(12.83)</b>	<b>(1.67)</b>	
<b>Net Cash from investing activities</b>	<b>0</b>	<b>(0.50)</b>	<b>(0.19)</b>	<b>(0.85)</b>	<b>(1.19)</b>	
<b>Net Cash flows from financing activities:</b>						
Donated Equity	13.68	3.05	13.68	13.68	3.05	
Net change in cash and due from banks	(0.28)	(0.51)	0.12	(9.95)	0.19	
Cash & due from banks beginning	0.95	0.67	0.16	0.28	0.27	
<b>CASH AND DUE FROM BANKS END OF PERIOD</b>	<b>0.67</b>	<b>0.17</b>	<b>0.28</b>	<b>0.27</b>	<b>0.46</b>	

Source: Financial projections

## **TECHINCAL ANNEX B8**

### **Environmental and Social Questionnaire for Financial Intermediaries**

#### *Initial Request for Information*

It is ADB's policy that all its operations are carried out in an environmentally (includes environmental, health and safety matters) and socially responsible manner. ADB's environmental and social policies and procedures (currently under preparation) include special requirements for projects involving financial intermediaries (FIs). Specific requirements will depend on the type of FI operations and circumstances of the client. In general, the ADB requires an FI to:

- Operate a simple management system for screening sub-projects for key environmental and social issues;
- Provide financing only to those sub-projects that comply with applicable host country regulations and standards and in certain cases, with ADB policies and guidelines;
- Possess an adequate level of knowledge and capacity for dealing with environmental and social issues; and if necessary, attend environmental training acceptable to ADB;
- Provide to the ADB with an annual report on its environmental performance.

Please provide as much information as you can, as early as possible, and include copies of relevant documents. This will help us identify the best response to the circumstances of your project in a timely fashion.

1. **Do you have any existing policies on the environmental aspects of your investment/lending activities?** (These may be part of other policies such as your Credit Policy or Investment Strategy or may be "stand-alone" documents). Attach copies if possible.

*In October 2009, through a formal Memorandum of Understanding[MOU], charting out a collaboration framework, SELF and NATIONAL ENVIRONMENTAL MANAGEMENT COUNCIL (NEMC); the principal agency in Tanzania for the management of the environment and coordinates, monitors and supervises all activities in the field of environment. Under this collaboration and synergy arrangement, NEMC is charged with the development of guidelines for appraising environmental soundness of all projects for funding, especially in fragile environments and ecosystems. NEMC will also oversee client training on to ensure human economic activities co-exists harmoniously with environment.*

2. **Please indicate at what level these policies have been approved** (e.g. your Board of Directors), their scope (e.g., do they apply to only a certain aspects of your business and the date they were adopted).

*The collaboration framework and memorandum of understanding were approved by the Boards and management of both SELF and NEMC.*

3. **Do you have any existing procedures or working practices covering environmental aspects of your investment/lending activities?** Procedures may describe environmental screening method and what type of information is required for investment proposals, loan proposals, etc. Please indicate what aspects of your business these procedures apply to (e.g., only to long-term project finance, only to equity investments, all situations). You

should also let us know what, if any, environmental conditions or covenants you include in loan or investment agreements with your clients.

*The working procedures and all environmental aspects are as spelt out in the MOU and also in The Environmental Management Act No. 20 of 2004 (EMA, 2004) which repealed the National Environmental Management Act No.19 of 1983 and re-established NEMC. EMA 2004 provides for a legal and institutional framework for sustainable management of the environment, prevention and control pollution, waste management, environmental quality standards, public participation, environmental compliance and enforcement. Furthermore, it gives NEMC mandates to undertake enforcement, compliance , review and monitoring of environmental impacts assessments, research, facilitate public participation in environmental decision-making, raise environmental awareness and collect and disseminate environmental information. Thus, EMA 2004, ensures that all projects are subjected to the act ; that is in terms of project appraisal for funding and provision for clients training on how to operate and carry out activities in fragile environments and ecosystems, as need arises.*

4. **Please provide Management and Organizational arrangement for environmental issues.** Please indicate who in your organization at the senior management level and operational levels (legal or technical staff) are responsible for environmental issues. If possible, please provide a copy of a recent example of any regular management report on environmental aspects.

*Under the collaboration arrangement, the environmental related issues as spelt out in the MOU are under the direct charge of SELF Manager, however for the day to day management , they are under the Credit Component which is charged with the credit delivery function.*

5. **Any other information you believe to be relevant.** None.

## **TECHNICAL ANNEX B9**

### **PROJECT PREPARATION AND SUPERVISION**

Project Preparation: A preparation mission was undertaken in October 2009 to explore the possibility of a Bank Group support to a follow-up phase of SELF.

Country Team Meeting: A Country Team meeting was held on the December 2009 to discuss the Project Concept Note.

Peer Review of Project Concept Note (PCN): Following the preparation mission, a PCN was submitted to Peer Reviewers on 10 November 2009 for comments.

OPsCom: The PCN was submitted to OPsCom for review on 8<sup>th</sup> December 2009 following the incorporation of comments from peer reviewers. Feedback from OpsCom was received on the 15<sup>th</sup> December 2009.

Project Appraisal: The project was appraised in December 2009 by a team comprising a Socio-Economist, a Financial Analyst, a Procurement Specialist and a Social Sector specialist. At the local level, the mission visited a number of MFIs and development partners and held extensive discussions with their management and clients. At the national level, the Mission met with officials of relevant Government ministries and other donors involved in microfinance in Tanzania.

Post-Appraisal Mission: A post-appraisal mission was undertaken in February 2010 to carry out further financial analysis of the project, as well as firm up the proposed implementation arrangements with the Government.

Peer Review: Following the post-Appraisal Mission, the Project Appraisal Report (PAR) was submitted to Peer Reviewers on 17 February 2010 for comments.

Country Team Meeting: the PAR was submitted to OREA on March 2010 and a Country Team Meeting was held on 11 March 2010.

Translation: The revised PAR was submitted for translation on 22 March 2010

Loan Negotiations: Loan negotiations with the Government of Tanzania were held in Dar Es Salaam on 1-2 April 2010.

Board Submission: The Project is proposed for Board Presentation on 5<sup>th</sup> May 2010.

## TECHNICAL ANNEX C1 PROJECT DESCRIPTION

### Rationale

The report of the Inter-institutional Committee on the review of the Financial Sector Assessment Programme (FSAP) of 2007 concluded that Tanzania's formal financial system plays a limited role in the economy and its current depth and efficiency fall short of what is needed to support economic growth. Financial intermediation in Tanzania is low and highly segmented with limited formal banking services. The financial system in Tanzania therefore continues to be restrictive in terms of accessibility to services and a very significant portion of the population is underserved, particularly the youth and women in rural areas.

In 2009, the Financial Sector Deepening Trust (FSDT) carried out a survey, FINSCOPE on the extent of access of financial services in Tanzania. This was a follow up to the similar survey carried out in 2006. The 2009 survey found that on the demand side, the financial sector landscape has not changed much and in some areas has worsened. Whilst growth in those accessing formal (banks) and informal (SACCOs/NGOs) financial institutions rose by 3.3% and 2.2% respectively; those who accessed the informal market fell by 7.8%. Furthermore, the percentage of the population who are totally excluded from both formal and informal financial institutions has increased by 2.3% to 56% in 2009. The survey also revealed that: (i) the excluded youth (age 16-34) increased by 1.2 million (5.4% of adult population in 2009); and (ii) While there is little difference between men and women in terms of access to financial services (on average 43.3% have access while 53.5% excluded) there is twice the number of men than women using the formal financial institutions and a third of both adult men and women remain outside the financial system altogether. Overall, only 12% of the population have access to financial services while in Kenya and Uganda the comparable rates are 23% and 18% respectively. In the rural areas, the penetration is only 8.5%.

On the supply side, in 2009, there were over 3,577 SACCOS with approximately 429,240 members. The informal savings and credit associations (*Village Savings and Loan Associations* (VSLA) were 146 with a total membership of 4,197 (70% women), whereas the NGO-type MFIs were estimated to have 220,000 active borrowers. Banks accounted for 303 branches and 181 ATMs with a total of 2 million clients. In spite of the growth of the formal financial institutions and excess liquidity, there is evidence of market failure in the provision of financial services in Tanzanians. This is attributed to: (i) very low level of penetration of financial institutions; (ii) Most bank branches are located in urban areas and none of the existing institutions have a focused outreach strategy; and (iii) privatized banks have closed many of their rural branches. This would require a holistic approach and alternative outreach modules to financial inclusion.

Based on the successful results of SELF I and worrying results of FINSCOPE study, there is clear indication that there is even a greater need to "improve access of the poor in rural areas to microfinance services". It is also envisaged that such interventions, as has been proven with SELF case studies of clients, will help introduce a business culture and contribute to the development of an entrepreneurial spirit among the excluded in rural areas. The project addresses the chronic lack of access to financial services by the majority of Tanzania's in a two-pronged approach which is: (i) long-term approach to improve the access of the rural poor to financial services. This will be achieved by bringing on board the "excluded" that are not served by the financial institutions through linkage banking; and (ii) replicating successful alternative home-grown models of intervention such as SELF.

The proposed intervention is building on the success and lessons learned from the previous phase. It is geared to complement the attainment of reforms through promoting inclusive financial service delivery and fostering growth of rural based financial institutions that are capable of providing sustainable and responsive financial services. Through the Project's provision of sustainable wholesale credit the intervention is able to effectively address the income poverty pillar envisaged under MKUKUTA.

### ***Project Area and Project Beneficiaries***

All districts of mainland Tanzania and Zanzibar (141) will benefit from the proposed project. The main beneficiaries of the project are 820,000 rural active poor of whom 50% will be women. The project is expected to contribute to socio-economic development and increased income levels reflected in improved living standards. These will be achieved as a result of improved access to financial services. Furthermore the MoFEA, MFIs, district and local governments responsible for the financial sector will benefit from capacity building, institutional strengthening and improved knowledge management.

### ***Project Objectives and description***

The overall goal of the Project is to contribute towards reducing income poverty in Tanzania. The objective of the proposed project is to improve access to financial services to 820,000 active poor in rural areas. The project will comprise of the following two components: (i) Financial Services; and (ii) Capacity Building and Business Development Services. The following table presents the project components, expected outcomes and estimated cost per component.

#### **Component 1: Financial Services**

Under this component SELF will wholesale funds to SACCOs and MFIs who will act as intermediaries and on-lend credit funds to end clients in rural areas of Tanzania. This will enable SELF to maximize outreach through increased coverage of more clients and also continuously develop and deliver financial services that meet the needs of end clients. SELF developed a mix of financial products. Good performance and successful completion of the ANZA loan qualifies the client for FLEX, KILIMO, INCUBATOR or LINE of CREDIT Loan products. The loan products are accessed by fulfilling the following eligibility criteria: (i) the organization being registered and a legal entity with acknowledged BOD, qualified staff and identified well equipped office; (ii) having a good track record of performing micro finance for at least a year, submit a 3 year business plan and demonstrate ability to sustain the program after SELF-project funding; (iii) submission of a certificate of maximum liability in case of SACCOs as well as Annual General Meeting (AGM) authorization to borrow; (iv) a letter of consent that authorizes management to borrow.

The loans extended to SACCOs/MFIs will be in local currency and carry the prevailing market interest rates. The five products that SELF currently promotes attract an average interest rate of 14% compared to the overall market lending rate of 12.26%. The intermediaries will on-lend credit funds to enterprises in rural areas at a rate of interest that will enable them to recover the cost of capital plus a margin of profit. The maximum repayment period will be 36 months including a grace period (not exceeding 6 months) depending on the nature of the enterprise and the mutual agreement reached with the SACCOs/MFIs. The repayment period will depend on the nature of the activity. The processing of loan applications will be in accordance with the

microfinance industry's best practices. Annual growth of loan portfolio is expected to improve from 25% to 75%; and clients reached will increase from 67,000 to 0.82 million (50% women).

## **Component 2: Institutional and Business Development Services**

This component will contribute to strengthen the capacity of SELF through training to: (i) increase its capabilities to discharge its mandate of delivering financial services to the rural poor, (ii) establish an effective monitoring and evaluation system to adequately track inputs, outputs, and outcomes; (iii) develop suitable and affordable loan products that meet the needs of the rural economy and to strengthen the capacity of intermediaries to manage their businesses profitably and enhance the delivery of financial services to targets clients.

This component will support the following sub-components: credit consumer education, financial literacy programs as well as sensitization and awareness raising of the population specifically targeting women and youth, educated unemployed youth such as the graduates of VETA institutions as well as the "Machinga's" Youth Street Venders). Support will include training of local leaders, sensitization & publicity, design and printing promotional materials, institutional support to MFIs, radio programs, TV documentaries, etc. Support will also be provided to refine and develop and test new innovative products and methodologies in service delivery (mobile banking, loan cards, micro-insurance, etc) which can reduce transaction costs and allow for a sustainable outreach of financial services to remote and low-density areas. Other training will involve, study tours and regional or international courses for the staff SELF, MOFEA, PSC, PEED; national workshops, training for MFIs personnel and their clients as well as business development services training.

Business development services will be made available to support intermediaries (SACCOS and MFIs) in order to strengthen their capacity to manage their businesses profitably. SELF will also provide technical and logistical support in order to manage the day-to-day activities of the project as well as the transformation of SELF to a corporate entity. Moreover, the project will provide the necessary support to establish the Microfinance unit in the MoFEA.

## TECHNICAL ANNEX C2

### LINKAGES WITH OTHER DEVELOPMENT PARTNERS

Development partners in Tanzania increasingly recognize the importance of ensuring deeper and sustainable access of the rural population to financial services in order to reduce poverty. The approach implies the delivery of various forms of financial services by a range of institutions to various categories of beneficiaries. At present, the microfinance industry in Tanzania is supported by IFAD, DANIDA, DfID, EU, GTZ, and ADF. The table below shows the amounts and area of focus by various interventions.

Development Partners Financing in Microfinance and Areas of Focus

<b>Development Partners</b>	<b>Funding in UA and Duration</b>	<b>Focus Area</b>
Canada, Denmark, Netherlands, Norway, Sweden and UK	17 million (2007-2012)	The Financial Sector Deepening Trust by these development partners. FSDT which has a management unit in Dar supports (i) expanding the scale and viability of financial institutions; (ii) financial sector infrastructure, especially the crucial task of capacity-building; and (iii) policy, legal and regulatory framework.
IFAD	57 million (2010-2012)	Rural Finance, Marketing and Value Addition Programme Support mainly capacity building through the use of appropriate financial accounting systems, and the development of savings and lending products to match the needs of target clients.

1.4.2 Following the restructuring of the Bank of Tanzania (BoT) the Rural Finance Department was closed and the bank shifted its focus to the supervision of only deposit taking financial institutions. This resulted in weak national level institutional oversight and coordination of the 3<sup>rd</sup> tier MFIs including SACCOS – non deposit taking MFIs. Moreover, the existing microfinance network - Tanzania Association of Microfinance Institutions (TAMFI) - is ineffective and could not play a leadership role in the industry. There is a consensus among key stakeholders, therefore, that through SELF support, the MoFEA should play a leadership role in promoting mechanisms for sustainable financial inclusion for all Tanzanians. As a result, the MOFEA is in the process of strengthening the Microfinance Unit in the Policy Analysis Department. The Unit will oversee, coordinate, and create conducive enabling environment for the industry to grow and effectively contribute to poverty reduction. Its main responsibility will include among others: (i) spearhead in close consultation with other stakeholders the process of policy formulation and establishment of MFIs/SACCOS regulatory authorities; (ii) provide a platform that nurture industry level dialogue and coordination among key stakeholders; (iii) act as a focal point for the compilation of industry wide financial and socio-economic data and commission industry assessment studies in regular intervals; and (iv) prepare annual report on the State of the Microfinance Industry in Tanzania.

1.4.3 SELF will continue its collaboration and strategic partners in order to set priorities, strategies, and approaches to the development of the microfinance sector and building synergies. Similarly, involvement of local leaders at regional administration levels, municipalities, district councils and local government authorities percolate the ownership down to rural areas. This would be achieved through effective promotional activities, sensitization and awareness raising of key stakeholders.