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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-First Session

Rome, 6-7 December 2000

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

UNITED REPUBLIC OF TANZANIA

FOR THE

RURAL FINANCIAL SERVICES PROGRAMME

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CURRENCY EQUIVALENTS

Currency Unit	=	Tanzanian Shilling (TZS)
USD 1.00	=	TZS 700
TZS 1.00	=	USD 0.0014

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

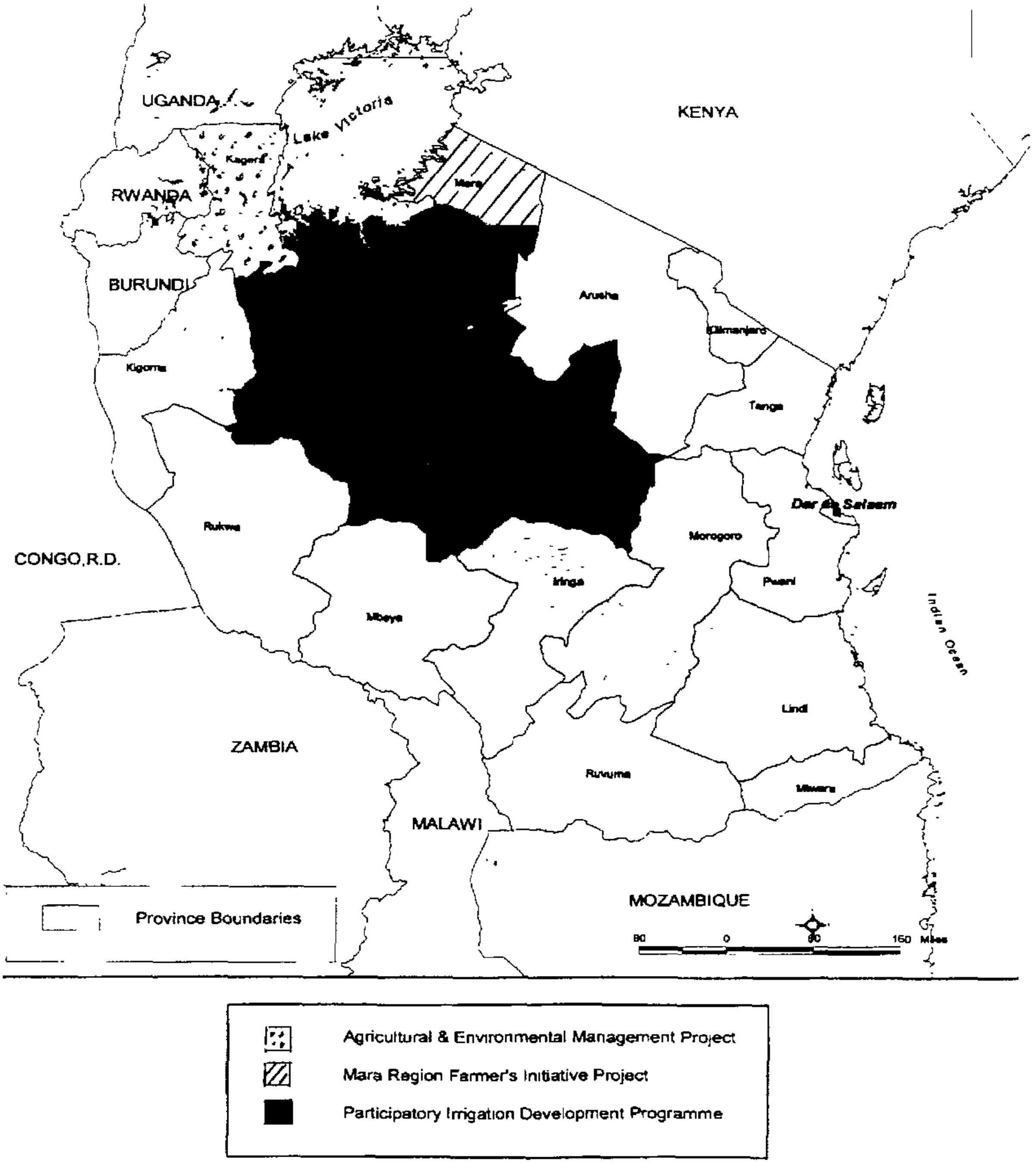
AWPB	Annual Work Plan and Budget
BOT	Bank of Tanzania
CRDB	Cooperative and Rural Development Bank
FLM	Flexible Lending Mechanism
HIPC DI	Heavily-Indebted Poor Countries Debt Initiative
KCB	Kilimanjaro Co-operative Bank
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
NGO	Non-Governmental Organization
OPEC Fund	Organization of the Petroleum Exporting Countries Fund for International Development
PMO	Prime Minister’s Office
PMU	Programme Management Unit
PRA	Participatory Rural Appraisal
RFSP	Rural Financial Services Programme
ROSCA	Rotating Savings and Credit Association
SACA	Savings and Credit Association
SACCO	Savings and Credit Cooperatives
SCCULT	Savings and Credit Cooperative Union League of Tanzania
SELFINA	SERO Lease and Finance Ltd.
TAMFI	Tanzanian Association of Microfinance Institutions
TNA	Training Needs Assessment
TSP	Training Service Provider
ZMU	Zonal Management Unit

GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA

Fiscal Year

1 July - 30 June

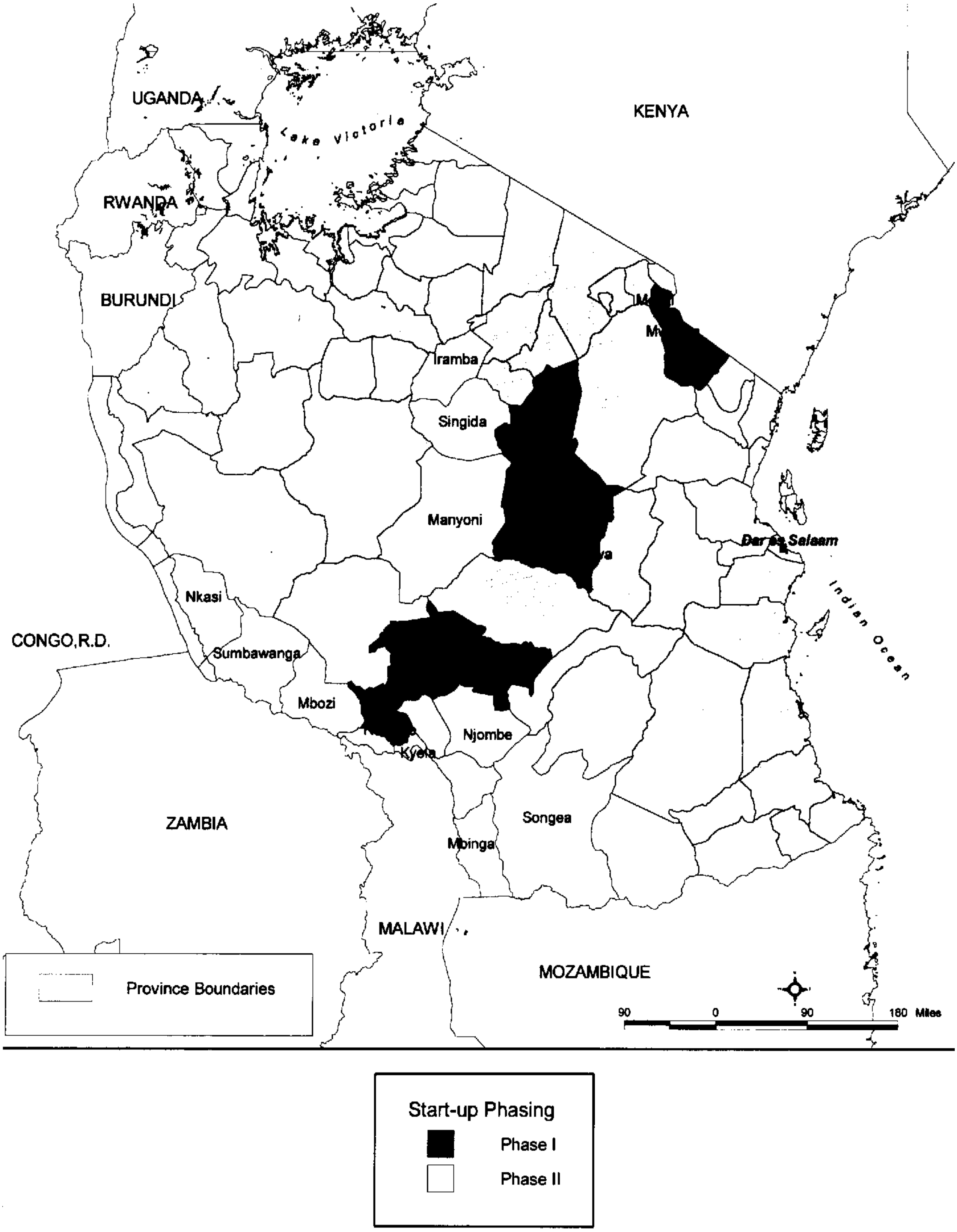
MAP OF IFAD OPERATIONS



Source: Appraisal Report

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

MAP OF PROGRAMME AREA



UNITED REPUBLIC OF TANZANIA

RURAL FINANCIAL SERVICES PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	United Republic of Tanzania
EXECUTING AGENCY:	Ministry of Finance
TOTAL PROGRAMME COST:	USD 23.8 million
AMOUNT OF IFAD LOAN:	SDR 12.8 million (equivalent to approximately USD 16.3 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	Swiss Government: USD 2.2 million Organizatioin of the Petroleum Exporting Countries Fund for International Development (OPEC Fund): USD 2.2 million
AMOUNT OF COFINANCING:	USD 4.4 million
TERMS OF COFINANCING:	Grant – Swiss Government Loan – OPEC Fund
CONTRIBUTION OF BORROWER:	USD 2.7 million
CONTRIBUTION OF BENEFICIARIES:	USD 0.4 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROGRAMME BRIEF

Who are the beneficiaries? The Rural Financial Services Programme (RFSP) will target the rural poor, consisting of marginal farmers (possessing 2-3 acres of cultivable land), the landless, and women who are already members or intend to become members of rural solidarity groups and grass-roots microfinance institutions (MFIs) such as savings and credit cooperatives (SACCOs), savings and credit associations (SACAs) and village banks. The target group suffers from malnutrition, food insecurity and lack of income-generating opportunities. Institutional beneficiaries are institutions at the grass-roots level such as MFIs, local non-governmental organizations (NGOs) and the private-sector training service providers (TSPs), that will be directly involved in providing critical and essential microfinance services to the poor in rural areas.

Why are they poor? The causal factors of poverty in the programme area are numerous – economic, social and political. However, poverty is largely due to the past policies of the government, which had built-in biases to exclude the poor from accessing the microfinance services provided by formal financial institutions. Poverty can in large part be attributed to: (i) lack of training, information and access to financial resources, which inhibit the poor from engaging in potential income-generating activities; (ii) absence of an appropriate institutional framework and conducive policy environment (e.g., savings and lending rates, national microfinance policy) to empower the poor to save, invest and assume decision-making responsibilities within the MFIs; (iii) strict legal formalities and traditional customs that prevent women (as they cannot be heads of family) from becoming members of MFIs; (iv) women's lack of tangible physical assets, which disqualifies them from satisfying the prescribed collateral requirements for obtaining credit, and their inadequate financial resources, which preclude them from paying high membership fees; and (v) lack of initial seed capital needed to build up the asset base of the poor.

What will the proposed programme do for them? The programme is designed to enrich the poor by enhancing their social bargaining and access to financial resources. In specific terms, the programme will: (i) empower the rural poor by removing legal, regulatory and social barriers that prevent their active participation within MFIs; (ii) provide the target groups with demand-based training to enhance their business and technical skills, so that they can manage their farm and non-farm operations efficiently and effectively; (iii) support the design and development of a comprehensive financial system at the grass-roots level, which will be owned, operated and managed by the members of the MFIs, under the prudential regulatory norms of the Bank of Tanzania (BOT); and (iv) provide the rural poor with increased access to various financial instruments, such as working capital, term loans and lease funds to expand their income-earning and employment-generation opportunities.

How will the beneficiaries participate in the programme? An intensive participatory and consultative process guided the programme design during all stages of the project cycle. It consisted of a participatory rural appraisal (PRA) exercise, stakeholders' workshops, focus group discussions, and formal and informal interviews in order to reflect the felt needs and constraints of the beneficiaries and the measures needed to resolve these issues during implementation. The following institutional mechanisms and modalities will be used to realize this objective: (i) the MFIs (SACCOs, SACAs and village banks) will be organized and supported according to a demand-driven approach; (ii) a board of directors, elected and appointed by the members will govern, administer and manage the MFIs; (iii) specific measures and criteria will be used to ensure a certain percentage of women's participation in MFIs, including in the decision-making process; and (iv) participatory monitoring and impact analysis will be carried out so that the needed adjustments and modifications can be made in light of the recommendations and suggestions made.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE UNITED REPUBLIC OF TANZANIA FOR THE RURAL FINANCIAL SERVICES PROGRAMME

I submit the following Report and Recommendation on a proposed loan to the United Republic of Tanzania for SDR 12.8 million (equivalent to approximately USD 16.3 million) on highly concessional terms to help finance the Rural Financial Services Programme (RFSP). The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Agricultural Sector

1. **The Economy.** The United Republic of Tanzania stretches from the equator to latitude 12 degrees south occupying an area of 945 200 km^2 on the coast of East Africa including the Zanzibar and Pemba islands. Its economy is predominantly agricultural. The population totalled 31.3 million people in 1997, and although population density is low (35 per km^2), the population growth rate between 1980 and 1997 has been rapid (3.1% annually). About 70% of the population live in rural areas in over 8 000 villages. With per capita income at USD 170[2], the United Republic of Tanzania is one of the world's poorest countries. Over the last five years, it has made significant progress in restoring macroeconomic stability through a process of trade liberalization, efficient management of the monetary sector and deregulation of the pricing policy and marketing services. The impact of these reforms has been widespread throughout the economy, resulting in an average annual economic growth rate of about 4% during 1995-99, reduction of fiscal imbalances from 30% in 1995 to 6.6% in June 2000, and a decline of the annual inflation rate from 21% in 1996 to 6% in April 2000. Similarly, foreign reserves have increased from 1.5 to 4.5 months of merchandised imports during the same period. However, at an estimated USD 8 billion, the country's total debt is still high, and it consumes about 40% of the national budget. The recently approved Heavily-Indebted Poor Countries Debt Initiative (HIPC DI) will lighten this burden; but its long-term solution depends on donors' willingness to provide concessionary and grant funding to increase productivity and growth to ensure the overall sustainability of the economy.

2. **Agriculture sector.** The Tanzanian economy is dominated by the agriculture sector. It generates 55% of the gross domestic product (GDP) (1992-96), more than 80% of total exports and about 90% of the employment. Most of the 3.5 million farm families are engaged in subsistence cultivation and smallholder cash crop production. The main subsistence crops, accounting for 55% of total agricultural output, are maize, sorghum, millet, cassava, rice plantains, wheat and pulses. Yields are poor due to low input use and limited access to new technologies. Smallholder production accounts for most of the agricultural exports and over 80% of the value of marketed cereals (maize, rice, sorghum and millet). Following declines in production from the 1970s to the mid-1980s, the Tanzanian agriculture sector has been growing modestly, although production levels are still far

[1] See Appendix I for additional information.
[2] World Development Report, 1998.

below potential: the productivity levels of most crops are significantly below those of the 1970s, and environmental degradation is widespread in many rural areas due to inappropriate land use and a lack of appropriate technologies. Agricultural growth has occurred mainly through the expansion of areas under cultivation.

B. Lessons Learned from Previous IFAD Experience in the United Republic of Tanzania

3. Confronted with the limited engagement of the commercial financial sector in smallholder finance and the failure of parastatals to resurrect lines of finance to respond to the needs of the rural poor, IFAD, in consultation with the Government, initiated a number of pilot programmes based on local organization and savings mobilization, using SACCOs as an alternative approach to financial service development. In the Southern Highlands Extension and Rural Financial Services Project, the pilot operations through SACCOs appear to be successful, having mobilized TZS 288 million in savings from smallholders, and recovered 91% of the total loans extended to 192 SACCOs and 1 800 informal groups in all four regions covered by the project. The rate of savings has increased by 70% annually. Each informal group consists of ten members, about 40% of whom are women.

4. The performance of SACCOs in terms of their impact within the community is quite visible in the Southern Highlands Project. A 1999 impact assessment found: (i) *Production impact*. The loans given through SACCOs have been able to increase the production of all the major crops two- to threefold (e.g., maize from 1 t/ha to about 2.5-4.7 t/ha, and Irish potatoes from 4 t/ha to 10 t/ha, with an increase of farmers' net returns of 300% and 200% respectively); (ii) S*ocial development*. The SACCOs have brought about fundamental structural changes within the society by enabling the poor to have access to a financial source, acquiring ownership of the institution and obtaining power in its management through the introduction of flexible lending procedures, a legal framework and policies. Through this process, the new institution has created the necessary leverage to exert both the voice and power of the poor in the governance of the local civil-society organizations; and (iii) *Financial viability*. The SACCOs have managed to attain a great deal of sustainability partly due to the reduction of the transaction costs of funds, but largely because they have succeeded in building beneficiaries' confidence and strengthening their commitment to make repayments promptly, increase savings and manage operations cost-effectively. It has been estimated that the transaction costs have decreased by 25 per cent, whereas both the savings and recovery rates have gone up manyfold.

C. IFAD's Strategy for Collaboration with the United Republic of Tanzania

5. **IFAD's strategic framework and rationale for rural financial services.** In response to a request from the Government, IFAD decided, in collaboration with other donors assisting in undertaking major reforms in this subsector, to explore options for extending access to rural financial services to the poorer segments of the community. The emergence of SACCOs, SACAs and the community banks provides a point of departure for the development of a rural financial system accessible to the poor. However, to increase the efficiency and effectiveness of the delivery of financial services by these institutions, the Government requires substantial assistance in designing and formulating a comprehensive nationwide financial architecture encompassing the following critical elements: (i) design and implementation of suitable institutional and legal frameworks to allow effective transactions in rural financial markets to enable the grass-roots MFIs to operate as private banks; (ii) strengthening of the institutional capacity of the rural financial institutions, particularly at the grass-roots level; (iii) design and approval of prudential and non-prudential regulatory norms for the efficient operation of the rural financial institutions, including the liberalization of deposit and savings rates; (iv) provision of technical assistance to the concerned institutions (MFIs) to develop appropriate policy instruments, procedures and management techniques to improve their efficiency and capacity to extend their services to rural people; and (v) provision of essential non-financial services to support marketing and promotional activities. The proposed programme will help realize these objectives.

6. Within this new framework, the range of functions of MFIs (including SACCOs) will gradually evolve, with concentration on enlarging membership and the mobilization of share capital and savings at the formative stage (Stage 1). Subsequently, at the consolidation stage (Stage 2), MFIs will be expected to operate as financial intermediaries, using only their own resources, while gaining the confidence to operate as financial institutions. Credit operations at this stage will be restricted to small loans given for short periods, allowing MFIs to gain experience in loan appraisal, disbursement and recoveries. Programme assistance to SACCOs in Stages 1 and 2 will concentrate on developing their operational capacity and savings mobilization, while during Stage 3, called the maturity stage, subject to their satisfactory performance based on appropriate criteria, SACCOs will be eligible to borrow from upstream financial institutions to initiate lending operations as normal financial intermediaries (details in Appendix VII).

PART II - THE PROGRAMME

A. Programme Area and Target Group

7. **Programme Area**. The programme will cover three zones – southern, central and western – in a phased approach. The first phase will select areas where IFAD's previous operations have created the necessary preconditions and enabling environment in terms of awareness-building, operational capacity, and financial viability for further replication. The criteria for the selection of these regions were: (i) agro-ecological and socio-economic diversity; (ii) existence of viable farm and off-farm income-generating activities; (iii) predominance of poor rural households; (iv) high concentration of registered MFIs and NGOs; and (v) existence of financial institutions interested in extending services to MFIs, NGOs and solidarity groups. The final selection of districts in each zone will depend on the commitments made by the district councils and their contributions in terms of facilities and funds.

8. **Target group.** The programme will target the rural poor who comprise 90% of the total rural population in the three zones of the programme area. Specifically, the programme will target rural solidarity groups, including women and the landless, and the rural grass-roots MFIs that serve them (SACCOs, SACAs and village banks). The detailed poverty profiles of the target group, the criteria used for its selection, the major constraints faced by the group, and the programme interventions designed to alleviate these constraints, are given in Appendix VI. There are now about 395 rural SACCOs and 68 SACAs involved in various forms of microfinance activities in the programme area. During the first phase, priority will be given to those MFIs that have already benefited from IFAD's earlier interventions and have demonstrated their capacity in financial management, and their ability to mobilize savings, extend loans and increase outreach capacity.

9. Under the programme, a number of instruments will be used to assist the grass-roots MFIs to provide wider and easier access of microfinance services to poor farmers, women, the landless and other vulnerable segments of the rural population. Special attention will be given to ensuring that the programme can meet the priorities and needs of the target groups identified during the participatory rural appraisal exercise, beneficiaries workshops and focus group discussions. Particular focus will be on their desire for access to more productive and viable income-generating activities.

B. Objectives and Scope

10. IFAD has a long-term commitment to assist the emergence of a viable, transparent and diversified financial system in rural areas. The main objectives of the programme will be to: (i) support the design, development and implementation of a financial architecture with roots at the village or ward level in the form of village banks or SACCOs/SACAs (called microfinance institutions or MFIs), with emphasis placed on savings mobilization, the payment system, the extension of financial services and governance; (ii) enhance technical, operational and outreach capacity of MFIs for savings and lending operations to enable them to provide a broad range of financial services to the rural poor (consisting of both individuals and groups, including the landless

and women) for potential productive and income-generating activities, based on appropriate selection criteria, instruments and modalities; (iii) empower the rural poor through minimizing the legal, regulatory and social barriers constraining their active participation within MFIs and providing them with the opportunity to enhance their business and technical skills; and (iv) strengthen the financial instruments, skills and capital base of the grass-roots MFIs and the financial intermediaries (commercial/community banks) to enable them to ensure economies of scale, efficiency, and operational viability and flexibility.

C. Programme Components

11. The programme will involve three distinct phases corresponding to a logical sequence of growth and transformation of MFIs. However, the implementation of activities under each phase will be kept relatively flexible. The graduation of the programme from one phase to the next will essentially require satisfactory fulfilment of a set of performance criteria or milestones, called triggering mechanisms, prescribed under each of the proposed phases (Table 1). The programme will finance five components based on a flexible programmatic approach, which will permit adjustments during implementation. The key features of each of these components are described briefly below, while a full description can be found in Appendix IV.

Improvement of the managerial capacity and performance of grass-roots microfinance institutions (MFIs)

12. The main objective of this component is to strengthen the operational and financial performance of both existing and new grass-roots MFIs that respond to the financial needs of the rural people. Specifically, this component will finance the following activities:

(a) **Operational framework for grass-roots MFIs.** (i) Within the overall national framework, support the MFIs in developing detailed policy guidelines (on interest and savings rates, governance, risk management and insurance) for implementation; (ii) strengthen the capacity of the participating institutions in supervision, monitoring and impact assessment through training and technical assistance; (iii) help the MFIs to operationalize the prescribed guidelines, ensuring the required banking standards, and maintaining sound portfolios in terms of financial viability; (iv) undertake studies on how the existing laws and regulations pertaining to SACCOs and SACAs could be harmonized for the best interests of microfinance development, including the preparation and graduation of informal groups such as women's solidarity groups, and rotating savings and credit associations (ROSCAs).

(b) **Capacity-building of training service providers (TSPs).** (i) "*Training of trainers*". An international consulting firm or institute will be contracted to organize two training courses of 15 days each for about six TSPs on participatory and gender issues, management of MFIs, and finance; (ii) *Training needs assessment of MFIs*. Contracted TSPs will organize a number of initial workshops for grass-roots MFIs to assess and identify their training needs; (iii) *Preparation of training material*. On the basis of detailed training needs assessments, TSPs will prepare the required training materials and instructional methodologies on core and generic modules, which will be used for training at various levels.

(c) **Strengthening MFI management capacity**. The main activities to be financed under this sub-component are: (i) technical training for committee members, staff, ordinary members (potential and future women leaders) in overall organization, bookkeeping, operational matters (savings and credit) and financial management; (ii) training for field officers, to increase their awareness of the characteristics of and differences between the various types of grass-roots MFIs, the rights and obligations of members, the duties of leaders and staff, and the legal requirements and cooperative principles; (iii) monitoring and evaluation (M&E) of TSPs: the programme will carry out an annual M&E of the training courses conducted by TSPs to assess their quality, performance and impact. Both the recipients and the programme authority will strictly monitor and evaluate the performance of TSPs.

(d) **Promotion of participation in grass-roots MFIs**. Finance will be provided for social intermediation (consisting of mass media communication and promotional campaigns) to enhance the active participation of both rural women and men in the formation, management and operation of grass-roots MFIs. Provision will be made to finance a range of activities, which will include: (i) media communication campaigns, using all existing communication media and systems such as radio, television, printed materials, drama and computer networks for this purpose; (ii) educational and promotional material regarding savings and investments, prepared and disseminated through school curricula to primary and secondary schools with a view to providing basic knowledge and understanding of the benefits to be obtained from these activities; and (iii) communication workshops for field trainers and MFIs, organized at various locations, to help them familiarize themselves with the basic concepts and the possible benefits to beneficiaries from participation in MFI activities.

(e) **Institutional support for grass-roots MFIs**. The programme will provide: (i) financial support for regional-level study tours and workshops for MFI representatives to exchange ideas and experiences, and for model MFIs to visit other regions; and (ii) financial assistance for the purchase of money safes and basic office materials and supplies to the most progressive Stage-1 and 2 MFIs with proven track records.

Rural financial systems development

13. Provision will be made to finance the following sub-components:

(a) **Innovative linkages between formal banking institutions, poor rural clients and grass-roots MFIs.** A number of innovative products and technologies will be tested linking banks to grass-roots MFIs, solidarity groups and individuals. Potential partners have already expressed interest in participating in this programme; they include the Akiba Bank, the Cooperative and Rural Development Bank (CRDB), the Kilimanjaro Co-operative Bank (KCB) and the Mufindi Community Bank. The programme will support the participating banks on a cost-sharing basis in strengthening their technical capacity through, for example, the training of loan officers in credit administration and computer applications. It will also support the training of key bank staff (tellers, accountants, branch managers) at selected branches within programme pilot zones in microfinance “best practices”, including such topics as gender empowerment and food security.

(b) **Innovative linkages between NGO-based MFIs and poor rural clients.** The programme will support innovative microcredit operations of successful NGOs on a cost-sharing basis by: (i) encouraging them to establish microfinance “delivery outlets” in rural areas in programme zones; and (ii) piloting the modular approach of the micro-leasing in collaboration with potential partners. Necessary training will also be financed on a cost-sharing basis to promote these activities.

(c) **Institutional support for the microfinance unit of the Bank of Tanzania (BOT).** A number of activities have been formulated to assist BOT in strengthening its capacity in microfinance. Central to this will be training of staff of the microfinance unit in microfinance best practices, especially concerning regulation and supervision of microfinance activities. Supplementary assistance will also be provided to further equip and strengthen the data bank of the Bank's microfinance unit.

(d) **Institution-building for MFI apex associations.** The formation of the Tanzanian Association of Microfinance Institutions (TAMFI) and the further strengthening of the Savings and Credit Cooperative Union League of Tanzania (SCCULT) should be driven by the demand of its members. The role of IFAD in this evolutionary phase will be that of a catalytic agent providing support to these institutions to facilitate the activities of the existing MFIs. Support to both TAMFI and SCCULT will be provided, on a pilot scale, based on contractual agreements to cover specific responsibilities and assignments as agents of BOT, and particularly to: (i) undertake the non-prudential regulation and supervision of all MFIs; (ii) design training curricula and materials; (iii) develop financial reporting formats and knowledge dissemination; and (iv) coordinate donor-sponsored initiatives in microfinance.

Empowerment of the rural poor

14. Translation of this objective into operational terms involves the following: (i) the gradual reduction of legal, regulatory and social barriers constraining active and effective participation of the rural poor, especially women and the landless, within MFIs; (ii) the development of the business and technical skills of the poor through training and extension of research, technology and innovations; and (iii) the creation of conducive economic and political conditions within MFIs to allow the poor to access funds for engaging in viable, demand-driven income-generating activities, as well as to assume decision-making roles within the institutions.

(a) **Reduction of legal and social barriers to the rural poor to allow for an increase in their use of MFIs and their participation in MFI operations.** A special study will be supported, geared to assisting the Government in recognizing and understanding the inherent legal and institutional limitations of MFIs, their risk profiles, the obstacles they face in relations with formal institutions, and their capacities to comply with statutory reporting requirements. Based on this study, specific guidelines will be prepared for the Government's consideration and implementation. To alleviate constraints in these areas, a broad spectrum of training programmes will be organized and financed following the training needs assessment (TNA) exercise undertaken in each district.

(b) **Development of management and technical skills.** A number of training programmes will be organized, ranging from gender sensitivity to business skills development. These programmes will be further refined through a TNA exercise to be undertaken during implementation. The major elements to be covered under this programme will be: (i) *Gender training of MFI members.* This training is intended to inform committee members, MFI board members, officials and the broad membership of the need and importance of giving women equal access to MFI services. (ii) *Leadership training for women*. The PRA exercise indicates that women leaders need training in leadership and communications skills, confidence building, organization, group dynamics and basic bookkeeping and maintenance of accounts. During Phase I, some 20 women from each of the three pilot districts will receive training for a month to be spread over a period of six months. Further training courses will be conducted towards the end of the second programme year (PY2) and PY3 respectively. (iii) *Business skills training for microentrepreneurs*. This activity aims to resolve in part the lack of training services for microentrepreneurs. Short courses will be offered in marketing, financial and cash management, product design and promotion, networking, innovation and business growth. (iv) *Business exchanges for wome.* A number of study and business tours will be organized to enable women participants to acquire new skills and knowledge in existing and potential areas of their business operations, including the possibilities of developing mutually beneficial partnerships and contractual arrangements in production and marketing. Apprenticeships will also be offered to microentrepreneurs in collaboration with the private sector and NGOs to acquire technical and business knowledge in relevant fields such as off-farm processing, marketing and trade, and the use of on-farm technology.

(c) **Microfinance facility**. The objective of this sub-component is to experiment with a variety of lending instruments that will provide incremental financing, at a market rate, to selected MFIs. These include: (i) *Loan funds.* The proposed line of credit will be made available to interested and qualified financial intermediaries (to Stage-3 MFIs) using a rediscounting facility for on-lending purposes. (ii) *Lease funds.* The programme will provide funds to existing successful leasing companies and NGOs to extend their services to programme areas during Phase I. Lease financing will be made available to prospective women entrepreneurs at a market rate for items such as sewing machines, freezers, water pumps, fruit canning and mixing equipment. The candidates will also receive appropriate training, through NGOs, to enable them to generate the cash flow needed for repayments. (iii) *Equity funds.* Such funds will be provided to community banks or TAMFI to increase their leverage in terms of extending their loan operations through prospective MFIs in Stage 3. Conditions for such lending will be agreed at loan negotiations, and reviewed and revised annually to match market movements. (iv) *Insurance fund*. Because of the risk involved in all types of rural lending and the increasing threat of borrower mortality due to AIDS, the programme will pilot the establishment of an insurance programme to alleviate such risks in the use of the RFSP microfinance facility, which is expected to be operated by MFI apex associations.

Monitoring and evaluation (M&E) and impact assessment

15. The programme's M&E system will provide timely, adequate and reliable physical and financial progress reports, and information on processes and impact to the programme management unit (PMU), zonal management units (ZMUs), district development committees and the programme steering committee. RFSP will finance: (i) recruitment of key staff (M&E specialist, M&E assistant); (ii) computer sets and transport for the PMU and two ZMUs; (iii) full financing for annual M&E workshops to be undertaken at national and zonal levels; and (iv) international and local technical assistance workshops to improve the management information and M&E systems in terms of both quality and contents so that these can serve as efficient management tools for decision-making. Local consultants will be recruited for studies, including a programme baseline study, and participatory planning workshops. Annual and phase review impact assessments will be undertaken.

Programme coordination and management

16. The programme will provide: (i) the funding needed to enable the PMU to manage and coordinate the programme operating from offices in Mbeya; and (ii) supplementary financing for the IFAD Liaison Office within the Prime Minister's Office in Dar-es-Salaam to facilitate linkages between the PMU, the Government, IFAD, and the cooperating institution; (iii) other operational costs at district and zonal offices; and (iv) specialist international and national technical assistance to support the programme managers to ensure quality control in service delivery supported by the programme. A detailed logical framework of the programme is shown in Appendix III.

D. Costs and Financing

17. The programme will be implemented under a flexible lending mechanism (FLM) over a period of nine years in three clearly demarcated phases of three years each. In accordance with the principles

of the FLM, the performance of Phase I and the actual experiences gained during this time will guide and determine the actual estimation of costs for Phases II and III. Consequently, an approximation was used in estimating the costs for these two phases. Total programme costs over the three phases are estimated at USD 23.8 million, of which USD 7.0 million for Phase I, and USD 12.1 million and USD 4.7 million for Phases II and III respectively. The IFAD loan will provide USD 16.3 million, while the remaining balance will come from two cofinanciers, the Swiss Government and the Organization of the Petroleum Exporting Countries Fund for International Development (OPEC Fund) (USD 2.2 million each, for a total of USD 4.4 million); the Government (USD 2.7 million); and the beneficiaries (USD 0.4 million). A number of other cofinanciers have also expressed their tentative interest in participating in this programme during Phases II and III. The Government's contributions will be mainly related to taxes and duties, and office accommodation for the programme. Since the programme will be implemented under the FLM, each subsequent tranche of the programme loan can only be withdrawn upon satisfactory completion of milestones and performance indicators set under the programme (see Table 1). To enable programme activities to begin as soon as possible, IFAD has agreed to allocate a special operations facility (SOF) grant for USD 75 000 to allow staff recruitment and detailed planning of PY1 work to proceed immediately on loan signature. The programme costs and financing plan are detailed in Tables 2 and 3 below.

TABLE 1: PERFORMANCE INDICATORS AND MILESTONES REQUIRED TO TRIGGER PHASES II AND III FINANCING

Milestones to Trigger the Initiation of Phase II
• Legal, supervisory and regulatory framework for MFIs progressively being introduced
• Proven capacity and capability in MFI organization and management best practices within three local training institutions to service needs of grass-roots MFIs and formal institutions
• 25 grass-roots MFIs in Stage 1
• 60 grass-roots MFIs in Stage 2
• 25 grass-roots MFIs in Stage 3
• 3 formal institutions with developed linkages with MFIs are ready to expand rural services in the programme areas
• 1 NGO-based MFI expanding leasing for women and women's solidarity groups

Milestones to Trigger the Initiation of Phase III
• MFI apex associations functioning, willing to take over the management of the programme activities at grass-roots level and capable of doing so
• Legal, supervisory and regulatory framework for MFIs functioning in programme areas
• No. of MFIs completing Stage 1
• No. of MFIs completing Stage 2
• No. of MFIs interested in participating in the programme, and willing to do so on a cost-sharing basis in Phase III
• Formal financial institutions providing viable rural services in programme areas
• NGO-based MFIs with viable rural services and products in programme areas

TABLE 2: SUMMARY OF PROGRAMME COSTS[a]
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	%Total Base Costs
1. Improvement of managerial capacity and performance of grass-roots MFIs	4 308.7	714.3	5 023.0	14	26
2. Rural financial system development	930.1	926	1 856.1	50	10
3. Empowerment of the rural poor	5 730.0	2 145.8	7 875.8	27	40
4. M&E and impact assessment	925.9	623.7	1 549.6	40	8
5. Programme coordination and management	2 353.1	849.6	3 202.7	27	16
Total baseline costs	**14 247.8**	**5 259.4**	**19 507.2**	**27**	**100**
Physical contingencies	694.7	96.7	791.4	12	4
Price contingencies	2 875.8	596.4	3 472.2	18	22
Total programme costs	**17 818.3**	**5 952.5**	**23 770.8**	**25**	**126**

[a] Discrepancies in totals are due to rounding

TABLE 3: FINANCING PLAN[a]
(USD)

Components	IFAD		Switzerland		OPEC Fund		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
1. Improvement of managerial capacity and performance of grass-root MFIs	3 541 773	57.3	962 378	15.6	962 378	15.6	570 525	9.2	147 606	2.4	6 184 661	26.0	808 355	4 805 781	570 525
2. Rural financial system development	1 613 608	78.1	30 855	1.5	30 855	1.5	385 493	18.7	4 598	0.2	2 065 408	8.7	1 005 436	674 479	385 493
3. Empowerment of the rural poor	7 088 347	74.6	1 097 682	11.6	1 097 682	11.6			219 536	2.3	9 503 247	40.0	2 417 716	7 085 532	
4. M&E and impact assessment	1 418 622	74.0	77 358	4.0	77 358	4.0	343 537	17.9		-	1 916 874	8.1	713 229	860 108	343 537
5. Programme coordination & management	2 679 763	65.3	-	-		-	1 420 910	34.7		-	4 100 673	17.3	1 007 810	2 000 735	1 092 129
Total disbursement	**16 342 113**	**68.7**	**2 168 273**	**9.1**	**2 168 273**	**9.1**	**2 720 465**	**11.4**	**317 740**	**1.6**	**23 770 864**	**100.0**	**5 952 546**	**15 426 634**	**2 391 683**

[a] Discrepancies in totals are due to rounding

E. Procurement, Disbursement, Accounts and Audit

18. **Procurement**. Procurement of goods and services will be in accordance with the Government's procedures to the extent that they are compatible with IFAD's current procurement guidelines. Hiring of consultants will be in accordance with the cooperating institution's guidelines. Each annual workplan and budget (AWPB) will include a procurement plan and schedule detailing the goods and services to be procured. International competitive bidding (ICB) will be used for the supply of goods and services estimated to cost USD 100 000 or more. Local competitive bidding (LCB) for goods and services costing between USD 20 000 and 100 000; and local shopping for those costing between USD 500 and 20 000. ZMUs directly will procure supplies and services that can be obtained in zone costing below USD 500 equivalent. PMUs will procure supplies and services that are packaged for several zones/districts or that cannot be obtained within zones. Vehicles, motorcycles, spare parts and office equipment will be grouped into packages exceeding USD 100 000 for ICB.[3]

19. **Disbursements.** Programme funds will be disbursed over a nine-year period. Withdrawals from the loan account shall be made against certified statements of expenditure (SOEs) in respect of expenditures for contracts for: (i) goods and services (including contracts) of a value of less than USD 50 000 or equivalent; and (ii) any local training and incremental operating costs. The records evidencing such expenditures need not be submitted to IFAD but should be retained at the PMU or ZMU offices for inspection by the representatives of IFAD and the cooperating institution.

20. To allow for the effective flow and management of programme funds and to facilitate implementation, the programme will open a special account to be held in USD at a commercial bank on terms and conditions satisfactory to IFAD. The special account will have an authorized allocation of USD 1.5 million. Upon loan effectiveness, IFAD will make an initial deposit of USD 1.5 million, and this will be replenished on the basis of regular withdrawal requests with the appropriate supporting documentation. CRDB will also manage the RFSP Microfinance Facility. Quarterly requirements in line with AWPBs will be held in a current account with all other unallocated funds held on deposit.

21. **Accounts and auditing.** In line with sound accounting practices, the RFSP will maintain separate records to accurately reflect costs of the different components and activities financed from programme funds. All such accounts and records will be subject to an annual audit by the Government or a reputable independent firm of accountants, appointed by the PMU and acceptable to the cooperating institution and IFAD. The audited accounts/financial statements, together with the audit opinion, will be submitted to the cooperating institution and IFAD annually, not later than six months after the end of the financial year.

F. Organization and Management

22. **Programme organization and management:** The project will be implemented by the grass-roots MFIs (SACCOs, SACAs and village banks) through their respective boards of directors under the prudential regulation and guidance mechanisms of BOT. Each of these MFIs will establish appropriate linkages and affiliations with financial intermediaries (commercial or cooperative banks) based on convenience and on the services and facilities that will be extended to them. NGOs, private-sector institutions and parastatals will provide assistance to MFIs for various activities relating to sensitization, awareness-building, training, etc., whereas the village community development officers and the cooperative development officers will be major catalysts in organizing, mobilizing and registering groups under the umbrella of an MFI. The Prime Minister's Office will take overall responsibility for the programme. The existing IFAD Liaison Office within the Department of Coordination of Government Business in Dar-es-Salaam will act as liaison office for Government/IFAD relations, while the PMU to be established in Mbeya will be responsible for

[3] Whenever possible, vehicles and equipment should be purchased through the Inter-Agency Procurement Services Office (IAPSO) to minimize delays in procurement.

handling the implementation, coordination and supervision of all programme activities at the field level. Subordinate ZMUs will be established to service the north and central programme areas to be based in Moshi from PY1 and subsequently in Dodoma from PY2. The overall coordination of the programme will be achieved through the establishment of a programme steering committee to be chaired by the Permanent Secretary of the Prime Minister's Office (PMO), with representatives from all participating ministries/agencies and key donors.

23. **Monitoring and evaluation (M&E) and impact assessment.** The demand-driven nature of the programme implies that a participatory approach should be used for all M&E exercises with active involvement of all stakeholders. This will: (i) guide RFSP strategic decision-making; and (ii) enable management to make adjustments in the RFSP's implementation approach, management and organization, to fit beneficiaries' needs within the framework of established and agreed goals. The overall responsibility for M&E will rest with the PMU and its M&E specialist. Under the guidance of the programme coordinator and making explicit reference to the dynamic logical framework, the M&E specialist will: (i) carry out a baseline study to facilitate the establishment of samples of reference households to be monitored during the course of programme implementation; (ii) monitor the implementation of RFSP activities in order to identify constraints and propose solutions; (iii) measure progress and impact at institutional and group levels; and (iv) facilitate impact monitoring at beneficiary levels through annual studies to be undertaken under contract by qualified independent M&E service providers (NGOs and reputable private/public-sector institutions). Towards the end of each phase, a phase review, preceded by an interim evaluation and a detailed impact assessment, will be carried out to obtain information with respect to the changes and modifications needed to enhance programme effectiveness.

G. Economic Justification

24. **Financial Analysis**: A programme of this nature will produce two types of demonstrable impacts: (i) improvements in the socio-economic status of poor rural households in the programme area, particularly women, the landless and other disadvantaged groups; and (ii) strengthening of the financial position of rural MFIs that are involved in the programme.

25. Financial analyses of typical income-generating activities that are expected to be financed from MFI loans show sufficient scope for enlarging viable productive activities in the proposed zones. Importantly, the success of the investments is dependent only on simple appropriate technology, and a communications and information system that can be easily extended through the public service networks, or NGOs. With respect to agricultural crops, the farm budget analysis indicates that with improved inputs and technology, the net income derived from maize is expected to increase by 43%, and that from rice by 37% in Mwanza District, assuming 20% of the produce will be sold after harvest.

26. A substantial number of rural households will benefit from the programme fairly rapidly. During the three phases, the number of households benefiting from the programme will grow from an estimated 55 000 to 219 450, and finally to 300 000.

H. Risks

27. Implementation of the programme will demand a high level of managerial competence, a requirement that the envisaged contracting system addresses. It recognizes the independence of the participating implementing institutions and agencies and provides a mechanism for defining and measuring performances, and controlling the implementation and coordination of activities. Throughout the programme as a whole, attention will be paid to avoiding activities carrying an unacceptably high degree of risk. Prime risks have been identified as follows: (i) the felt needs of MFIs may be compromised by political exigencies not beneficial to the poor; (ii) local training of service providers may not be as effective as needed by the programme; and (iii) the local financial institutions may not be committed to carrying out microfinance activities in rural areas. Relevant safeguard measures will be taken within the design of the monitoring system to minimize these risks.

I. Environmental Impact

28. An environmental screening and scoping note undertaken during appraisal classified the programme as category "C", particularly because it will have only a slightly negative environmental impact. The Department of Environment of the Vice-President's Office has formulated guidelines for environmental impact assessment, according to which proposals for projects from the responsible ministries have to be submitted for vetting. PMO will apply to the Vice-President's Office for appropriate local classification. SERO Lease and Finance Ltd. (SELFINA) will also provide some training on environmental aspects prior to extending their funds to individuals or groups. The programme will have a positive environmental impact due to the promotion of improved crop and livestock practices using improved technical packages in loan projects to be financed by MFIs.

J. Donor Complementarity

29. The programme will complement the Government's decentralization process, especially by building the managerial and administrative capacity of grass-roots MFIs at village, ward and district levels, and by reinforcing its ongoing poverty alleviation and national microfinance policies. It will also complement a wide range of donor activities in rural financial services development, in particular the World Bank Rural and Microfinancial Services Project, which is supporting BOT with the establishment of its MFI regulatory and supervisory framework and systems, and also establishing the national MFI data bank. Through working with CRDB, 30% of which is now owned by the Danish International Development Assistance (DANIDA), the RFSP will supplement this bank's existing MFI linkage programme in rural districts. This programme will also complement the institution-strengthening aspects of the Department for International Development of the United Kingdom, the Canadian International Development Agency (CIDA) and the African Development Fund (AfDF). The Agence Française pour le Développement has also expressed interest in supporting the MFI study tour programmes between East and West Africa to be initiated by this programme.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

30. A loan agreement between the United Republic of Tanzania and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

31. The United Republic of Tanzania is empowered under its laws to borrow from IFAD.

32. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

33. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund shall make a loan to the United Republic of Tanzania in various currencies in an amount equivalent to twelve million eight hundred thousand Special Drawing Rights (SDR 12 800 000) to mature on and prior to 1 December 2040 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 28 November 2000)

1. The Government of the United Republic of Tanzania (the Government) will open and thereafter maintain a special account in a commercial bank acceptable to IFAD in which the proceeds of the loan will be deposited for the purpose of financing the programme. The special account will be protected against set-off, seizure or attachment on terms and conditions proposed by the Government and accepted by IFAD.

2. (a) The Government will ensure that, prior to effectiveness of the loan agreement, PMU will open and thereafter maintain a programme account in Tanzanian shillings for programme operations (the programme account) in a commercial bank acceptable to IFAD. PMU will be fully authorized to operate the programme account. The Government will deposit annually into the programme account the amount of counterpart contributions specified in the AWPB for each programme year.

(b) Prior to effectiveness of the loan agreement, the Government will ensure that each ZMU will open and thereafter maintain a current account denominated in Tanzanian shillings for programme operations, in a commercial bank acceptable to IFAD, in its respective programme zone (collectively, the zonal accounts). ZMUs will be fully authorized to operate their respective zonal accounts. PMU will annually transfer funds from the programme account into the respective zonal accounts, as specified in the AWPB for each programme year.

3. The Government will ensure that, as soon as practicable after effectiveness of the loan agreement, each financial institution (FI) implementing the microfinance component of the programme will open and thereafter maintain a current account denominated in Tanzanian shillings for the operations of the microfinance facility (the microfinance facility accounts). Each FI will be fully authorized to operate its respective microfinance facility account. The Prime Minister's Office (the lead programme agency) will transfer available funds and other resources called for in the AWPB to each FI through the respective microfinance facility accounts for implementation of the microfinance component, in accordance with a subsidiary loan agreement to be entered into by the Government and each FI.

4. The Government will take the necessary action to ensure that its counterpart contributions for the programme are accurately reflected in the annual public investment budget. To this end, the Government will make budgetary allocations for each fiscal year equal to the counterpart contributions called for in the AWPB for the relevant programme year, and will make such allocations available to the lead programme agency semi-annually. Such counterpart contributions will be applied to the provision of office space and incremental salaries of government staff seconded to the programme on special short-term assignments. The Government will also exempt from taxes the importation, procurement and supply of all goods and services financed by the loan, the value of such exemptions being credited against the obligation of the Government to provide counterpart contributions to the programme.

5. The Government will ensure that PMU establishes and thereafter maintains a participatory M&E system, within three months of the date of effectiveness of the loan agreement, to continuously monitor the programme. Overall responsibility for the M&E system will rest with PMU and will take place at the level of the programme districts and zones and the overall programme. The M&E system will include monitoring indicators as required and approved by IFAD. Review workshops will be held annually at both PMU and ZMU levels.

6. (a) The Government will ensure that a phase review will be undertaken during the latter halves of each of the first and second phases of the programme (i.e., the third and sixth programme years), based on terms of reference prepared by PMU and approved by IFAD. Among other things, the phase reviews will consider the achievement of programme objectives during the respective programme phase and the constraints thereon, and recommend reorientation of activities and/or reallocation of programme resources as may be required to achieve the objectives and remove constraints. Before the reviews, PMU will contract appropriate local institutions or consulting firms to conduct a pre-review study, the results of which shall be taken into consideration in the subsequent first phase review. The Government will ensure that any interested parties are invited to participate in reviews of the programme.

(b) The results of the first and second phase reviews and resulting recommendations will be the basis for preparation of a mutually acceptable action plan and design for the respective second and third phases and for conclusion of an overall evaluation of the programme. The Government will ensure that the action plan and design have been finalized, at the latest, three months before completion of the respective first and second phases, and shall result in reallocations of loan proceeds and modifications to loan documents. Milestones for triggering the second phase financing are set forth in the loan agreement. Milestones for triggering the third phase financing will be established by the end of the first-phase in the light of actual achievement, assessed in the first-phase review, and included in a second-phase addendum to the loan agreement.

7. (a) Within three months of the date of effectiveness of the loan agreement, the Government will confirm that its controller and auditor-general will be responsible for the audit of the accounts relating to the programme. To that effect, the programme coordinator will formally notify the controller and auditor-general of the requirement to audit the accounts in accordance with international standards and the General Conditions of IFAD. The Government will ensure that each FI appoints an independent auditor of the microfinance facility accounts and that the accounts are audited in accordance with the General Conditions.

(b) The Government will ensure that the audit report for the programme will be a long form audit report based on financial statements prepared in accordance with generally accepted accounting principles and that adequately reflect the progress and operations of the programme.

8. The Government will ensure that the key programme personnel are insured against health and accident risks to the extent consistent with its customary procedures and regulations.

9. The Government will ensure, in line with the particular programme focus on women and woman-headed households, that women are represented in all programme activities and that they receive appropriate benefit from programme outputs.

10. The Government will ensure that it makes any necessary arrangements to give the regional tender board authority to review all competitive bids for procurement under the programme.

11. The following is specified as the condition for disbursement of funds under the microfinance component in respect of any FI: a subsidiary loan agreement between the Government and the FI has been approved by IFAD in draft, and a copy of the signed subsidiary loan agreement, substantially in the form so approved, has been delivered to IFAD.

12. The following are specified as conditions precedent to the effectiveness of the loan agreement:

(a) the programme steering committee (PSC) has been duly established;

(b) PMU has been duly established;

(c) a programme coordinator and financial controller have been duly recruited and appointed by the Government and approved by IFAD, and all other professional staff of PMU have been selected in a manner acceptable to IFAD;

(d) the Government has duly opened the special account and PMU has duly opened the programme account;

(e) the Government has made arrangements for the availability of counterpart contributions for the first programme year;

(f) the programme implementation manual has been approved by IFAD in draft and adopted by PSC;

(g) an MFI development-and-training service provider has been recruited by the Government, through an international competitive bidding procedure in consultation with IFAD, particularly to provide training to local training service providers, to prepare MFI operational manuals and procedures for supervision and monitoring of guidelines to be used by MFIs;

(h) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and

(i) a favourable legal opinion, issued by the attorney-general, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

COUNTRY DATA

UNITED REPUBLIC OF TANZANIA

Land area (km^2 thousand) 1997 1/	**884**	**GNP per capita (USD) 1998 2/**	**220**
Total population (million) 1998 1/	**32.1**	**Average annual real rate of growth of GNP per capita, 1990-98 2/**	**0.5**
Population density (people per km^2) 1998 1/	**36**	**Average annual rate of inflation, 1990-98 2/**	**24.3**
Local currency	**Tanzanian Shilling (TZS)**	**Exchange rate: USD 1 =**	**TZS 700**

Social Indicators		**Economic Indicators**	
Population (average annual population growth rate) 1980-98 1/	3	GDP (USD million) 1998 1/	8 016
Crude birth rate (per thousand people) 1998 1/	41	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people) 1998 1/	16	1980-90	n.a.
Infant mortality rate (per thousand live births) 1998 1/	85	1990-98	3
Life expectancy at birth (years) 1998 1/	47		
		Sectoral distribution of GDP, 1998 1/	
Number of rural poor (million) (approximate) 1/	n.a.	% agriculture	45.7
Poor as % of total rural population 1/	n.a.	% industry	14.9
Total labour force (million) 1998 1/	16.4	% manufacturing	7.2
Female labour force as % of total, 1998 1/	49.2	% services	39.4
Education		Consumption, 1998 1/	
Primary school gross enrolment (% of relevant age group) 1997 1/	66.5	General government consumption (as % of GDP)	8.3
Adult literacy rate (% of total population) 1997 3/	71.6	Private consumption (as % of GDP)	83.3
		Gross domestic savings (as % of GDP)	8.4
Nutrition			
Daily calorie supply per capita, 1996 3/	2 028	**Balance of Payments (USD million)**	
Prevalence of child malnutrition (height for age % of children under 5) 1992-98 1/	43.4	Merchandise exports, 1998 1/	589
Prevalence of child malnutrition (weight for age % of children under 5) 1992-98 1/	30.6	Merchandise imports, 1998 1/	1 365
		Balance of merchandise trade	- 776
Health			
Health expenditure, total (as % of GDP) 1990-98 1/	n.a.	Current account balances (USD million)	
Physicians (per thousand people) 1990-98 1/	0.04	before official transfers, 1998 1/	-1 348
Percentage population without access to safe water 1990-97 3/	34	after official transfers, 1998 1/	- 907
Percentage population without access to health services 1981-92 3/	7	Foreign direct investment, 1998 1/	172
Percentage population without access to sanitation 1990-97 3/	14		
		Government Finance	
Agriculture and Food		Overall budget surplus/deficit (including grants) (as % of GDP) 1997 1/	n.a.
Food imports as percentage of total merchandise imports 1998 1/	*16.8*	Total expenditure (% of GDP) 1997 1/	n.a.
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	120	Total external debt (USD million) 1998 1/	7 603
Food production index (1989-91=100) 1996-98 1/	100	Present value of debt (as % of GNP) 1998 1/	70.5
		Total debt service (% of exports of goods and services) 1998 1/	20.8
Land Use			
Arable land as % of land area, 1997 1/	3.5	Nominal lending rate of banks, 1998 1/	26.7
Forest area (km^2 thousand) 1995 1/	325.1	Nominal deposit rate of banks, 1998 1/	7.8
Forest area as % of total land area, 1995 1/	36.8		
Irrigated land as % of cropland, 1995-97 1/	3.8		

n.a. not available.
Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 2000
2/ World Bank, *Atlas*, 2000
3/ UNDP, *Human Development Report*, 1999

PREVIOUS IFAD LOANS TO THE UNITED REPUBLIC OF TANZANIA

Project Id	Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
2	Mwanza/Shinyanga Rural Development Project	World Bank: IBRD	World Bank: IDA	HC[1/]	13 Apr 78	28 Feb 79	31 Dec 84	USD	12 000 000	0.790704696
176	Southern Highlands Smallholder Food Crop Project	IFAD	World Bank: IDA	HC	05 Sep 85	03 Aug 87	31 Dec 93	SDR	14 500 000	0.516053595
242	Smallholder Support Project in Zanzibar	IFAD	World Bank: IDA	HC	13 Sep 89	07 Mar 91	31 Dec 97	SDR	8 150 000	0.611001825
324	Southern Highlands Extension and Rural Financial Services Project	IFAD	World Bank: IDA	HC	06 Apr 93	30 Jun 93	30 Sep 00	SDR	11 500 000	0.984280976
455	Smallholder Development Project for Marginal Areas	IFAD	UNOPS	HC	06 Dec 89	05 Oct 90	31 Dec 97	USD	280 000	1
489	Mara Region Farmers' Initiative Project	IFAD	UNOPS	HC	06 Dec 95	25 Jun 96	30 Jun 03	USD	195 000	0.950346769
1006	Agricultural and Environmental Management Project	IFAD	UNOPS	HC	04 Dec 96	10 Sep 97	31 Dec 03	SDR	10 300 000	0.360297962
1086	Participatory Irrigation Development Programme	IFAD	UNOPS	HC	08 Sep 99	18 Feb 00	30 Sep 06	USD	75 000	0.952415733

[1/] Highly concessional.

LOGICAL FRAMEWORK

Narrative Summary	Performance Indicators	Means of Verification	Assumptions/Risks
Programme Goal: Development of a comprehensive rural microfinance institutional framework to alleviate poverty by increasing the income, assets and food security of poor rural households	• Operationalization of a sustainable microfinance network for poverty alleviation • Proportion of poor receiving financial services • Proportion of poor effectively using financial services	• Assessment of sustainability of MFIs based on appropriate indicators • Baseline socio-economic survey of programme areas • Periodic programme impact studies	• Lack of rural MFIs is a critical constraint on rural economic development. • There will be a stable macroeconomic environment for rural-sector growth. • Pro-poor macroeconomic policies will exist. • Government is committed to developing rural financial services (RFSs). • Programme is appraised as viable, is acceptable to the Government and donor funding is available. • Human threat from HIV/AIDS is diminished.
Purpose: Enhanced capacity of the rural poor to mobilize savings and to invest in viable income-generating activities within the framework of a microfinace institution	• Incremental average savings per household • Incremental investment in productive activities • Incremental growth in household income	• Comparison between impact studies and baseline survey	**Purpose to Goal:** • Rural households find financially viable investment opportunities
Outputs:			**Outputs to Purpose:**
1. Establishment of financially viable and sustainable grass-roots microfinancial institutions (MFIs) responding to the demands of their customers:			
1.1 Policy and operational framework for MFI established	• Based on national microfinance policy, Bank of Tanzania (BOT) supported in developing detailed implementation guidelines (on savings, interest and savings rate, recovery policy) • MFIs assisted in operationalizing the prescribed guidelines and manuals • Legal and regulatory guidelines established for application within the Government and MFIs	• Approved implementation manuals and policy guidelines • Study on implementation of legal and regulatory system completed • Legal and prudential regulatory guidelines for supervision, monitoring and audit established	• Donor resources are mobilized to complete preliminary studies on regulatory reforms, etc. • BOT and MFIs show willingness and are committed to following the prescribed policies and guidelines.
1.2 Parastatal and NGO training institutions capable of training rural MFIs to operate as viable institutions responsive to the needs of their members	• No. of training institutions trained and assessed as competent training service providers • Training needs assessment of MFI carried out • No. of training-of-trainer (ToT) modules prepared • No. of topics/themes on gender aspects included in the ToT module	• Contract completion reports for ToT contractors • Quarterly reports • Supervision reports	There are training institutions interested in learning new skills in microfinance and able to provide competitive and cost-effective training services to rural MFIs.

1.3 MFIs restructured, growing and efficiently managing their savings, loan portfolios and responding to the needs of their members including the poor and underprivileged	• No. of MFIs restructured • Standard MFI financial performance indicators • Equity indicators for MFI members • No. of women-specific groups/MFIs effectively participating in the RFSP	• Periodic programme reports • Annual reports of MFIs • BOT MFI data bank • TAMFI member reports • SCCULT periodic reports • Impact reports on equity • The Cooperative Audit and Supervision Cooperation (COASCO) audit reports on SACCOs	Strong rural economic environment creates an increased demand for financial services and profitable investment opportunities for poor rural people. Suitable MFI leaders can be found and trained. Participatory approach leads to quick identification and implementation of appropriate programme inputs. *Risk*: Re-training costs for MFIs due to HIV/AIDS-induced staff changes may be high. *Risk*: MFI loan portfolio at risk may rise due to HIV/AIDS-induced financial problems among clients.
2. Development of Rural financial system:			
2.1 Establishment of backward and forward linkages with formal financial institutions, apex institutions and NGOs of a comprehensive framework for the promotion and rationalization of a rural financial system	• Existence of TAMFI chapters and operations • Number of TAMFI members in programme zones • Qualitative comments from professional banker association representatives • Quantity of fund transfers between financial intermediaries • Amount of savings mobilized	• TAMFI board meeting minutes • Minutes of MFI Taskforce meetings • Business reports of banks/MFIs • Minutes of SCCULT Board meetings	BOT will demonstrate effective leadership in the policy arena. Stakeholders are willing to cooperate.
2.2 Monitoring and supervisory system of rural microfinancial services created in BOT and in the MFI Association	• No. of BoT staff trained in microfinance • Legal study of MFIs completed • Consultancy studies on microfinance • National microfinance data bank established and maintained • No. of workshops and seminars on rural microfinance • Percentage of participating women in workshops and seminars on rural microfinance	• BOT Microfinance Unit periodic reports	BOT adopts a pragmatic legal and regulatory framework for rural financial institutions. *Risk*: Excess supervision will cramp sector growth and innovation.
2.3 Conducive policy environment for MFIs created	• MFI Association operational in three pilot regions with published MFI policy guidelines • Gender-sensitive MFI policy guidelines	• TAMFI reports • BOT Microfinance Unit periodic reports. • Impact reports of MFIs	*Risk*: Policies may not be clearly communicated to the district-level administration. *Risk*: Politically motivated policy distortions may exist at local level.
2.4 Rural financial institutions strengthened to meet the demands of rural clients and to facilitate accelerated rural-sector growth.	• No. of MFIs meeting BOT performance criteria • No. of formal financial institution staff trained in microfinance • No. of formal financial institutions and NGO-based MFIs participating in RFSP • No. of innovative pilot projects strengthening linkages between formal financial institutions and informal MFIs • No. and value of loans for equity contributions to community or cooperative banks • Share and value of savings in formal financial institutions mobilized from informal MFIs	• Annual M&E reports	MFI apexes for all MFIs can be established from the grass-roots level, which can provide effective services to their MFI members and act as a delegated supervisory/regulatory agent to BOT. Formal financial institutions and NGO-based MFIs are interested in expanding into rural areas. Formal financial institutions and MFIs are interested in linkages to meet the financial needs of rural households.

	• No. of formal rural financial institutions supervised annually by BOT or appointed agent • No. of workshops and seminars on RFS development and no. of participants • % of women staff of formal institutions trained in microfinance • No. of women's groups/ROSCA participating in RFSP		
3. Empowerment of Rural People:			
3.1 Poor rural households, including women members, empowered to benefit from rural financial services	• No. of rural women households benefiting from the programme • % of targeted people accessing rural financial services • % of women in decision-making roles • % of women who have increased their income	• Impact reports • Gender surveys	Current culture is receptive to changes on gender issues within time frame of programme.
3.2 Capacity of rural households developed in financial management and business skills	• No. of rural households trained in financial management and identification of investment opportunities • No. of groups linked to business associations and alliances • No. of workshops/seminars on business opportunities and marketing • % of women participating in workshops/seminars on business opportunities and marketing	• Quarterly reports • Supervision reports • Baseline survey • Impact assessment studies	Basic education is adequate to absorb business training.
4. Programme coordination and management:			
4.1 Programme activities coordinated and managed cost-effectively 4.2 M&E and MIS systems created and operationalized effectively	• Programme Coordination Unit established, staffed, developing strategies, preparing AWPBs, monitoring programme activities and coordinating with other donors • Programme steering committee established, reviewing and approving progress reports and AWPBs, providing policy guidance • Two zonal Coordination Units established and staffed, preparing regional/district AWPBs, monitoring activities • Three Regional Advisory Groups established advising on RFSP activities and coordinating with other development efforts • Fully integrated M&E and management information system operational by end PY1 • Impact assessment carried out annually	• Quarterly reports • Supervision reports • Mid-term reviews • Programme completion report	High calibre and highly motivated personnel can be contracted to effectively coordinate and manage the wide range of activities implemented by a large number of private-sector, non-governmental and parastatal agencies.

Activities (Phase I – 3 years):	**Inputs:** as specified in programme cost tables. Summary costs given below.		
Strengthening Grass-roots Microfinancial Institutions:	**USD 1.88 million**		
Activity 1.1 ***i. Preparation of implementation policy guidelines*** ***ii. Support studies and preparation of manuals for legal and regulatory framework for MFIs***	• Operational framework for MFI finalized • Biannual/annual reports and periodic assessment reports on disbursement and performance • Guidelines of regular framework finalized		
Activity 1.2	• Training needs assessment undertaken		

i. Training of MFIs training institutions ii Study of MFIs	• Training manual prepared		
Activity 1.3 i. District PRAs ii. Media communication campaigns iii. Village information campaigns iv. MFI training v. Training and support for field officers vi. Study tours			
Developing Rural Financial Systems:	**USD 1.26 million**		
Activity 2.1 Support to BOT Microfinance Directorate			
Activity 2.2 Support for credit-based MFIs			
Activity 2.3 Model 1: Support for individual lending approach			
Activity 2.4 Model 2: Support for creating linkages between commercial banks and MFIs			
Activity 2.5 Model 3: Support for mixed lending approach			
Activity 2.6 Support for community and cooperative banks			
Activity 2.7 Support for TAMFI Chapters			
Empowering Rural People:	**USD 1.85 million**		
Activity 3.1 Empowerment of women			
Activity 3.2 Enterprise skills development			
Activity 3.3 Loan funds			
Activity 3.4 Partnership funds			
Monitoring & Evaluation	**USD 0.66 million**		
Programme Coordination and Management:	**USD 1.31 million**		
Activity 4.1 National-level activities i. Programme Coordination Unit ii Programme Steering Committee			
Activity 4.2 Zonal-level activities			
	First phase programme costs: USD 6.96 million 1. Improved managerial capacity and performance of grass-roots MFIs: USD 1.88 million 2. Rural financial system development: USD 1.26 million 3. Empowerment of rural people: USD 1.85 million 4. M&E: 0.66 million 5. Programme coordination and management: USD 1.31 million **Total programme costs: USD 23.77 million** 1. Improved managerial capacity and performance of grass-roots MFIs: USD 6.18 million 2. Rural financial system development: USD 2.06 million 3. Empowerment of the rural poor: USD 9.5 million 4. M&E and impact assessment: USD 1.93 million 5. Programme coordination and management: USD 4.1 million		

PROGRAMME COMPONENTS

Improvement of managerial capacity and performance of grass-roots microfinance institutions

1. The main objective of this component is to strengthen through adequate capacity and institution-building the operational and financial performance of both existing and new grass-roots MFIs that meet the financial needs of the rural people. Specifically, this component will finance the following activities:

2. **Operational framework for grass-roots MFIs**. The World Bank-financed Rural and Microfinancial Services Project is presently providing the Government with some assistance in respect to the development of microfinance policy, the improvement of a legal framework, and operational guidelines. Under this programme, IFAD will only provide complementary financing to assist the Government in implementing and translating these agreed guidelines and policies in the field. The assistance will include certain key areas, in particular: (i) within the overall national framework, support the MFIs in developing detailed policy guidelines (on interest and savings rates, governance, risk management and insurance) for implementation; (ii) strengthen the capacity of the participating institutions in supervision, monitoring and impact assessment through training and technical assistance; (iii) help the MFIs to operationalize the prescribed guidelines, ensuring the required banking standards and maintaining sound portfolios in terms of financial viability; (iv) undertake studies on how the existing laws and regulations pertaining to SACCOs and SACAs could be harmonized for the best interests of microfinance development, etc.; and the existing unregistered informal groups such as women solidarity groups and ROSCAS, and the modalities and conditions under which these groups can become members of SACCOS and SACAS.

3. **Capacity-building of training service providers (TSPs).** A number of parastatal and NGO-based training institutions exist in the United Republic of Tanzania that can provide training to MFIs. But, they have not yet developed sufficient expertise in microfinance "best practices", nor are they fully familiar with innovative financial products and technologies, sound financial management, gender-specific and participatory approaches at the grass-roots level. Under this programme, IFAD will finance a comprehensive training programme consisting of the following activities: (i) *"Training of Trainers" Programme for TSPs*: An international consulting firm or institute will be contracted to organize two training courses of 15 days each for about six TSPs on participatory and gender issues, management of MFIs, and their finance. Tentative training course contents will be: grass-roots delivery techniques, training needs assessment techniques, enhancement of gender equity, legal and organizational structure of grass-roots MFIs, monitoring, development strategies for MFIs, mechanisms for expansion of the outreach of MFIs, design of new savings and credit products, loan portfolio and liquidity management, requirements and utilization of MIS, etc.; (ii) *Training needs assessment of MFIs*: Contracted TSPs will organize a number of initial workshops for grass-roots MFIs to assess and identify their training needs; (iii) *Preparation of training material*: On the basis of detailed training needs assessments, TSPs will prepare the required training materials and instructional methodologies on core and generic modules that will be used for training at various levels.

4. **Strengthening MFI management capacity**. The main activities to be financed under this sub-component are: (i) technical training will be provided for committee members, staff, ordinary members, and potential and future women leaders in overall organization, bookkeeping, operational matters (savings and credit) and financial management; (ii) training for field officers who deal with SACCOs and SACAs will be provided at district level with the objective of increasing their awareness of the characteristics of and differences between the various types of grass-roots MFIs, the rights and obligations of members, the duties of leaders and staff, and the legal requirements and cooperative principles. The average length of each course will be seven days, and on an average 15 field officers

will participate in such courses; and (iii) monitoring and evaluation of TSPs will be carried out. The programme will carry out an annual monitoring and evaluation of the training courses conducted by TSPs to assess their quality, performance and impact. The performance of TSPs will be strictly monitored and evaluated by both the recipients and the programme authority.

5. **Promotion of participation in grass-roots MFIs**. Finance will be provided for social intermediation (consisting of mass media communication and promotional campaigns) that aim to enhance the active participation of both rural women and men in the formation, management and operation of grass-roots MFIs. Provision will be made to finance a range activities: (i) media communication campaigns will be undertaken using the services of community development officers (CDOs), cooperative officers (COs) and experienced local NGOs. All existing communication media and systems such as radio, television, printed materials, drama and computer networks will be used for this purpose. Necessary funds for the purchase of equipment, vehicles, support services, including operational costs and allowances, will be provided; (ii) educational and promotional material regarding savings and investments will also be prepared and disseminated through school curriculum to primary and secondary schools with a view to providing basic knowledge and understanding of the benefits to be obtained from these activities; and (iii) communication Workshops for field trainers and MFIs will be organized at various locations to help them to familiarise themselves with the basic concepts and the possible benefits to be obtained by beneficiaries through their participation in MFI activities.

6. **Institutional support for grass-roots MFIs**. The programme will finance: study tours and workshops for (i) MFI representatives to exchange ideas and experiences mostly at regional level, with some study tours, however, organized for model MFIs to visit other regions or countries; and (ii) the MFIs with proven track records to enhance their administrative and management capacity, thereby enabling them to discharge their responsibilities efficiently and effectively. Support will be in the form of purchasing money safes and basic office materials and supplies. In the case of SACCOs that have a large number of members (such as Wino and Kindi), basic computer hardware and appropriate software will be provided on a cost-sharing basis for maintaining a database on members, and establishing accounting and management information systems on financial services transactions.

Rural financial system development

7. Provision will be made to finance the following sub-components: innovative linkages between formal banking institutions, poor rural clients and grass-roots MFIs. Under this sub-component, a number of innovative products and technologies will be tested linking banks to grass-roots MFIs, solidarity groups and individuals. Institutional analyses carried out by IFAD suggest that a number of possible partners are interested in participating in this programme, including: the Akiba Bank, CRDB, KCB and the Mufindi Community Bank. To accomplish this objective, the programme will support the participating banks, which will meet the agreed criteria for entry into the programme in pilot regions in various activities such as the training of loan officers in credit administration and computer applications, on a cost-sharing basis. It may also support the training of key bank staff (tellers, accountants, branch managers) at selected branches within programme pilot zones in microfinance "best practices", including topics such as gender empowerment and food security. Depending on needs, the participating financial institutions will be supported for developing computerized loan administration/management information systems for loan officers to monitor individual borrowers and manage overall loan portfolios.

8. **Innovative linkages between NGO-based MFIs and poor rural clients.** NGO-based microcredit operations have been successfully established in urban areas, and many poor people, especially women, have benefited through investing in small income-generating activities. To widen the access of these services to communities in rural areas, the programme will support the innovative operations of successful NGOs on a cost-sharing basis by: (i) encouraging them to establish

microfinance "delivery outlets" in rural areas in programme zones; and (ii) piloting the modular approach of the microleasing in collaboration with potential partners. An IFAD mission identified a number of existing institutions interested in collaborating with the programme such as Promotion of Rural Initiatives and Development Enterprise (PRIDE Tanzania), Small Industries Development Organization (SIDO), and the Akiba Bank. To be eligible for programme support, interested institutions will be shortlisted by the PMU based on appropriate selection criteria. Support will be provided to cover the costs relating to operating expenses, purchase of computers and transport; seed capital will also be provided to initiate credit operations. Necessary training will be financed on a cost-sharing basis to promote these activities.

9. **Institutional support for the microfinance unit of BOT.** A number of activities have been formulated to assist BOT to strengthen its capacity in microfinance. Central to this will be training of the microfinance unit in microfinance best practices especially concerning regulation and supervision of microfinance. Annual stakeholder workshops and an international study tour will also be financed as an integral part of the development of the capacity of BOT in microfinance activities. Supplementary assistance will also be provided to further equip and strengthen the data bank of the microfinance unit of BOT. IFAD financing will only be used to track the development of the rural microfinance sector and to record its overall performance and impacts on the economy.

10. **Institution building for MFI apex associations.** The various bilateral donors, and the Government are presently supporting the Tanzanian Association of Microfinance Institutions (TAMFI) to act as an apex institution for grass-roots MFIs. Similarly, SCCULT is presently acting as an apex institution for SACCOs. This programme considers that the formation of TAMFI and further strengthening of SCCULT should be driven by the demand of its members. The role of IFAD in this evolutionary phase will that of a catalytic agent providing support to these institutions to facilitate the activities of the existing MFIs. Support to both TAMFI and SCCULT will be provided, on a pilot scale, based on contractual agreements to cover specific responsibilities and assignments as agents of BOT to: (i) undertake the non-prudential regulation and supervision of all MFIs; (ii) design training curricula and materials; (iii) develop financial reporting formats and knowledge dissemination; and (iv) coordinate donor-sponsored initiatives in microfinance. While this programme will help the setting-up of regional chapters in the Dodoma, Kilimanjaro and Mbeya regions, it is expected that the operations and maintenance costs of SCCULT and regional TAMFI chapters in Phases II and III will be covered by the fees collected by TAMFI and SCCULT from their constituent members.

Empowerment of the rural poor

11. The empowerment component will help the rural poor to participate in the proposed programme with the opportunity to augment their social, political and financial power to achieve their goals. Translation of this objective in operational terms involves the following: (i) the gradual reduction of legal, regulatory and social barriers constraining the active and effective participation of the rural poor, especially women and landless, within MFIs; (ii) development of the business and technical skills of the poor through training and extension of research, technology and innovations; and (iii) creation of conducive economic and political conditions within MFIs to allow the poor to access funds for engaging in viable demand-driven income-generating activities as well as to assume decision-making roles within the institutions.

12. **Reduction of the legal and social barriers to the rural poor and increasing their use of MFIs and participation in MFI operations.** A special study will be supported that is geared to assisting the Government in recognizing and understanding the inherent legal and institutional limitations of MFIs, their risk profiles, their inaccessibility to formal institutions and their limited capacities to comply with statutory reporting requirements, and to ensuring that appropriate remedial measures are taken. To alleviate constraints in this particular area, a broad spectrum of training

programmes will be organized and financed following the training needs assessment exercise undertaken in each district.

13. **Development of skills.** A number of training programmes will be organized ranging from gender sensitivity and leadership-building to business-skills development. The broad nature and coverage of each of these training programmes, as indicated in the programme, will be further refined through a TNA exercise to be undertaken during implementation. The major elements to be covered under this programme will be as follows: (i) *Gender training of MFI members*: This training is intended to raise the awareness of committee members, MFI board members, officials and the broad membership of the need and importance of giving women equal access to MFI services. Each training session will be conducted for three days based on formulated modules; and it is expected that 25 people will attend each session. In total, there will be three sessions in ten villages in three districts in all three zones; (ii) *Leadership training for women*: PRA exercise indicates that women leaders need training in various aspects, with emphasis on leadership and communications skills, confidence-building, organization, group dynamics, basic bookkeeping and maintenance of accounts. During Phase I, some 20 women from each of the three pilot districts will receive training for a month to be spread over a period of six months. Further training courses will be conducted towards the end of PY2 and PY3 respectively. Provision will be made for the preparation of training modules and other operational costs; (iii) *Business skills training for microentrepreneurs*: This activity aims to partially resolve the lack of training services for microentrepreneurs. Short courses will be offered in marketing, financial and cash management, product design and promotion, networking, innovation and business growth; and (iv) *Business exchanges for women*: A number of study and business tours of 3/4 days' duration will be organized to enable women to acquire new skills and knowledge in existing and potential areas of their business operations, including the possibilities of developing mutually beneficial partnerships and contractual arrangements in production and marketing. Apprenticeships will also be offered to microentrepreneurs to acquire technical and business knowledge in relevant fields such as off-farm processing, marketing and trade, and the use of on-farm technology.

14. **Microfinance facility**. The objective of this sub-component is to experiment on a limited scale with a variety of lending instruments to provide incremental financing, at a market rate, to selected MFIs; in the following distinct forms: (i) *Loan funds*: The proposed line of credit will be channelled from the participating local financial intermediaries using a rediscounting facility to Stage III MFIs for on-lending purposes. This will allow the members of MFIs to access loans for productive and viable income-generating activities in both agricultural and non-agricultural sectors; (ii) *Lease funds*: The programme will provide funds on an experimental basis to existing successful leasing companies and NGOs (such as SELFINA, SEBA) to extend their services to programme areas during the first phase. The lease financing, which has been successfully tested in other parts of the country, will be made available to prospective women entrepreneurs at a market rate for items such as sewing machines, freezers, water pumps, fruit canning and mixing equipment. The eligible selected candidates will also receive appropriate training through the NGOs to enable them to generate sufficient cash flow needed for repayments. Provision will be made to establish necessary support networks among the beneficiary women's groups to exchange ideas relating to operational issues of their business and the measures needed to resolve them. A 15% deposit will be required on equipment, with repayments to be made on a monthly basis at a market rate; and (iii) *Equity funds*: The programme funds will be provided to community banks or TAMFI to increase their leverage in terms of extending their loan operations through prospective MFIs categories in Stage 3. Conditions for such lending will be agreed at loan negotiations, and annually reviewed and revised to match market movements; and (v) *Insurance fund*: Because of the risk involved in all types of rural lending and the increasing threat of borrower mortality due to HIV/AIDS, the programme will pilot the establishment of an insurance programme to alleviate such risks in the use of RFSP microfinance facility financing ideally to be operated by MFI apex associations. However, this will be dependent on

the demand of MFIs for its establishment and the ability of the borrowers to provide matching contributions for premiums on a 50:50 basis.

Monitoring and evaluation (M&E) and impact assessment

15. The overall goal of the component, using M&E, will be to provide timely, adequate and reliable physical and financial progress information, and processes and impact information to the PMU, ZMUs, district development committees and the Programme Steering Committee. Within this goal, RFSP will finance: (i) recruitment of key staff (M&E specialist, M&E assistant) and provision of transport to help monitoring, data collection and impact assessment study; (ii) computers and double cab 4x4 pick-ups for the PMU and two ZMUs; (iii) full financing for annual national M&E workshops to be undertaken at national and zonal levels; and (iv) international and local technical assistance to cover the development and annual upgrading of the RFSP management information and M&E systems. Local consultants will be retained for studies including a programme baseline study and participatory planning workshops. Annual and phase review impact assessments will be undertaken.

Programme coordination and management

16. The programme will (i) provide funding needed to enable the programme management unit under the Prime Minister's Office to manage and coordinate the programme operating from offices in Mbeya; and (ii) provide supplementary financing for the IFAD Liaison Office with PMO in Dar-es-Salaam to facilitate PMU/Government/IFAD/cooperating institution linkages; (iii) cover other operational costs at district and zonal offices; and (iv) provide specialist international and national technical assistance to support the programme managers to ensure quality control in service delivery supported by the programme. A detailed logical framework of the programme is shown in Appendix III 4.

ORGANIZATION AND MANAGEMENT

I. INTRODUCTION AND BACKGROUND

1. The basic strategic framework of organization and management rests with beneficiaries who will have a role to play in implementation along with participation from civil-society organizations, NGOs and the private sector. The role of the Government is that of facilitator, concentrating on core functions such as supervision, monitoring, regulation and providing a conducive policy environment.

II. PROGRAMME ORGANIZATION AND EXECUTING AGENCIES

2. Programme implementation will be decentralized to the districts. At the grass-roots level, the programme will be implemented through the respective MFI boards of directors. The charters and constitutions of these institutions will be appropriately modified to enable them to operate and function as financial institutions using microbanking principles following the prudential norms and BOT regulations.

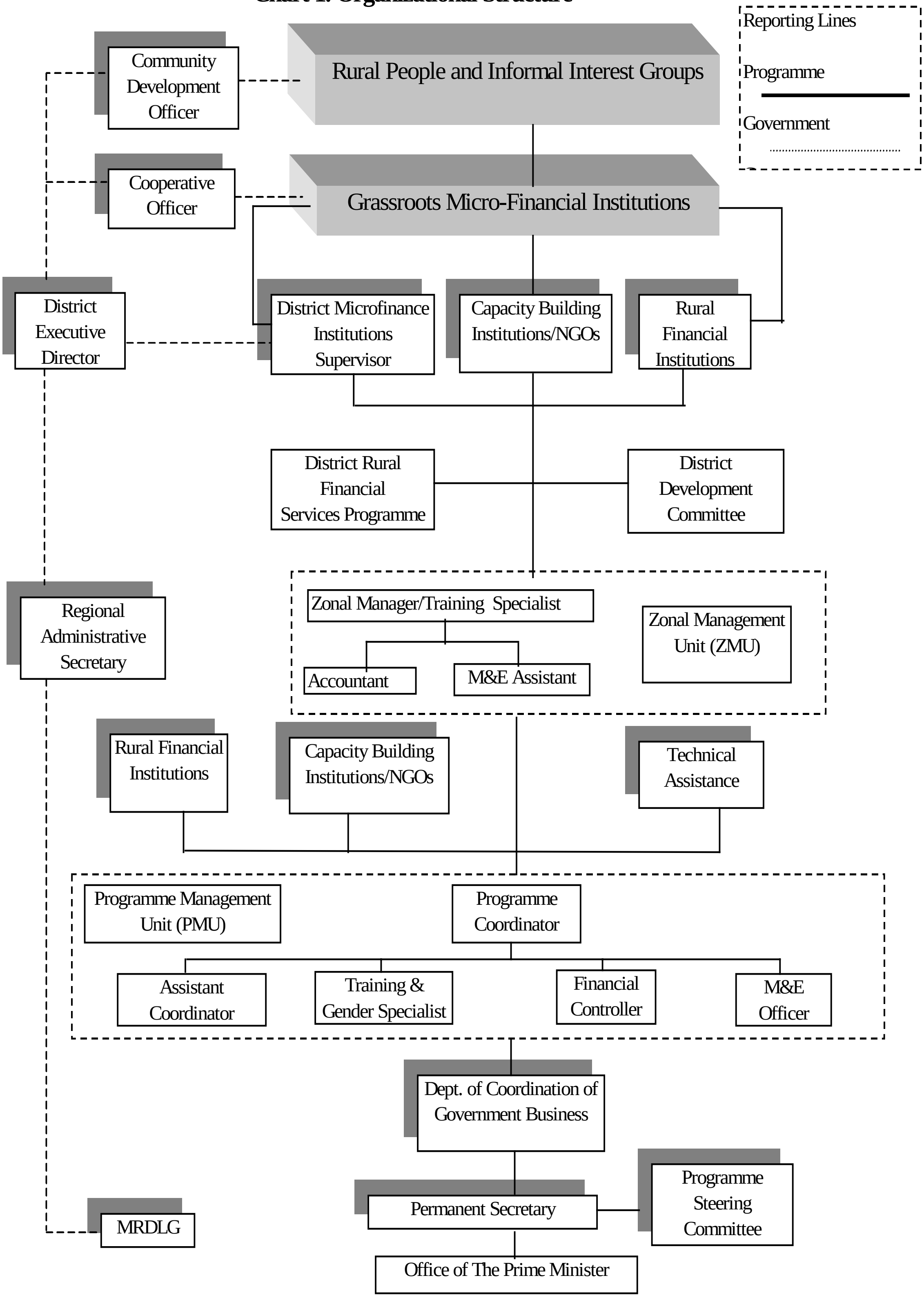
3. Chart 1 illustrates the organizational structure of the programme: A programme management unit will operate within the Department of Coordination of Government Business (DCGB) under the responsibility of PMO while being located in Mbeya to handle the implementation, coordination and supervision of all programme activities. Liaison with DCGB/PMO in Dar-es-Salaam will be maintained through the existing IFAD Liaison Office within DCGB. The PMU will be supported by two zonal management units established to service the northern programme areas to be based in Moshi in PY1 and subsequently the central programme areas in Dodoma from PY2.

4. The **responsibilities of the PMU** will include, but not necessarily be limited to: (i) preparation of AWPBs; (ii) overall management and supervision of all RFSP components; (iii) procurement of goods and services including contracts with training services providers and institutions, NGOs and other partners; (iv) direction of field operations and liaison with participating solidarity groups, MFIs, formal institutions, TSPs, district councils, international TSPs and contracted international and national technical assistance; (v) financial management and accounting; (vi) regular M&E and impact assessments; and (vii) preparation and timely submission of reports.

5. **PMU staffing** will consist of a programme coordinator, financial controller, training and gender specialist, M&E specialist and an assistant coordinator (south) and M&E assistant (south) to handle south zone activities. The major responsibilities of the PMU will be to: (i) provide policy, administrative and technical direction; (ii) coordinate and monitor programme activities; and (iii) direct and supervise all ZMU functions and planned activities.

6. **Zonal management units.** The PMU and the assistant coordinators will coordinate, administer and directly supervise and monitor programme activities at the district level working together with district cooperative offices (DCOs). Line ministry field staff including DCOs and district community development officers and their subordinates will work directly under the District Executive Director (DED). Under the programme, district microfinance institutions supervisors (DMFISs) will be recruited to work with the DED. DMFISs will subsequently ensure that all MFIs are adequately supervised when introducing new procedures under the programme, and that BOT and RFSP inspection and reporting requirements are adhered to. The zonal teams will be responsible for: the preparation of AWPBs for the activities to be implemented under ZMU; coordination of training; coordination of institutional support for the participating MFIs and other formal institutions including the procurement of goods; approval of monthly workplans for the participating districts; formal institutions payment for contracted services; performance monitoring; progress reports; and supporting DMFISs in their roles of secretaries to district RFSP subcommittees.

Chart 1. Organizational Structure



7. **Programme steering committee (PSC).** Overall guidance and coordination will be provided by a PSC chaired by the Permanent Secretary PMO. The PSC will oversee the direction of the programme and ensure complementarity with programmes and projects financed by other donors. The primary tasks of the PSC will include: (i) the interpretation and resolution of policy issues; (ii) the approval of AWPBs of the RFSP and all implementing parties; (iii) the approval of contractual partners; (iv) the regular review of financial flows and implementation performance in line with the inputs and outputs within the RFSP dynamic logical framework; (v) the review and approval of actions arising from evaluation recommendations; and (vi) ensuring of coordination with other projects is effective. The PSC will meet quarterly and have representatives from the key ministries and implementing partners.

8. **District rural financial services programme subcommittee.** A district RFSP subcommittee reporting to the district development committee (DDC) will be established in each selected district to help coordinate field planning and implementation. The district subcommittee will meet at least quarterly and on an ad hoc basis as required. It will be chaired by the District Executive Officer (DED) and will have the following members: a representative of the Regional Administrative Secretary, a district planning officer, district cooperative officer, district community development officers, the zonal manager/training specialists; and co-opted members from participating training institutions and MFI associations.

9. **Technical assistance for programme management.** The PMU will coordinate and supervise all RFSP technical assistance; however, their costs have been assigned to the component (1-3) that they service.

III. IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES

10. **Uptake of services in response to demand from beneficiary MFIs.** Implementation of the programme components and activities will be demand-driven, depending on: (i) the preparedness and willingness of the beneficiary grass-roots MFIs and solidarity interest groups to become involved; (ii) the interest of parastatal and NGO training institutions to learn new training techniques in microfinance and deliver these to rural MFIs; and (iii) the willingness of financial intermediaries (banks and NGO-based MFIs) to be trained in microfinance and deliver new products and services in the programme areas.

11. **Contracted implementing partners:** The programme will be implemented through legally binding contractual agreements between the PMU/ZMUs and the implementing agencies. Contracts will follow open-tendering procedures and include time-bound action plans and clauses allowing contract termination with appropriate notice in the event of underperformance. The programme will not create new institutions but rather provide logistical and operational support to existing ones. The principal parties involved in the implementation of the programme under contractual arrangements with the PMU/ZMU will include:

(i) *At national level*: (a) BOT for MFI registration, regulation, supervision and inspection and RFSP monitoring within its national database; (b) CRDB as the RFSP programme banker and manager of RFSP wholesale loan funds; and (c) international MFI training services providers to train RFSP staff and local TSP trainers in MFI capacity-building for Stage-1-3 MFI.

(ii) *At the Zonal Level*: CRDB branches and the Kilimanjaro Co-operative Bank for MFI banking services.

(iii) *At the District Level*: (a) District Council Administration DCOs and district community development officers (DCDOs) and local NGOs for MFI contact and assistance; (b) Tanzania Postal Bank (TPB), National Microfinance Bank (NMB) and community banks for banking services; and (c) local training institutions as TSPs for MFI capacity-building.

(iv) *At the ward and village levels*: (a) CDOs, COs and NGOs for rural appraisal and MFI liaison; and (b) MFI Boards of Directors and solidarity group officials for MFI service development following capacity-building assistance.

12. The PMU/ZMU functions will no longer be required from PY9 since sustainable MFIs and MFI/formal institution linkages will be operating and the MFI apex organizations will be undertaking the key MFI coordination and supervision roles.

POVERTY PROFILES, SELECTION CRITERIA AND MAJOR CONSTRAINTS

Target group	Selection criteria	Major constraints	Programme instruments
Poor rural households Informal solidarity groups	There are no selection criteria as 90% of the rural population are considered "poor". Common characteristics of group are: • own up to 2-3 acres farmland • have problems buying farm inputs • sell labour • Woman-headed households, including all eligible working women. • are landless Existing potential financially viable community-based organizations and solidarity groups	• lack of capital • lack of investment opportunities • lack of secure and rewarding places to save money • social and institutional barriers for women and landless to access loans • inflexible collateral requirements • high transaction costs • lack of management and business skills	• organizing rural poor into viable solidarity groups • improving management to mobilize savings to members who need capital • increasing the number of effective MFIs • providing training in microenterprise • linking MFIs vertically to banks to facilitate financial intermediation • rationalizing legal and regulatory requirements to remove social and institutional barriers • requiring all solidarity groups and MFIs to have at least 35% women members to be eligible for support
Registered rural grass-roots MFIs (SACCOs, SACAs)	Financial criteria: • demonstrated capacity to increase savings and other forms of capital • willingness to share training and institutional support costs • potential to become financially self-sustaining Institutional criteria: • representational management • inclusive membership policies Location: • favour MFIs in poorest areas, but located in potential growth centres	Financial: • low profits or even losses • eroding financial reserves • large percentage of loans portfolio at risk Institutional: • low technical capacity • low management capacity • few members • bad image in market Legal and regulatory framework: • complex registration procedures • undue concentration of power with the Registrar of Cooperatives • absence of supervision and audit within SACAs	Financial: • Prepare annual business plan by MFIs to mobilize savings and increase memberships • increase profit through diversification of loan portfolio, including credit wholesaling and retailing • support viable MFIs with loan funds to increase outreach Training: • MFI management trained • MFI members trained • gender training • microentrepreneurs trained Institutional development: • vertical linkages promoted in financial services sector • creation of effective supervision and regulation framework

DEVELOPMENT STAGES OF MFIs – TRIGGERING MECHANISMS

Stage 1	Stage 2	Stage 3
Indicators for Restructuring and Formation	**Indicators for Consolidation**	**Indicators for Maturity**
• MFI should have by-laws/regulations/constitution and be registered. • Management, supervision and credit committees should be established with defined tasks. • There should be 25 members in new MFIs and 50 in restructured MFIs. • Every member (an individual or group) should have a minimum one share of TZS 10 000 and have paid entrance fee of TZS 1 000. • A campaign should have been initiated to increase the membership by enrolling new depositors and non-members in the area. • A campaign should have been initiated to increase the share capital. • Savings should be voluntary, and savings deposits freely withdrawn. • Savings mobilization from members and non-members at interest rates slightly below bank rate should be effectively started. • Proper lending policies and procedures should have been formulated. • Credit should be linked with savings as a reasonable multiple, and individual loans should have a maximum limit. • Restructured MFIs should discontinue new loans until the recovery percentage reaches 60% of the amount due and should make adequate provision in the accounts for doubtful loans and write off bad debts. • Lending to members should only be from MFIs' own resources. • A simple and functioning bookkeeping system should be established. • Arrangements should be made for audit of the accounts.	• Number of members should be at least 200. • Minimum share capital should be TZS 2 million. • Directors/managing committee members and staff should have been trained. • Policy should be implemented increasing members by 20% per annum. • There should be diversification of the membership profile by admitting poor people through the acceptance as members of groups, such as women solidarity groups, and people with different types of income-generating activities. • There should be an increase of savings mobilization by 20% per annum. • Credit committee members should have been trained in loan appraisal and loan follow-up. • Loans should be advanced up to one year with fully cost-recovering market interest rates, and use of one type of loan collateral or a mixture of different types, e.g., savings, loan guarantors, mortgage, group guarantee. • MFI should not be involved in non-financial activities. • Loan recovery should be 95% or above with proper provision for doubtful loans. • A bookkeeper should have been appointed. • The prescribed accounting system should exist. • Audit of the accounts should be up to date • Microfinance best practices should be adopted. • Interest in being members of microfinance networks should exist.	• Number of members should be 500. MFI should have an active policy of converting customers/depositors as members. • Membership profile should be diversified. • Savings mobilization should be continuous. • MFI should have good experience with a diversified loan portfolio and loan repayment of 95% or above, with proper provision for doubtful loans. • Focus should be only on the provision of different types of financial services. • Members should effectively participate in institutional affairs through general meetings. • Microfinance best practices should be followed in all operations. • There should be good governance and effective management by the Board of Directors. • Adequate number of staff should be employed and properly trained. • Accounts should be updated and annual accounts should be audited. • Own resources should be accumulated by retraining earnings. • There should be compliance with minimum performance standards in terms of outreach, operational efficiency, profitability and sustainability as formulated by BOT. • Effective loan demand should exist for short-term and medium-term loans that cannot be satisfied by the internally mobilized resources. • There should be an interest in establishing operational linkages with financial institutions/banks.