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IFAD

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**REPORT ON IMPLEMENTATION OF THE FIRST CYCLE
OF THE
RURAL FINANCIAL SERVICES PROGRAMME
IN THE UNITED REPUBLIC OF TANZANIA
FINANCED UNDER THE FLEXIBLE LENDING MECHANISM**

1. The purpose of this information note is to comply with paragraph 13 of the Flexible Lending Mechanism (FLM) guidelines (document EB 98/64/R.9/Rev.1), which stipulates that “...for each FLM loan and prior to the end of each cycle, IFAD management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly.”

I. INTRODUCTION

2. The overall objective of the FLM is to introduce greater flexibility into the Fund’s project design and implementation in order to: match project timeframes with the pursuit of long-term development objectives when it is judged that a longer implementation period will be required to meet those objectives; maximize demand-driven beneficiary participation; and reinforce the development of a grass-roots capacity. The specifics of an FLM loan include: (i) a continuous and evolving design process through implementation of discrete, three- to four-year cycles; and (ii) clearly defined preconditions – or ‘triggers’ – for proceeding to subsequent cycles.

3. This information note reports on the progress of the Rural Financial Services Programme (RFSP) in achieving its first-cycle triggers. The note’s contents are based on several sources: the programme implementation status report (August 2004), a pre-review study (September 2004), the report of the most recent United Nations Office for Project Services supervision mission (September 2004), and the report of the first-cycle implementation review (November 2004).

II. BACKGROUND

4. The RFSP was launched in early 2002 as a follow-up to the Southern Highlands Extension and Rural Financial Services Project.

5. The programme's overall goal is to achieve a sustainable increase in the incomes, assets and food security of rural poor households by enhancing their capacity to mobilize savings and invest in income-generating activities. To this end, the RFSP is developing viable rural financial service systems in three distinctly different programme zones, in the south, centre and north of the country.

6. The programme has four specific objectives:

- (a) support the design, development and implementation of sustainable rural financial services;
- (b) improve the institutional and managerial capacity of grass-roots microfinance institutions (MFIs);
- (c) develop a sustainable rural financial network infrastructure that is capable of linking grass-roots MFIs with the rural poor; and
- (d) empower rural poor households to benefit from financial services by reducing institutional barriers.

7. In addition, the programme strives to:

- (a) assist the Bank of Tanzania in its efforts to develop a legal, regulatory and supervisory framework for MFIs and to establish a national MFI data bank; and
- (b) complement other (donor-funded) rural financial service development programmes.

8. The programme consists of the following components: (i) improvement of managerial capacity and performance of grass-roots MFIs (26% of base cost); (ii) rural financial systems development (10%); (iii) empowerment of the rural poor (40%); (iv) monitoring and evaluation, and impact assessment (8%); and (v) programme coordination and management (16%).

9. The loan has a duration of nine years with three distinct cycles of three years each. Total programme costs were initially estimated at USD 23.77 million, of which approximately USD 16.34 million (SDR 12.8 million) would be provided as a loan from IFAD, USD 2.17 million would be provided each by the Swiss Government and the Organization of the Petroleum Exporting Countries (OPEC) Fund, and USD 3.09 million by the Government and the beneficiaries. However, with the withdrawal of the OPEC Fund from cofinancing, the total available funding for the programme stands at USD 21.60 million. The loan became effective on 12 October 2001, and implementation started in January 2002. The programme completion date is set as 31 December 2010, and its closing date as 30 June 2011.

III. PROGRAMME ACHIEVEMENTS DURING THE FIRST CYCLE

10. During its first three years (January 2002 to December 2004), corresponding to the first FLM cycle, the programme made institutional arrangements for carrying out its activities nationally and in 12 target districts. Its beneficiaries consist of rural poor households, with priority accorded to women and woman-headed households. The programme is driven by beneficiary demand and follows a bottom-up participatory approach. Results during the first cycle have been impressive: membership in the supported MFIs increased from about 8 500 in 2002 to some 18 800 in 2004, of which about 39% were women. Over the same period, the capital base of participating MFIs increased by 380%, from 270 million to 1 034 million Tanzanian shillings (from about USD 270 000 to USD 1 million).

Members elected new leaders following democratic procedures, and women officers increased from 15% to 40%. More than 12 500 MFI members have been trained, of whom 53% women.

Improvement of Managerial Capacity and Performance of Grass-Roots MFIs

11. Overall, this component was well implemented with over 100% achievement in most of its subcomponents and activities, such as the identification and training of training service providers, participatory rural appraisals, selection of grass-roots MFIs, awareness workshops, good governance courses, and MFI and training needs reviews. Its main accomplishments revolve around an improved operational framework for MFIs, strengthened MFI management capacity (with 40% of leaders being women), greater participation in grass-roots MFIs and increased institutional support for grass-roots MFIs. The programme helped MFIs prepare, revise and refine their constitutions, policies and by-laws, and it assisted more than 60 MFIs in registering legally as saving and credit associations. A total of 124 MFIs have qualified, as compared to the goal of 110 for the first cycle.

Rural Financial Systems Development

12. The programme managed to build linkages with financial institutions such as the Cooperative Rural Development Bank (CRDB), the Tanzania Postal Bank and the National Microfinance Bank. The CRDB visited about 100 grass-roots MFIs in all three zones, forging linkages and signing memoranda of understanding with 23 of them to guide their working relationships. An important development is that the CRDB, given its level of liquidity, used its own money to provide loans to MFIs instead of using the microfinance facility earmarked for credit to financial institutions. This helped enhance ownership and sustainability. The RFSP provided training to officials of two community banks, namely the Mufindi Community Bank (Mucoba) and the Kilimanjaro Cooperative Bank. It also supported NGOs and financial institutions in the provision of innovative microfinance services, and is strengthening assistance for MFI apex associations, such as the Savings and Credit Cooperative Union League of Tanzania and the Tanzania Association of Microfinance Institutions. The legal framework is in place, and a draft regulatory and supervisory framework has been finalized.

Empowerment of the Rural Poor

13. The programme has performed well in the promotion of greater beneficiary participation within grass-roots MFIs thanks to various awareness campaigns, production of promotional materials, exchange visits and leadership training for women. In addition, it has provided microentrepreneurs, particularly women, with training in business management skills, conducting 60 business exchange visits and apprenticeships (exceeding the 55 planned).

Monitoring and Evaluation and Impact Assessment

14. Under this component, the programme established a monitoring and evaluation (M&E) system, completed baseline studies in 21 programme districts, established a participatory integration of IFAD's results and impact management system and conducted a pre-cycle review and a RFSP first-cycle review.

Programme Coordination and Management

15. The RFSP established a programme steering committee (PSC), programme management unit and three zonal management units. It also set up district subcommittees in the 12 programme districts, all of which are functioning and meeting regularly. In line with the ongoing decentralization process and emerging structure, the programme district focal person is directly answerable to the district executive director, and is part of the district management team. In addition, the PSC and district subcommittees were found to be pivotal in providing timely advice and following up or physically inspecting programme activities in the field.

IV. LESSONS LEARNED

16. A review of the programme's achievements and performance in the first cycle highlights a number of lessons that are essential for the implementation and design of the second cycle, and for a better approach to some key activities and implementation arrangements:

- (a) Given the level of performance of grass-roots MFIs and the enthusiasm with which the rural poor have collaborated with their regional and district leaders, the RFSP should continue providing support to these MFIs in order to achieve sustainable increases in the incomes, assets and food security of rural poor households. The programme has shown that, with capacity building, the poor can save and pay back loans.
- (b) The programme should continue to focus on an integrated development process, which the Government and its partners perceive as essential to both the programme's decentralized thrust and its sustainability requirements. Hence, implementation of programme components and activities should be based on a demand-driven, participatory approach.
- (c) The main programme thrust should be on the capacity-building of grass-roots MFIs, ensuring that they can graduate through development stages built around four important concepts, namely:
 - (i) process (something organic and evolving);
 - (ii) capacity (attention to human resources and to organizational structure and systems);
 - (iii) sustainability (ability to sustain flow of valued benefits and services to members or clients over time); and
 - (iv) impact (a means to solve problems, create a more favourable economic or policy environment, and improve the quality of people's lives).
- (d) Emphasis needs to be placed on the programme's relevance, efficiency, effectiveness, impact and sustainability. The programme should collaborate further with existing institutions that support MFIs in the new districts and streamline approaches to avoid confusion at the village level.
- (e) Although the programme is already integrated within the district management, it needs to work more closely with local government authorities, especially village and ward authorities, as per the Local Government Reform Programme to ensure that the RFSP is an integral part of both the ward and village development plans and the district (agricultural) development plan.
- (f) The programme needs to improve impact measurement at various levels, but mostly at the household level. In addition, districts should comply with agreed-upon reporting formats. Better management is required, especially at the local government level, and should include conducting regular zonal or district review meetings and annual stakeholders' M&E workshops.
- (g) Capacity in the southern zone to reach out to districts and MFIs has proven to be inadequate. During the second cycle, the southern zone will cover twelve districts (165 MFIs), the northern zone four districts (48 MFIs) and the central zone six districts (62 MFIs). To improve performance in the southern zone, the programme will open an additional office.
- (h) The financial institutions have indicated liquidity is adequate, and therefore the microfinance facility credit line is not required. Funds will be reallocated to training to cover part of the finance gap resulting from the withdrawal of the OPEC Fund.

V. ACHIEVEMENT OF FIRST-CYCLE TRIGGERS

17. As stipulated in the loan agreement, the programme has to fulfil a set of performance criteria, or trigger mechanisms, in order to graduate to the second cycle. The triggers and their current status are presented in the table below:

**Programme Trigger Mechanisms for Qualifying for the Second Cycle:
An Overview of Performance**

Trigger	Indicator/Conditions to be Met	Current Status	Comments
1	<i>Legal, regulatory and supervisory framework for MFIs prepared and approved for implementation</i>	<ul style="list-style-type: none"> The legal framework was enacted in December 2004. The RFSP is still mainstreaming some aspects of the legal, regulatory and supervisory framework in the MFIs, e.g. carrying out regular inspections, facilitating MFI registration and encouraging MFIs to adopt microfinance best practices. 	Some additional policy-level thinking is ongoing on how to deal with savings and credit associations and other pre-stage ¹ MFIs so as to enforce best practices and good governance practices
2	<i>Proven capacity and capability in MFI organization and management and best practices adopted within three local training institutions to meet needs of MFIs and formal financial institutions</i>	<ul style="list-style-type: none"> Four training service providers were engaged (Mzumbe University, Moshi University College of Cooperative and Business Studies, the Centre for Microfinance and Enterprise Development Trust Fund and Kenya-Rural Enterprise Programme [Tanzania]) and involved in training-of-trainers courses to enhance their knowledge and understanding of microfinance operations. A total of 60 module trainers had been trained by the end of December 2003. 	It is recommended that this pool of technical expertise be shared with the Agricultural Marketing Systems Development Programme as part of linkages with other IFAD-funded programmes
3	<i>At least 110 MFIs covered: Stage 1 target: 25 Stage 2 target: 60 Stage 3 target: 25</i>	The focus is on removing weaknesses identified by training service providers and the RFSP. Capacity-building resulted in (i) an increased capital base; (ii) attitude or mindset changes; (iii) confident leadership; (iv) establishment of good accounting systems and procedures; (v) improved front offices; (vi) regular meetings, transparent leadership, and duly observed constitution and by-laws; (vii) efficient staff; (viii) improved book keeping.	Actual: Total MFIs covered number 124: Pre-stage: 21 Stage 1: 44 Stage 2: 44 Stage 3: 15 Selective offering of safety-deposit boxes to well-performing MFIs
4	<i>At least one formal financial institution to have developed links with microfinance operations to enable it to expand rural services in the programme areas</i>	The CRDB has effectively linked with collaborating MFIs and is offering them capacity-building and cost-sharing in front office improvements. Mucoba is also actively engaged with MFIs in Mufindi. Negotiations have been completed with other financial institutions such as the Stanbic Bank and the National Microfinance Bank. To date, the RFSP has managed to link 24 MFIs to banks.	Financial institutions have been reluctant to use the microfinance facility as enough funds were available to cover credit demand of qualifying MFIs

Trigger	Indicator/Conditions to be Met	Current Status	Comments
5	<i>NGO-based MFI expanding leasing for women and women's savings groups</i>	One financial NGO (PRIDE Tanzania) has already completed initial groundwork in the Rungwe district. The SERO Leasing and Finance Company (SELFINA) has already obtained a loan from the CRDB to operate for six months starting in Dar-es-Salaam and Kibaha, and thereafter in Mbeya in collaboration with the RFSP.	Actual leasing due to start in 2005

- ¹ Stage 1 – Formation/restructuring of new or existing MFIs
 Stage 2 – Consolidation
 Stage 3 – Maturity
 During implementation, it was found necessary to have a pre-stage for MFIs requiring basic support to bring them to the Stage 1 level.

VI. CONCLUSION

18. Given the positive performance during the first cycle and achievement of all specified triggers, the programme has moved to the second cycle, broadening the scope and outreach of its activities. The lessons learned during the first cycle form the basis for expanding and improving activities during the second cycle, with particular attention to: capacity-building of grass-roots MFIs; further integration into emerging structures at local government levels; implementation of the newly established legal, regulatory and supervisory framework for MFIs; enhanced and increased training of staff and clients; and improved M&E and reporting system.

19. The following triggers have been set for moving from the second to the third cycle:

- Trigger 1: The legal, regulatory and supervisory framework is being progressively incorporated in all RFSP-supported grass-roots MFIs in stage 2 and above.
- Trigger 2: Ten members of training service providers are accredited trainers in microfinance best practices.
- Trigger 3: 275 MFIs selected and worked with during the second cycle: 74 during stage 1, 140 during stage 2, and 61 during stage 3.
- Trigger 4: At least 140 grass-roots MFIs are linked to financial institutions.
- Trigger 5: At least 40% of members are women.
- Trigger 6: At least 40% of borrowers are women.

20. IFAD management considers that there is a firm basis for expanding the programme. As the RFSP has proceeded to the second cycle, the loan agreement will be amended as follows: (i) the microfinance facility credit line should be cancelled and funds reallocated in Schedule 2; (ii) triggers from the second to the third cycle should be adjusted; and (iii) programme components and implementing arrangements should be streamlined, based on lessons learned during the first cycle.

