STROMME FOUNDATION / STROMME EAST AFRICA LIMITED

EVALUATION OF THE MARA WOMEN SAVINGS AND CREDIT POGRAMME

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1. Executive Summary

1.1 Key data

The table below provides a summary of selected key indicators over a three year period from December 01 to December 2003. The period to September 2004 has also been included to show the latest performance data. Projections for the periods ending December 2004 to December 2006 have not been included as they were not available. The programme operates without a plan for either short or long term. In any cased the programme's current focus is on following up with defaulters. This coupled with the observed limited resource capacity for on-lending has suppressed the programme's push for growth.

Table 1.1 Summary of key data

	Actual				***Projected***		
Indicator	**Dec–01**	**Dec-02**	**Dec-03**	**Sept-04**	**Dec-04**	**Dec-05**	**Dec-06**
1. Number of active loans (line 2 of table 4.1)	763	1,573	2,104	2,130			
2. Total outstanding loan balance (US$) (line 1 of table 4.1)	148,491,330	240,575,854	420,325,903	403,821,971			
3. Average loan balance (US$) (line 2 divided by line 1)	194,615	152,941	199,775	189,588			
4. Number of voluntary savings clients (line 5 of table 4.1)	0	0	0	0			
5. Total balance of voluntary savings accounts (US$) (line 4 of table 4.1)	0	0	0	0			
6. Loan loss rate (line 7 of table 5.7)	N/A	N/A	N/A	N/A			
7. Portfolio-at-risk_delinquency rate (more than 30 days late) (line 9 of table 5.7)	N/A	N/A	N/A	N/A			
8. Administrative efficiency (line 1 of table 5.6)	12.3%	17.7%	18.3%	7.4%			
9. Portfolio yield (line 5 of table 5.8)	13.8%	15.2%	18.5%	13.4%			
10. Operational self-sufficiency (line 4 of table 5.5)	117.2%	89.2%	103.2%	241.5%			
11. Return on assets (line 1 of table 5.5)	-0.3%	-2.8%	-3.2%	5.8%			

	Actual				***Projected***		
Indicator	**Dec–01**	**Dec-02**	**Dec-03**	**Sept-04**	**Dec-04**	**Dec-05**	**Dec-06**
12. Adjusted return on assets (line 2 of table 5.5)	-0.3%	-2.8%	-3.2%	5.8%			
13. Year-end free market exchange rate (local currency/US$)	1	1	1	1			
14. Per capita GDP (US$)	240,000	250,000	290,000	300,000			

1.2 Summary of major conclusions and recommendations

1.2.1 The Mara Women Credit Programme (MWCP) is operating within the normal parameters of a microfinance program of this type, size, and scale within Tanzania. The programme has grown rapidly especially in the last three years and has the potential to attain full financial self-sufficiency within a two year period. At that time it should be able to begin accessing commercial funding sources. This is consistent with the normal development of a successful microfinance institution.

1.2.2 Institutional Framework

The programme operates without clear functional components for an effective and efficient institutional framework. This has been a major impediment towards institutional development in terms of:

- ✓ Institutional entity including structural and operational independence
- ✓ Institutional governance including accountability and transparency
- ✓ Inter-party relationship amongst the key stakeholders: Mara Diocese, Stromme Foundation and Staff.
- ✓ Operating systems including policies, procedures, monitoring and control

The specific components include the following:

1.2.2.1 *Legal Status*: The continued success of the programme depends largely on its being transformed into a legal entity. The desired legal status should allow the programme to operate independent of the direct influence of its stakeholders. Stakeholder interest would be carried and or assured through the new institution's governing body. Of the several options considered, the incorporation as a company limited by shares is highly recommended. This would allow initial participation of the two stakeholders through a share acquisition arrangement to be agreed. The structure can also easily accommodate new entrants at any time of its life cycle. SF's participation shall be through Stromme East Africa Limited while the ELCT-DM may have to register a new legal corporate, which may come in the form of a trust. Otherwise, the diocese may want to consider transforming its Planning and development department into an ELCT-DM Investment Trust with the view to use it as its equity participation unit.

1.2.2.2 *Organisational Structure*: The programme is small but operates without a formal organizational structure as such, the functional responsibilities are currently "free flowing" amongst all staff. The distribution of authority, which is key for assurance of accountability, is unclear.

1.2.2.3 *Staffing*: Staffing of the programme requires a major re-organisation in terms of functional capacities and numbers. The general outlook suggests high commitment but questionable satisfaction. It is important to ensure that all staff is aligned to a functional organization structure with clear terms of reference.

1.2.2.4 *Management Systems*: The programme operates without any documented system for management guidance. Specifically the following have not been either developed and or implemented since inception:

- ✓ Business Plan including annual operational plan
- ✓ Personnel policies and procedures including salary structure
- ✓ Financial Policies and procedures

- ✓ Effective MIS for loan administration
- ✓ Operational policies and procedures
- ✓ Reporting procedures in terms of format, content and distribution including to and feedback from the loan committee

1.2.2.5 *Cost Structure*: The cost structure does not present a consistent or near consistent pattern of expenditure. Capital expenditure has been treated differently over the years ranging from being expensed, added back to the balance sheet and armotised and expensed again. Further, the lack of a distinct organization structure resulting in irregular staffing has resulted in a gross distortion of the institution’s cost structure.

Staffing at both the head office and branches is completely unstructured and clearly inadequate. The programme’s list of professional staff includes the coordinator, an accountant and one credit officer! An appropriate structure may result in specialization and possibly more staff positions. Definitely, a fully staffed programme is likely to bring in more staff thus more expenses. Therefore, it is the view of the consultant that the cost structure is seriously underrated for an MFI programme of that size.

1.2.2.6 *General Performance:* It is worth noting that the programme has been able to register good performance over the review period. The programme shows excellent financial results. However, the recorded results need to be considered with great care due to the fact that the institution operates without either a business plan or an annual plan of activities. In this regard it was not possible to gauge the programme’s potential for attainment of either its medium or long term objectives. Further, it can be observed that in order to sustain good performance the programme must address all institutional framework issues as highlighted above. These stand out as fundamental challenges for the continued survival of the programme as an operating entity.

1.2.3 Other Specific observations / recommendations

1.2.3.1 *Improvement of MIS*: There is an urgent need to strengthen MIS for both portfolio and financial management. The report identifies two critical areas to be addressed in terms of systems and the technical capacity to run the system and recommends as follows:

a) To re-evaluate suitability of Loan Performer for its installation or otherwise selection of an alternative integrated system.

b) To identify a suitable candidate with the necessary knowledge and experience in computer applications in order to strengthen MWCP's internal capacity in computer application and systems administration.

1.2.3.2 *Reports*: The programme operates without a system for generation of regular reports. This has been noted as serious omission which should be addressed effective immediately starting with a set of three basic reports: Daily transaction report, Loan Portfolio report, financial statements (management accounts).

1.2.3.3 *External Audit*: The report observes some weaknesses in the effectiveness of the existing internal audit function which is largely attributed to SF's strong influence in the assignment. In order to strengthen the function It is recommended to separate institutional external audit function from the SF's external verification of fund utilization. This may be accomplished by expanding the terms of reference for the external audit to include the issuance of two separate reports (i) the annual audit report and (ii) a report on utilization of funds.

1.2.3.4 *Financial Manager*: is a key function in any MFI demanding a wealth of knowledge, experience and confidence in corporate finance. The existing Finance manager is adequately skilled but needs more exposure to sharpen her knowledge in microfinance. The specific areas of exposure have been suggested to include record keeping, archiving, reporting, accounting computer applications and microfinance best practice. She will also need to pursue professional qualifications as a certified accountant when the project converts to an independent legal entity.

1.2.3.5 *Liquidity Constraint*: Liquidity has been observed as a serious limitation to programme growth and or smooth continuity. However, is also been acknowledged that it will take some time for MWCP to implement the proposed restructuring before it can attract fresh funding. In order to ensure continuity during the interim period it recommended to SF to consider rescheduling of the existing loans as a way to reduce the outflows which will translate into a relief on the liquidity problem. The rescheduling may be stepped to start with the deferment of repayments followed by an overall reschedule of the balance of the loans by granting extended repayment terms.

1.2.3.6 *Strategic Objectives*: The programme operates without a business plan which translates to operating without coordination between its mission, strategic goals, and strategic path. Management is strongly encouraged to develop at least a three year business plan which will provide the big picture to guide the annual plans. To initiate the process it is advised that the MWCP stakeholders should get together to revisit the mission, define the mission statement and state the programme's core values as a pre-cursor for the development of the programmes strategic direction. The proposed participatory approach will ensure a buy in by all the stakeholders.

1.2.3.7 *Income Statement and Balance Sheet*: The accounting setup of the programme adheres to locally and internationally accepted accounting principles in the presentation of its income statement and balance sheet save for the observed critical variations in the treatment of capital expenditure and loan loss write off. It is recommended to review the respective accounting policies in order to accommodate the following:

a) To capitalize capital expenditure for armotisation over the projected life time of the asset.

b) To allow for annual charging of pre-set amount on the profit and loss account in order to build an adequate reserve to cushion the programme against potential loan losses. However, this will require a separate policy on provisioning.

1.2.3.8 *Loan Portfolio*: It is recommended to establish a loan loss provisioning policy to guide on ageing, risk classification, provision rates and write-off criteria. The specific policy will depend of various factors however, it is advisable to base the policy close to the levels indicated for the regulated microfinance companies as shown in the following table:

Table 5.7.1: Example of Summary Provisioning Policy

PAR (days past due) – monthly repayments	**PAR (days past due) – weekly repayment**	**Risk Classification**	**Provisions %**
Current	Current	Current	2
Up to 30 days	Up to 15 days	Specially mentioned	25
31-60 days	16 – 30 days	Sub-standard	50
61-90 days	31 – 45 days	Doubtful	75
More than 90 days	More than 45	Loss	100

1.2.3.9 *Technical Assistance*: The successful development and implementation of the proposed rationalization of the institutional structure together with a review of the market and product features will require the support from specialized professionals. It is therefore recommended to SF to facilitate the process for outsourcing the necessary professional expertise to lead in the proposed rationalisation process. Specifically the candidate should demonstrate knowledge and experience in microfinance institutional and operational structures and systems, understand of microfinance markets and product development.

2. Institutional Factors

2.1 Legal structure

The Mara Women Savings and Credit programme was established as one of the projects of the Mara Diocese of the Evangelical Lutheran Church of Tanzania. The programme has remained a project and has continued to be operated without an independent legal status. Strictly speaking therefore, there is no difference between the credit programme and any other project of the diocese like the hospital in Bunda.

The Diocesan committee for ELCT Diocese in Mara has finally approved a proposal to transform the programme into a legal entity independent from the Diocese[1]. While various options were available, the Diocese seems to have reached an agreement earlier on in the year 2003, with SF to register a Trust[2]. The diocese office in Mara has prepared the necessary documents for application for registration of a Trust under the name "Evangelical Lutheran Church in Tanzania – Diocese in Mara Region Micro Finance Trust (ELCT – DMRMF). The application has been lodged and is being processed by the Tanzanian Ministry of Home Affairs.

The form of registration being sought will accord the programme a legal status independent from both the diocese and Stromme Foundation. Further, as a trust the programme will formally become a not-for-profit organization thus qualifying for the Non-Governmental Organisation (NGO) status.

The main value attached to the legal status being sought is limited to the legal identity to be accorded to the programme. However, the structure of the trust vests unlimited authority in the Trustees especially the Settler / Founder trustee, the Bishop in this case. This may not

[1] ELCT Diocese in Mara Letter to Regional Director, Stromme Foundation October 7th, 2004.

[2] There is no evidence of such an agreement between the Diocese and SF however, there is proof of SF's involvement in the development of the trust deed (a) the trust deed having been reviewed and improved by SF and (b) possibility of financial support from SF to pay the expert who helped in drafting the trust deed, e-mail from ELCT to Grantham Fernando, Monday 25 November, 2002.

allow the new entity to realize the intended institutional independence from the Diocese. Further, the Trust's capacity to raise capital is limited due to its inability to raise equity.

There is another interesting development where a company limited by guarantee was incorporated on 5th August, 2004 under the name of Mara Women Empowerment Assistance (MWEA). The background to this incorporation is not clear and looks more of an individual rather than institutional effort. Unfortunately, MWEA can not be operationalised without an agreement with the Diocese on transfer of the institutional and operational infrastructure from ELCT Diocese to MWEA. It is unlikely for the Diocese to consider such a request as it has not been involved in the incorporation of MWEA. It is the author's opinion that the MWEA option is a waste of time and contains elements of questionable legality therefore the initiative ought to be closed to preserve the integrity of the stakeholders.

It is important for the two key stakeholders namely the Diocese and SF to consider and agree on an appropriate legal entity structured to ensure commercial viability while safeguarding the mutual interest of its stakeholders. The consultant's view is in favour of a limited liability company having share capital in which both the ELCT and SF may own shares. An appropriate formula for valuation of respective stakes, tangible or otherwise goodwill, may be worked out.

The main limitation to operating a company having share capital is the probable requirement to have a trading license. Currently the local authorities tend to leave the NGOs to operate without trading licenses. Interestingly there is no single criteria used to judge a not-for-profit from a for-profit institution and possibility exists for the programme to be classified on the basis of its operations rather than legal form. Under the later consideration the requirement for a business license may not be enforced. It is the consultant's view that the programme should accept this risk and move to incorporate as company having share capital.

2.2 History

The Mara Women Savings and Credit programme was started by the Evangelical Lutheran Church of Tanzania (ELCT) Diocese in Mara in 1998 with the aim of providing financial services to the people in Mara region to enable them reduce poverty. The vision was to improve the living standards of the people, especially women.

Through its Development department, the Diocese had developed a savings mobilization concept which was well received by a group of some Christian women. The group members started by making weekly savings of TShs. 1,000/= into the group's joint bank account. The savings for different groups grew faster reaching substantial balances ranging from 200,000/= to 400,000/= with individual account balances of between TShs. 50,000/= and 100,000/=. The Diocese was encouraged by the positive development and saw the need to consolidate the groups into a formal structure that may also venture into credit.

In 1997 the ELCT Diocese in Mara developed a project concept which was used to initiate negotiations of a funding proposal to Stromme Foundation. Subsequently, Stromme Foundation submitted an application to NORAD's Department for Non- Governmental Organisations for support to new project year 1998. The proposal as submitted included the application and a three year financial plan (1998 – 2000) for a total project funding amount of TShs. 141,186,000/=. The budgetary distribution by source was presented as shown in the following table:

Table 2: Initial project Budget

Source		YEARS			TOTAL
		1998	1999	2000	
a	Total Project Expenditure	**42,200,000**	**49,520,000**	**49,466,000**	**141,186,000**
b	Local Contribution	0	5,000,000	5,000,000	10,000,000
c	Project Funding Requirement	**42,200,000**	**44,520,000**	**44,466,000**	**131,186,000**
d	From Stromme Foundation (20%)	8,440,000	8,904,000	8,893,200	26,237,200
e	From NORAD (80%)	33,760,000	35,616,000	35,572,800	104,948,800

The proposal identified SF as the applicant while the ELCT-DM was identified as the local partner and sought funding initially for project year I amounting to TShs. 42,200,000/=.

The Stromme Foundation has funded the programme since 1998 by providing financial support for:

- Capacity building: funding equipment acquisition, MIS acquisition, and meeting part of the operational budget deficits.
- Training support for staff and clients.
- Loan funds

SF has continued with its financial support to the programme as the only donor. SF's support is in the form of either grants or loan. The actual funding received since inception is as shown in table 2.1.

Table 2.1 Donor support

Source	Date	Amount (US$)	Terms	Currency	Status
Stromme Foundation	1998.	15,950,000	Zero interest Loan	TShs	Disbursed
Stromme Foundation	1998.	9,756,483	Grant	TShs	Disbursed
Stromme Foundation	1999.	22,561,884	Zero interest Loan	TShs	Disbursed
Stromme Foundation	1999.	15,866,313	Grant	TShs	Disbursed
Stromme Foundation	2000.	52,546,250	Zero interest Loan	TShs	Disbursed
Stromme Foundation	2000.	17,516,408	Zero interest Loan	TShs	Disbursed
Stromme Foundation	2001.	57,000,007	Zero interest Loan	TShs	Disbursed
Stromme Foundation	2001.	20,000,000	5% interest Loan	TShs	Disbursed
Stromme Foundation	2001.	10,984,624	Grant	TShs	Disbursed
Stromme Foundation	2002.	124,520,908	5% interest Loan	TShs	Disbursed
Stromme Foundation	2002.	15,382,710	Grant	TShs	Disbursed
Stromme Foundation	2003.	150,454,060	6% interest Loan	TShs	Disbursed
Stromme Foundation	2003.	8,000,000	Grant	TShs	Disbursed
Stromme Foundation (RF)	2003.	150,000,000	6% interest Loan	TShs	Disbursed

The programme did not receive any donor funding in the year 2004 and possibilities for any more funding from SF depended largely on the Diocese's willingness to de-link the programme from the ELCT-DM into an independent entity. As a recent development, the Diocesan committee for ELCT DM agreed to a proposal to transform the programme into a legal entity independent from the Diocese. Further, the committee requested Stromme to continue its financial support to the proposed new entity. This assignment was commissioned by SF in order to review the performance of the programme, study the microfinance environment in the area, and assess legal options for setting up a company in order to determine the way forward.

2.3 Ownership and Board of Directors

2.3.1 Ownership

The programme was started by the ELCT-DM with funding from SF. As a matter of fact, available project documents suggest that the ELCT-DM was SF's local partner in the implementation of the Mara Women Credit programme.[3] Therefore the programme does not present any clear answers as to its ownership.

The fact that the programme is operated as a project of the ELCT-DM presents it as one of the ELCT-DM projects. This is demonstrated by the Diocese involvement in administrative, staffing and financial matters of the programme. On the other hand, SF's interest and close involved is evident in the technical area especially in monitoring of operational and financial performance.

This has resulted in a situation where none of the two stakeholders can claim to have effective control of the programme. There is a strong sense of uncertainty and emerging elements of mistrust on the control of the programme. This has confused staff and opened up an opportunity for them to choose which side to consult and or report to on a particular matter. This is a serious gap that must be addressed for the good health of the programme.

2.3.2 Board

Theoretically the programme is set to be operated as a project under the ELCTT-DM's Planning and Development Department (P&D). There is also the project's Loan Committee (LC), which serves more as the project supervisory authority than merely a credit committee. The project administration reports more or less to the credit committee on all matters. The credit committee is expected to report to the P&D.

[3] Application to NORAD for support to new project, year 1998.

The LC is composed of nine members drawn from both within the ELCT-DM leadership and outside the Diocese. The four members from outside the Diocese represent a cross section of individuals whose functional responsibilities are focused on the social development in Mara region. These were mainly drawn from the regional administration, district council and a development oriented NGO. The members were appointed by the Diocese administration and include the following:

(i) General Secretary, ELCT-DM

(ii) Planning and Development Secretary, ELCT-DM

(iii) Accountant, ELCT-DM

(iv) Project Coordinator

(v) Trade Officer, Musoma Town Council

(vi) A Lecturer, Community Development Training Institute (CDTI) Buhare, Musoma

(vii) Regional Planning Officer - Chairman

(viii) Ms Saria Kweka, Coordinator, VIFAFI, an agricultural promotion NGO

The LC meets quarterly and reviews the quarterly performance reports prior to their distribution to SF and ELCT-DM. However, interviewing three of the LC members there is evident tension between the Diocesan representatives and those from outside. The tension was sited as having culminated in the resignation of the Chairman from the committee.[4] The non-Diocesan members are uncomfortable with the autocratic position normally taken by their colleagues from the other side. They now feel that their contributions are not given any serious value by their rigid colleagues from the diocese. The main issue of contention has been on the need to let the project operate as a stand alone commercial entity, away from the church.

[4] The Chairman did not formalize his resignation but has not been attending the LC meetings.

The authority of the LC could not be verified. Individually, some of the members expressed concern that the General Secretary can override committee decisions either during deliberations or thereafter when referred to the diocese authority. Further, in practice there is no communication channel between the LC and either SF or the Diocese. This has allowed either SF or the ELCT-DM to make and implement decisions without the involvement of the LC. In general it can be concluded that the programme operates without a clear apex of authority to guide the project management team.

2.4 Alliances

The Mara Women Credit programme is closely linked to the Lutheran Church in Mara. The link to the church has had a dual effect including

- ✓ As clients the faithful consider their loan servicing obligations as a good to the church
- ✓ The Diocese takes comfort in being seen to care for the community around it

Apart from the ELCT-DM the project is an affiliate of the SF microfinance initiative. Through the SF link the programme has benefited from the following:

- ✓ Financial support for its loan capital and operational shortfall
- ✓ Technical support in terms of:
  - o Acquisition and exposure to operating
  - o Financial support for capacity building
  - o Brokerage of exchange programmes, attachments and study tours
  - o Performance monitoring and evaluation
  - o Technical support on as demanded

The programme enjoys good rapport with other microfinance programmes operating in the area. Through staff contacts the programme has established a good relationship with PRIDE Tanzania, the largest MFI in the area. Otherwise the programme remains small in scale with limited external exposure.

The programmes relationship with SF remains strong albeit the suspended funding pending the proposed separation from the diocese. Possibilities exist for the programme to widen its alliances locally by seeking membership to the Tanzania Association of MFIs (TAMFI) and internationally by diversifying funding sources including the Lutheran World Relief. The ELCT-DM's Planning and Development department developed a funding proposal for submission to the Lutheran World Relief in may 2004. It was not established whether the proposal was actually submitted but the diocese has interest in pursuing alternative and or complimentary funding sources.

2.5 Leadership

Ideally, the General Secretary of ELCT-DM is supposed to have been responsible for setting the programme vision in line with the overall diocesan interest towards poverty alleviation. This has not been the case and there is an evident vacuum at the strategic leadership level where no one seems to have taken that responsibility. The project setup had not articulated the different roles, responsibilities, and the corresponding inter-party relationships. Involvement by the diocesan officials has at times been considered as unnecessary interference with the programme. It is important to address this matter in order to reinforce trust amongst the stakeholders.

At the operational level the Project Coordinator (PC) Ms Mary Sange, has lead the project since inception. She is an inspiration to both the project staff and clients. She is well known and respected among the clients who refer to her as "mama". The PC has accounting background and has been exposed to microfinance operations. She believes in the commercial viability of the programme as key to its attainment of the desired social objectives.

The PC is open to discuss about the programme, past experiences, present status and future expectations including success factors and the challenges. She protested her recent recall to the Diocese and would prefer to stay with the project. Her major concern is to be able to transform the programme to a legal entity with distinct governance structure.

Mary has demonstrated energy and commitment. However, she would still make use of more exposure into the intricacies of corporate structures, governance and management. One thing she has not been able to achieve is the establishment of the necessary management and operational structures and systems. There are no functioning management systems across the board including,

- ✓ Strategic and operational plans
- ✓ Policies and procedures manuals
- ✓ Data processing and reporting
- ✓ Report definitions in terms of content, frequency and circulation
- ✓ Document filling and retrieving
- ✓ General working environment including office space and equipment

Mary remains an employee of the diocese although she is paid directly by the project. She has always found her loyalty caught in between her employer, the project and SF. A good and functioning management system would have helped in drawing lines of authority and possibly minimized the gravity of the observed confusion in communication and decision making between management, SF and ELCT-DM.

The programme is still young and heavily dependent on Mary as its leader. Internally, there is nobody else either experienced or with the confidence to lead the programme should Mary leave. It is therefore advisable to start developing a second person. The current staffing is limited in numbers and experience thus it may be necessary to out source. The project may want to consider outsourcing either more a more senior candidate than Mary or otherwise. A more senior candidate is likely to possess knowledge and skills needed for building the necessary management systems none of which have been put in place. Should this position be considered then Mary may be re-designated as head of operations under the new person designated as the Programme Manager.

2.6 Human resource management

2.6.1 Statistical summary

The number of programme staff is relatively small and operates more of a communal setup where duties are distributed without specialization. This setup was observed at all levels of the programme for example:

- ✓ A Security Guard or Office Assistant attending clients as a Loan Officer
- ✓ The Programme Accountant attending clients as a Loan Officer
- ✓ The Accountant processing portfolio transactions as a Loan Officer
- ✓ The Accountant doubling as the PC
- ✓ The PC doubling as the Accountant

Table 2.2 Human resources statistical summary

Parameter	**Dec-01**	**Dec-02**	**Dec-03**	**Sep-04**
Number of **total staff**, end of period	3	5	5	3
Average staff (for computation only)	2.5	4.0	5.0	5.0
Number of staff **hired** during period	0	3	0	0
Number of staff who **left** during period	0	1	0	2
Turnover rate (staff who left over avg. number of staff)	40%	0%	0%	40%
Number of **loan officers**, end of period	2	3	3	1
Percent **loan officers** of total staff	67%	60%	60%	20%

Parameter	**Dec-01**	**Dec-02**	**Dec-03**	**Sep-04**
Number of **administrative staff**, end of period[5]	1	2	2	2
Number of **line staff,** end of period[6]	1	3	3	1
Average annual loan officer **compensation** in current US$[7]				
Typical annual compensation for **veteran loan officers**				
Avg. loan officer compensation as **multiple of per capita GDP**	-	-	-	-
Avg. loan officer compensation as **multiple of avg. outstanding balance per loan**	-	-	-	-
Staff training expenditures as a % of annual administrative budget (excluding financial and loan-loss costs)	2%	5%	3%	2%

2.6.2 *Structure*

The programme has neither an organization structure nor a personnel department. With a total workforce of five the PC assisted by the Accountant can adequately handle all staff matters subject to final approval by either the Planning and Development Secretary and or General Secretary. The PC has remained uncertain on the extent of her authority as she has to seek approval from the diocese even on matters approved by the Loan committee.

As earlier observed the programme does not have a formal management system including Staff Policies, Procedures and or guidelines in place. Theoretically, being a project of and operated under the diocese it was supposed to employ ELCT-DM's staff policies while the reality is different.[8] This is a major deficiency and a likely hindrance to staff motivation and development.

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[5] Administrative staff includes management, finance, bookkeeping, internal control, and management information system (MIS) staff; it does not include loan officers, cashiers, and others who spend most of their time dealing with clients.

[6] Line staff includes loan officers, cashiers, and other staff with direct and continual client contact.

[7] . Include in loan officers' annual compensation such benefits as the "thirteenth-month" premium, accrued severance pay (even if not paid annually), typical incentive bonuses, and the like, as well as employer social security contributions.

[8] This was acknowledged by two senior officials of the diocese who were interviewed. However, the reality is that the project has not observed neither this nor any other formal system.

2.6.3 Recruitment

All staff was recruited either by the ELCT-DM or through it. The search and recruitment for the professional category was through a competitive selection process while the support staff is normally identified from within the church faithful. SF has participated in the selection of some of the professional staff category.

Recruitment and or retention of qualified personnel in Mara may pose some special challenges. Being a small town it fails to attract a good number of qualified candidates most of whom prefer to live in bigger and more vibrant towns.

2.6.4 Formal training

The programme does not have any institutionalized form of training. Without a formal business plan most of the training programmes which have taken place have not been planned either. The PC has attended at least twice annual seminars on microfinance best practice. These were either sourced and or brokered by SF.

At its current level of staffing it may not be advisable to develop an elaborate training programme. However, the training plan should be considered within the overall restructuring of the staffing as recommended in this report.

2.6.5 Loan officer profile

There is only one Loan Officer based at the Musoma Branch. In the day to day activities, the Loan Officer is assisted by the rest of the staff at the head office. The other branch at Bunda is run by a self developed support staff assisted by a Security Guard. Therefore, it is not easy to profile the Loan Officer based on a staff of one. However, the programme has identified a set of qualities that a Loan Officer should possess including,

- ✓ Age: between 25 – 40 years
- ✓ Education: Form IV with tertiary training at diploma level

- ✓ Experience: Useful but not essential

The identified requirements are comparable to those set by other MFIs. However, there is no evidence to support that these have been followed in previous recruitment.

2.6.6 Salary

The programme does not have a formal salary structure. Staff salaries are negotiated at the point of engagement. The salaries awarded are consolidated but in the payroll they are segregated into various components as shown below:

Component	Basic Salary	Housing	Medical	Transport	Field
Category	All	All	All	All	Loan Officer

The salary apportionment into different components is intended to remove the allowances from the gross salary in order to reduce the taxable income. This treatment is incorrect under the new law i.e. The Income Tax Act No. 11 2004" which requires that tax computations should be based on total employment income rather than the basic used in this case. The following extract of the applicable law is provided in support of the consultants view on the matter. It is strongly recommended to the programme Accountant to obtain a copy of the act and if necessary to seek either guidance and or advise from the auditors or tax consultants to ensure full compliance with the tax requirement.

Extract Section 7(3) provides for the non-taxable income as follows:

"(3) In calculating an individual's gains or profits from an employment, the following shall be excluded:

(a) exempt amounts and final withholding payments;

(b) on premises cafeteria services that are available on a non-discriminatory basis;

(c) medical services, payment for medical services, and payments for insurance for medical services to the extent that the services or payments are:

(i) available with respect to medical treatment of the individual, spouse of the individual and up to four of their children; and

(ii) made available by the employer (and any associate of the employer conducting a similar or related business) on a non-discriminatory basis;

(d) any subsistence, traveling, entertainment or other allowance that represents solely the reimbursement to the recipient of an amount expended by him wholly and exclusively in the production of his income from his employment or services rendered;

(e) benefits derived from the use of motor vehicle where the employer does not claim any deduction or relief in relation to the ownership, maintenance, or operation of the vehicle;

(f) benefit derived from the use of residential premises by an employee of the Government or any institution whose budget is fully or substantially out of Government budget subvention;

(g) payment providing passage of the individual, spouse of the individual and up to four of their children to or from a place of employment which correspond to the actual traveling cost where the individual is domiciled more than 20 miles from the place of employment and is recruited or engaged for employment solely in the service of the employer at the place of employment;

(h) retirement contributions and retirement payments exempted under the Public Service Retirement Benefits Act, 1999; and

(i) payment that it is unreasonable or administratively impracticable for the employer to account for or to allocate to their recipients."

The programme does not have a performance based incentive package in place. This may become necessary after the proposed rationalization of its staff structure. Otherwise, the average Loan Officer salary amounts to TShs. 200,000/= which is fair when compared to its competitors in the area. The compensation for the PC and the Accountant compare favourably when compared to similar positions in other MFIs.

2.6.7 Turnover

The programme lost two Loan Officers in the year 2004. Their departure is partly attributed to the uncertainty following the decision by SF to suspend funding. Otherwise the turnover recorded over the rest of the period under review is low.

2.6.8 Atmosphere

The outlook indicates strong commitment to the successful performance of the programme. There is also a sense of loyalty to the programme which may partly be reinforced by the individual's professional pride and loyalty to the church. However, staff morale was affected by the stakeholder disagreements leading to suspension of support from SF. The situation is slowly improving due to the anticipated transformation of the project to a legal entity.

The general work environment is rather slack. There is no evidence of a planned approach to issues and supervisory authority is not visible. While it is acknowledged that the programme's current focus is on recovery, there is no evidence of any internal mobilization towards this focus.

2.6.9 Dependence on outside consultants

The programme has the capacity to adequately manage its operations although it may require occasional inputs from specialised professionals. SF has been the main provider of outsourced technical support especially in monitoring, review and advisory services. This support has diminished the programme's need for outsourced consultants.

2.7 Organizational structure

The organization structure is an important tool used to show lines of accountability in an organization. The Mara Women Credit Programme operates without a formal organizational structure. This is a serious omission with long term consequences to both institutional and staff development.

The operational procedures are standardized within the product delivery methodologies which can not be modified in the field. However, there was no evidence of established benchmarks nor process for assessment of staff performance. The observed relationship is adequate in performing routine assignments but lacks the essential ingredients for promoting accountability, efficiency and innovation in operations.

The development of an organizational structure will have to be undertaken within the proposed staff rationalization process. This will entail the identification of specific tasks, definition of clear functional responsibilities, and the determination of the supervisory and support relationship necessary to perform the identified tasks.

2.8 Management information system

2.8.1 Hardware and software

The programme has a computer room at the head office with two computers and one DeskJet printer. There is a third computer and a DeskJet printer in the PC’s office and a fourth one at Bunda branch. The portfolio transactions are posted and processed in the computer room while the PC’s computer is used for administrative issues. The computers operate as stand alone units since they are not networked.

The accounting transactions are processed manually. Computer application is limited to compilation of reports in pre-designed formats. Therefore, data capture into the general ledger is done based on the basic transaction records e.g. payment vouchers and or receipts.

Loan tracking is currently run on an excel spreadsheet package which was adopted from another microfinance programme based in Mwanza. Transaction postings are recorded based on the basic portfolio transaction records e.g. loan disbursement and repayment schedules. The data base structure consists of the client ledgers with limited capacity for consolidated performance reporting. The output is also limited to individual client account status. All other portfolio reports are compiled from individual ledgers and produced separately. Data sorting is also limited which limits options to report on selected parameters.

In general, the spreadsheet package in use has serious impediments in terms of processing capability. The package was also suspect in terms of its security features and data integrity, which could not be verified. Further, data input into either the general ledger and or the loan tracker is extracted from independent manual transaction records without direct linkage between the two databases. This exposes the programme to risk of inconsistencies in account balances between the two databases.

Effective management including monitoring of programme performance can only be realized with timely and accurate reporting. Therefore, the need to move to a computerized data processing system can not be over emphasised. It is important to note that the programme acquired the Loan Performer[9] system which is yet to be installed. The Loan Performer system is widely used by a number of MFIs. The system is known to perform very well for up to 10,000 client accounts beyond which the system slows down. The functionality of the system's general ledger module needs to be verified. In any case there is no evidence of a formal systems review vis-à-vis user requirements prior to its acquisition. It is therefore essential for the MWCP to re-evaluate Loan Performer's system capacity in light of the basic requirements for effective data processing and reporting. This service may be outsourced either from Stromme Foundation / Stromme east Africa Limited or specialized professionals. Apart from the potential systems limitations the MWCP will need to strengthen its staff capacity in computer applications in order to migrate from manual to a computerized system as a matter of urgency. Further the conversion process to any new system may be lengthy due to the tedious process of manually transferring historical records into the new databases. This requires good knowledge and skills in computer applications.

It is therefore recommended as follows:

a) To re-evaluate suitability of Loan Performer for its installation or otherwise selection of an alternative integrated system. This does not require a comprehensive review but a test of key system features in terms of:

[9] A microfinance banking system developed and marketed by Crystal Clear, a Ugandan based software development company

- Portfolio data processing capability and or limitations thereof
- Functionality of its general ledger module: simplicity, capacity and integrity
- Migration support features
- Reliability: System support
- Hardware requirements
- Comparison with selected alternative systems in the market
    - Integrated vis-à-vis independent database systems
    - Data reconciliation: structure, frequency and capacity requirements

b) To identify a suitable candidate with the necessary knowledge and experience in computer applications in order to strengthen MWCP's internal capacity in computer application and systems administration.

2.8.2 Report

The MIS setup does not include a requirement for regular reporting other than the quarterly performance reports thus, reports are only compiled as when needed. In the absence of a set of regular reports it was not possible to verify existence of report structures in terms of formats and content. The exception to the above observation is the quarterly reports, which are produced in fulfillment of the SF funding requirements. The reports include both the quarterly financial statements and portfolio performance analysis and are structured for the SF's project monitoring tool (PMT). These were considered to be the most reliable source of information for this assignment.

Lack of a defined report structure was noted as a critical omission and regardless of the size of the programme, it is essential to develop and install a reporting system that defines report formats, content, frequency and distribution. The level of details per specific report may vary depending on the intended level of usage and the period covered. *There is a rule of* *thumb that the level of details is inversely proportional to the hierarchical rise and the frequency*. That is more details in high frequency reports normally intended for use at operational level than those for usage at strategic level. It is also important to point out that most reports should be defined and detailed within the policy and procedure manuals e.g. Operations Policy and Procedures manual, Financial Policies manual, etc. Management should be sensitized to appreciate the value of the various reports to the internal decision making process. The following matrix highlights three basic reports, which are commonly used in microfinance operations.

Table 2.8.2: Basic operational / financial reports

#	Description	Content	Frequency	Use	MWCP
1.	Daily transaction reports	By groups: Client population, Loan disbursements, repayments, outstanding, past due, portfolio at risk, deposits Receipts, payments, banking [P, I, and Savings]	Transaction	Branch, HO	Not in place
2.	Loan Portfolio report	Consolidation of LSR by groups, Branch or programme: Client population, Loan disbursements, repayments, outstanding, past due, portfolio at risk	Various: daily, weekly, monthly	Branch, HO, External	Not in place
3.	Financial statements	Management accounts by Branch/Cost centre + consolidated: Profit and Loss and Balance Sheet as detailed and or summary. Annual accounts	Various: Monthly, Quarterly, Yearly	Branch, HO, External	Quarterly and annually for SF

It is strongly recommended to institute at least the listed reports as the initial set of regular reports. The respective frequency, level of details and user points may be established in line with the recommended structural rationalization.

2.9 Internal Control system, audits, and supervision

2.9.1 Internal control system

The internal control system is concentrated on ensuring security of cash. The programme has instituted control levels between the Project Accountant, Project Coordinator and the General Secretary. There are also limits on authorization of expenditure for each of the three levels. Further, operation of the bank account requires at least two signatories from amongst the three named above.

The internal control system exists from mere practice of prudence. The system is not documented and the internal audit function is not in place. It is important to point out that the programme is small in scale and is not yet in a position to absorb the demands of an elaborate control system. The development and introduction of the financial policy and procedures manual may adequately serve as an effective tool for internal control. In any case, at its current level of operations most activities and or approvals are concentrated in the PC and or her Accountant.

2.9.2 External audit

KPMG serve as the external auditors for MWCP. The auditors were engaged by SF and audit work is always initiated from Kampala. The layout of the audit report is well structured although it depicts a strong orientation towards project fund accounting. Apart from the financial statements the reports include the audit instructions, audit findings and recommendations and the audit report complete with the auditors opinion on the accounts.

The engagement of the auditors by SF may tend to limit the auditor's focus on project funding while ignoring key elements of the best practice in external audit of MFIs. The project fund accounting is important to SF which has to monitor utilization of its financial support. However, it is equally important to the recipient of funds to have an external auditor evaluate its financial transactions during the year and its financial standing as at year end. It is questionable whether the later is being achieved under the current arrangement. Particularly at risk is the essential requirement for the auditor's to closely verify the loan portfolio and related client accounts.

Therefore, should the programme convert to a legal entity the engagement of auditors will have to revert to the board of the new entity. The structure of the audited report will have to conform to international standards including more account details in the form of notes. It is therefore recommended to separate institutional external audit function from the SF's external verification of fund utilization. It is also possible to implement this recommendation by merely expanding the terms of reference for the external audit to include the issuance of two separate reports (i) the annual audit report and (ii) a report on utilization of funds.

2.10 Financial Manager

The principal financial manager for the programme is Ms Christina Msuluzya, the Project Accountant. Ms Christina has a B.Com degree with several years of hands on experience in financial management matters. She demonstrates good accounting skills although she has to struggle with the poor record keeping system. Search for simple historical data e.g. donor fund receipts takes unnecessarily long and may have to be repeated several times for completeness. It is recommended that a programme be developed to broaden Ms Christina's knowledge and build her confidence as an accounting professional. Specific areas of exposure should be in record keeping, archiving, reporting and accounting computer applications. She also needs introduction to relevant microfinance best practices to expose her to the intricacies of microfinance. All said, her financial skills are adequate for the programme's present needs however, it will be necessary for her to pursue professional qualifications as a certified accountant to be able to legally serve as an accountant when the project converts to an independent legal entity.

3. Services, Clientele, and Market

3.1 Services

3.1.1 Loans

The programmes principal product is the solidarity group guarantee loan. The salaried employee loan was launched as the second product. The products are both packaged together with a requirement for a weekly compulsory savings contribution. The specific features of the two products are as given below:

Table 3: Loan Product Features

Parameter	**Group Loan**	**Employee Loan**
Eligibility	Operators of microbusiness activities	Permanent employees of participating institutions
Delivery Methodology	✓ Borrowers constitute self selecting group of five members. ✓ Six to ten such groups constitute a service group. ✓ Loan disbursement to individual group members ✓ Loan repayment by individuals during group meetings	✓ Borrowers served as individuals ✓ Loans issued to each borrower ✓ Guarantee in form of comfort drawn from the individuals salary earnings ✓ Loan repayment is either direct or through salary deductions
Loan Repayment	Weekly	Monthly
Lead time to first loan receipt	At least 4 weeks from registration	At least 30 days
Lead time between loans	At least 3 weeks	At least 30 days
Repayment terms	✓ Variable based on loan size: Amount/term (months) ✓ 50,000/16; ✓ 100,000/24; ✓ 150,000/32 ✓ 200,000/32; ✓ 300,000/40; ✓ 400,000/40 ✓ 500,000/44; ✓ 600,000/48; ✓ up to 2,000,000/48	✓ Variable based on salary level but starting at TShs 100,000 ~ 200,000
Interest	Flat 24% p.a. on the initial principal balance	Flat 24% p.a. on the initial principal balance
Compulsory savings	✓ Upfront: 30% of the loan applied for ✓ Ongoing equivalent to TShs 4,000/= per month ✓ Paid weekly with loan	✓ Upfront 20% of the loan amount applied for ✓ Ongoing equivalent to TShs 4,000/= p.m. ✓ Paid monthly with loan

Parameter	Group Loan	Employee Loan
	repayment	repayment
Volume, Loan Portfolio end of September 04, estimated[10]	70%	30%

The group loan product remains popular especially to those whose financial requirement are below TShs. 500,000/=. Those in the higher loan category have indicated preference for monthly instead of weekly repayments. Further, the weekly transactions much as they remain convenient to the low enders, typically they carry higher transaction costs for the clients.

The Employee Loan product has proved extremely popular and a potential niche to the programme. Transaction costs are low due to the direct recovery through pay roll deductions. Further, the regular salary income minimizes default risk.

The major weakness noted in the programme's service delivery is largely related to the serious liquidity problem which has forced the programme to stagger loan disbursements. This has resulted in extended lead times to repeat loans. Delayed disbursements expose clients to missed opportunities, misdirecting of resources through unplanned investments/expenditure and may lead to impaired loan servicing capacity. Further, it is generally agreed that the continued performance of microfinance loan products depends on among other things, the consistence in disbursement of repeat loans. It is therefore important for the programme management to seriously address the liquidity problem. The liquidity management strategy may target either of the following options:

(i) Curtailed Portfolio Growth: This is the approach being implemented by staggering disbursement of repeat loans. The strategy is likely to have adverse effects on programme growth as highlighted earlier.

(ii) Fresh Capital: This may take two forms

[10] The database has no provision for isolating client ledgers by product. That compilation would have entailed a review of all the individual client ledgers.

a) Fresh disbursements from SF of either a bridging finance or a new funding arrangement from either SF or other wholesale institutions. The SF's continued support is conditioned on the institutional transformation while it may take a long time for the programme to attract a new donor/investor.

b) Rescheduling of the existing loans from SF. This will reduce the outflows resulting in a relief on the liquidity problem. The rescheduling may be stepped to start with the deferment of repayments followed by an overall reschedule of the balance of the loans through extended repayment terms.

It is recommended for SF to consider the liquidity management strategy under (ii) b) whose implementation can take effect immediately.

3.2 Outreach

3.2.1 Branch structure

The programme started its operations with a single branch located within the head office at Musoma. Musoma with an estimated population of 110,000 is the largest town in Mara region. It is also the headquarters of Mara region. There are a number of informal sector economic activities including trading, services, fishing, small holder farming and small scale manufacturing. The town has potential for multiple branches.

The second branch was opened in Bunda starting as an outpost in the year 2000 before graduating to a full fledged branch in 2002. Bunda, situated about 15km from Lake Victoria, is a town of about 30,000 people just a few kilometres from the western entrance to the Serengeti National Park. Bunda has grown considerably in the last 30 years, from a small village to a sprawling town. The growth of the town is mainly attributed to the emerging importance of being a local "junction" town, being between Musoma and Mwanza, one of Tanzania's largest towns and the foremost port and economic centre of the lake region, and the fishing villages to the west and agricultural areas all around.

The majority of the clientele in both locations may be considered as urban based. There are a small number of rural based clients representing those who live or operate from villages in the vicinity of the two towns. This is expected of the group lending methodology as it demands the presence of a high concentration of economic activities.

Table 3.1 Distribution of the institution

Unit	**Dec-01**	**Dec-02**	***Most recent Year Dec-03***	***Current, as of* Sept-04**
Branch offices	1	2	2	2
Posts (service units not located in permanent, dedicated quarters)	1	0	0	0
Employees per branch	3	2.5	2.5	2.5
Loan officers per branch	2	1.5	1.5	0.5

3.2.2 Loans

The MIS setup does not provide for database query by product. As earlier observed, the database structure is individual client based and client segregation would entail a manual sorting through all the client ledgers. Therefore, the following portfolio information presented in the following table 3.2 includes the two products combined.

Table 3.2 Outreach summary

Loan product 1: (Combined Prod 1+2)	Dec-01	Dec-02	Most recent year Dec-03	Current, as of Sept-04
1. Number of active loans at end of period	763	1573	2104	2130
2. Percentage of clients who are women	75%	75%	70%	65%
3. Average balance per loan (TShs)	194,615	153,335	201,389	198,523
4. Average balance per loan as a percentage of per capita GDP	81%	61%	69%	66%

The programme's outreach shows a steady growth over the four year period in terms of client population, and loan portfolio. However, both the average loan balance and its ratio to the GDP have both remained constant over the four year period. This supports the argument that the observed growth in loan portfolio is mainly attributable to growth in client population rather than client advancement towards higher loans – the programme has maintained its focus to serving the low end clientele. Further, while the recruitment of clients is done indiscriminately, the percentage of women clients has remained higher compared to men. This record is in line with the programme's initial objective of deliberate bias for women because,

- ✓ "Women are the disadvantaged gender the majority of whom cannot go to any bank to request for loans"
- ✓ "They have more responsibilities in their families and societies where they belong".

The outreach data as presented in table 3.2 does not include clients who are in the programme but without loans. This category of clients may be classified into two groups namely,

a) Newly registered clients yet to receive first loan

b) Existing clients awaiting disbursement of repeat loans

The actual number of clients under the first group is small due to the programme's decision to slow down new recruitment in order to focus on recoveries from defaulters. Further, the tight liquidity has also contributed to the slowed down recruitment.

The number of existing clients awaiting disbursement of repeat loans could not be ascertained. However, the observed liquidity problem has resulted in inconsistent disbursements typified by extended lead time between loans. Naturally, this would result into an increasing number of clients without loans, awaiting disbursement of repeat loans.

3.3 Clientele

3.3.1 Market

The programme's main target is those micro business operators who have been in business for a period of at least eight months with an inventory in the range of TShs. 200,000/= and

TShs. 400,000/=. The geographical targeting of the programme is the urban areas where the ELCT-DM has parishes. Specifically the programme targets the women and youth involved in trading, service, small scale manufacturing and agribusiness.

The programme design is based on the group guarantee methodology. There has not been any formal market survey but management gets feedback through its constant contact with the clients at their weekly meetings. At the current level of activity the weekly meetings do suffice as feedback channels. Important is for management to consider the issues raised to ensure effective market responsiveness.

There are a number of other MFIs most of which offer similar products. The CRDB offers employee loans in Musoma while the NMB offers individual loan to micro-entrepreneurs in Bunda. Other key non-bank players include PRIDE Tanzania, by far the largest MFI in Musoma and the country.

PRIDE Tanzania is the main challenge to Mara Women Credit Programme. Their principal product is almost similar to the programmes group loan product. PRIDE Tanzania has a strong resource capacity in terms of finances, technical capacity and systems. However, PRIDE's policies tend to be too rigid to the comfort of some clients. The Mara Women Credit Programme has built in some flexibility especially in the loan repayment terms. Further, its association to the church has played well in reinforcing client loyalty especially for those clients who belong to the Lutheran church. These factors have combined well together with a more friendly handling of the clients to give the programme a comparative advantage over its main competition. In any case, even with this concentration of service providers there are a large number of clients out there yet to be reached. Important is to develop innovative methodologies that will ensure economic access to the non-traditional market locations.

4. Strategic Objectives

4.1 Mission and objectives

The Mara Women Credit Programme's vision is "to improve the living standards of the people" in Mara region. The ELCT-DM region is located in one of the regions which were historically left behind. The area is yet to register meaningful recovery due to the unfavourable social-economic factors. It is understood that most of the clients come from a poor background and any support aimed at improving their social status is within the moral obligations of the church.

It is generally agreed that every institution should have a clear statement of both its vision and mission. A clear mission provides a point of focus for the programme's strategic goals and objectives and ensures a clear sense of destiny in the minds of all its stakeholders. Therefore the mission statement should highlights the purpose for which the programme was formed, the direction to be taken by the programme and the clientele it intends to serve.

There seems to be a unity of vision for the project between its two key stakeholders, SF and ELCT-DM that is the provision of financial support to help the entrepreneurial poor. The programme was established and has continued to operate without a stated mission and the institutional core values which would have defined the ultimate interest of the programme to all its stakeholders. For example it is acknowledged by the diocese that its commercial interest was not articulated at start of the project. Its attempt to raise the matter later resulted into some serious misunderstanding with SF. The matter was finally resolved by a negotiated agreement to award the ELCT-DM a 10% profit sharing entitlement – a clear demonstration of lack of a common position in the destiny of the programme. It is therefore recommended that as part of the proposed restructuring, the stakeholders should revisit the mission, define the mission statement and state the programme's core values as a pre-cursor for effective governance.

At the project level, the main driving force among the staff is the perceived value of the service rendered to the poor. Almost all of them have a strong Christian faith and believe that they are playing an important role in transforming lives of their clients. This has greatly strengthened their commitment for continued success of the programme. The key goal is to expand the project into the remaining two major two of Tarime and Mugumu in Tarime and Serengeti districts respectively.

It is important to point out that the programme has not been able to translate its vision into an actionable plan in the form of a business plan. The programme has continued to operate based more on budgetary forecasts than a clear plan of activities. An attempt to develop a business plan was halted when funding became uncertain. Management is cautioned from embarking on programme expansion without a clear strategy for market development. The identified areas for new markets represent district headquarters. It is important to make a strategic choice for growth either around trading centres or district headquarters. The choice should be articulated and incorporated in the business plan. Therefore, management is strongly encouraged to develop at least a three year business plan. This will provide the big picture to guide the annual plans.

5. Financial Performance

5.1 Income statement and balance sheet

The Income statement and balance sheet have been compiled for the years ended December 2001 to 2003 and the current period to September 2004. The programme uses cash accounting and external auditors have reviewed the accounts for all the years to December 2003 and have given their opinion with a set of recommendations for improvements.

For the purpose of this review the currency will be retained in Tanzanian shillings, while the analysis will be based more on trend to show movement of selected key indicators. The absence of pre-identified performance benchmarks is likely to limit the extent of the conclusions.

Table 5.1 Income statement

Account	Dec-01	Dec-02	Dec-03	Sept-04

	Account	Dec-01	Dec-02	Dec-03	Sept-04
Operating income					
1.	Interest and fee income from loans	15,952,721	29,627,030	61,025,467	55,218,415
2.	Income from other finance-related services	-	-	-	-
3.	Income from investments	680,622	1,167,578	1,321,043	146,073
4.	*Total operating income*	*16,633,343*	*30,794,608*	*62,346,510*	*55,364,488*
Operating expenses					
5.	Interest and fee expense	2,850,000	2,550,000	14,211,855	5,732,570
6.	Loan loss provision expense	0	-	-	-
7.	Administrative expense, personnel	6,823,625	16,318,125	20,908,100	11,829,225
8.	Other administrative expense	7,366,004	18,189,170	39,497,240	11,093,793
	Rent	0	400,000	2,767,150	1,490,000
	Office Materials and Supplies	860,290	1,187,115	1,473,125	1,360,075
	Transportation and Travel	2,165,078	2,542,510	4,363,108	1,881,170
	Utilities	1,906,246	2,830,735	4,449,402	3,442,988
	Publicity and Publications	0	-	-	-
	Staff Training	218,000	1,600,000	1,641,250	551,000
	Repairs and Maintenance	0	393,600	591,910	419,700
	Bank Charges	226,740	259,510	228,980	143,250
	Depreciation	0	-	-	-
	Others	1,989,650	8,975,700	23,982,315	1,805,610
9.	*Total operating expenses*	*17,039,629*	*37,057,295*	*74,617,195*	*28,655,588*
10.	**NET OPERATING PROFIT (LOSS)**	**(406,286)**	**(6,262,687)**	**(12,270,685)**	**26,708,900**
NONOPERATIONAL INCOME					
11.	Cash donations for financial services	10,984,624	15,382,710	8,000,000	-
12.	Other non-operational income (if any)	-	-	-	-
13.	Non-operational expenses	-	-	-	-
14.	**TOTAL CONSOLIDATED PROFIT (LOSS)**	**10,578,338**	**9,120,023**	**(4,270,685)**	**26,708,900**

Comments on selected accounts

a) Interest and fee expense: The noted variations in 2003 are due to increased funding from SF during the year. The decline noted in 2004 is due to the delayed remittance of interest payment due to the liquidity squeeze experienced during the year.

b) Administrative expense, personnel: Shows normal growth from growth in staffing and salary increments. The drop recorded in the year 2004 is mainly due to the drop in number of staff especially the departure of two Loan Officers.

c) Other Administrative expenses: The high value recorded in the year 2004 is due to the TShs. 15,000,000/= loan loss plus TShs 6,371,450 capital expenditure posted in the year 2004 under "others".

The accounting setup of the programme adheres to locally and internationally accepted accounting principles in the presentation of its income statement and balance sheet save for two critical variations in the treatment of the following accounts:

- ✓ Capital expenditure is expensed rather than allow it to be armotised over the life of the respective assets. The justification given was the simplification of project fund accounting but it could not be verified whether this was a requirement of the finding agency[11]. The effect of this treatment is reflected in Profit and Loss statement. The expense item "others" for the years 2002 and 2003 includes expensed capital expenditure amounts of TShs 5,488,425/= and TShs 6,371,450/= respectively.

- ✓ No provision is made for loan loss thus write offs are charged directly to the income statement of the respective period. For example, there was a charge of TShs 2 million and TShs 15 million for years 2002 and 2003 respectively.[12] This is reflected in the high expense figures recorded under "others" for the respective periods.

Table 5.2 Balance sheet

Account		**Dec-01**	**Dec-02**	**Dec-03**	**Sept-04**
ASSETS					
15.	Cash and due from banks	7,023,556	38,844,941	50,741,377	9,431,768
16.	Reserves in central bank				
17.	Short-term investments in market instruments				

[11] *The report of the auditors for the year ended 31st December, 2003 contains a selected listing of the principal accounting policies on page 5 section 2.3.1 (d) thus – "Fixed Assets: All purchases of fixed assets are expensed in the income and expenditure statement at the time of purchase.*

[12] *The matter was also observed in the audit report for year ended 31st December, 2003 page 16 observation no. 11 "Loan loss provision for bad and doubtful loans to clients are not made. Only loans outstanding for one year are written off." The client's comment is recorded as "To be included in the accounting procedures manual.*

18.	Total loan portfolio	148,491,330	240,575,854	420,325,903	403,821,971
19.	(Loan loss reserve)	-	-	-	-
20.	Other short-term assets	437,342	4,627,739	16,531,307	19,500,000
21.	Long-term investments				
22.	Net fixed assets	-	-	-	-
23.	**TOTAL ASSETS**	**155,952,228**	**284,048,534**	**487,598,587**	**432,753,739**
LIABILITIES					
24.	Savings accounts, compulsory	53,006,697	89,420,614	144,925,324	153,158,242
25.	Savings accounts, voluntary				
26.	Time deposits				
27.	Loans, commercial	78,000,000	144,666,278	294,531,718	205,810,968
28.	Loans, central bank				
29.	Loans, subsidized				
30.	Other short-term liabilities	-	-	2,700,000	1,756,500
31.	Other long-term liabilities				
32.	**TOTAL LIABILITIES**	**131,006,697**	**234,086,892**	**442,157,042**	**360,725,710**
EQUITY					
33.	Paid-in equity from shareholders				
34.	Donated equity, prior years, cumulative	43,139,204	54,123,828	69,506,538	77,506,538
35.	Donated equity, current year	10,984,624	15,382,710	8,000,000	-
36.	Prior years' retained earnings (losses), not including cash donations	(28,772,011)	(13,282,209)	(19,794,308)	(32,187,409)
37.	Current year's retained earnings (losses)	(406,286)	(6,262,687)	(12,270,685)	26,708,900
38.	Other capital accounts				
39.	**TOTAL EQUITY**	**24,945,531**	**49,961,642**	**45,441,545**	**72,028,029**
40.	**TOTAL LIABILITIES AND EQUITY**	**155,952,228**	**284,048,534**	**487,598,587**	**432,753,739**

Comments on selected accounts

a) Total loan Portfolio: has registered steady growth except for the decline noted in the current year 2004. The decline is mainly attributable to management's decision to suppress new loan issues due to the liquidity problem.

b) Loan loss Reserve: No reserve has been established due to lack of policy and practice on provisioning. This has resulted in erratic write off of loan losses, which are charged directly to the profit and loss account. Microfinance best practice advocates the need to create loan loss reserves as a cushion against potential losses in future. Without an adequate reserve account the programme is exposed to a serious financial risk should there be a major loan loss to be written off against the profits of a single accounting period.

c) Other short-term assets: Made up mainly of the amount owed to the programme by both the ELCT-DM and some of its employees. The specific amounts owed have been highlighted under 5.5 Loan Portfolio Analysis section 5.5.1 Portfolio data.

d) Net Fixed Assets: The accounts show zero value for fixed assets due to the accounting treatment whereby expenditures of fixed assets are directly expensed rather than capitalized. This treatment is misleading and diminishes the institutional ability to track all its assets for the entire period of their service life. Further, the practice of expensing capital expenditure deprives the programme of an opportunity to spread the cost of such acquisitions over a longer period. Probably the programme's performance would have shown better results had capital expenditure been spread over a longer period.

e) Savings Accounts, compulsory: represents balances on account of the compulsory deposits made by the borrowers in fulfillment of the terms for eligibility. Each individual client contributes a weekly deposit of TShs 2,000= with the objective of ensuring that at the time of applying for the next loan cycle the savings balance should be at least 25% of the loan applied for.

It is recommended to review the accounting policies on capital expenditure and provisioning for loan losses with the view to resort to the best practice, that is:

- ✓ To capitalize capital expenditure for armotisation over the projected life time of the asset.
- ✓ To allow for annual charging of pre-set amount on the profit and loss account in order to build an adequate reserve to cushion the programme against potential loan losses.

5.2 Adjustments for inflation and subsidies

5.2.1 Shadow prices

These rates were extracted from statistics as publications from the Bank of Tanzania website.

Table 5.3 Shadow prices

(percent, except where otherwise indicated)

	Dec-01	Dec-02	Dec-03	Current as of Sept-04
Inflation rate	4.9	4.4	4.6	6.2
GDP deflator	7.5	6.5	6.0	7.0
Interbank lending rate	2.5	3.5	4.8	4.0
90-day certificate of deposit rate	3.6	3.0	2.5	2.0
Prime rate paid by commercial bank borrowers	15.0	15.9	16.5	15
Marginal commercial rate available to the MFI[a]			15	14
Per capita GDP (TShs)	230,000	250,000	290,000	300,000
Exchange rate (local currency/US$)	850	976	1063	1060

a. For MFIs with access to commercial funds the marginal commercial rate is the rate at which the institution can expect to borrow additional commercial funds in the immediate future. Justify this rate in the text.

These figures provide a summary of economic adjustments to the financial statements. The rates used for September 2004 are extrapolations from either April or June base figures.

5.2.2 Adjustments

Table 5.4 Adjustments for inflation and subsidies

Parameter	**Dec-01**	**Dec-02**	**Dec-03**	**Current as of Sept-04**
1. Unadjusted operating expenses in local currency (line 9 of table 5.1)	*17,039,629*	*37,057,295*	*74,617,195*	*28,655,588*
2. Inflation adjustment (average equity minus average net fixed assets, times the inflation rate)[a]	963,162	1,647,958	2,194,273	3,641,557
3.Subsidized cost of funds adjustment	12,039,427	23,006,551	32,936,220	50,157,268
4. In-kind donation adjustment a. Personnel b. Other				
5. Adjusted operating expenses (sum of lines 1–4)	30,042,218	61,711,804	109,747,689	82,454,412

Parameter	Dec-01	Dec-02	Dec-03	Current as of Sept-04
6. Adjusted operating profit (loss) (line 4 of table 5.1 minus line 5 above)	(13,408,875)	(30,917,196)	(47,401,179)	(27,089,924)

The above table provides for a set of three different adjustments necessary to compare the institutional performance to what it would have been under purely commercial settings.

Line 2: Provides for inflation adjustment. Both the equity and fixed assets have been averaged by using the annual opening and closing balances. The inflation rates used refer to the annualized rate for the year as given in the shadow prices table 5.3.

Line 3: The subsidized cost of funds adjustment calculates the cost of the programme's liabilities as if it were raising funds on local commercial markets. The price of such commercial funds is called the shadow price. This is included here to show that the applicable cost of borrowing is still higher to be fully absorbed by the programme at its current level of pricing. The programme should therefore consider either continued use of compulsory savings or consider changes in its pricing structure in order to finance further growth in the loan portfolio.

The in-kind donations received were mainly limited to short term consultancy and or attachments. These were considered insignificant to warrant their inclusion in the adjustments.

5.3 Profitability

Table 5.5 Profitability

	Dec-01	Dec-02	Dec-03	Current, as of Sept-04
1. Return on assets	-0.3%	-2.8%	-3.2%	5.8%
2. Adjusted return on assets	-10.6%	-14.1%	-12.3%	-5.9%
3. Adjusted return on equity	-68.2%	-82.5%	-99.4%	-46.1%
4. Operational self-sufficiency (excluding cost of funds)	117.2%	89.2%	103.2%	241.5%
5. Operational self-sufficiency	97.6%	83.1%	83.6%	193.2%
6. Financial self-sufficiency	55.4%	49.9%	56.8%	67.1%

The programme is in its seventh year of operations. However, the startup was slow and the actual push for increased outreach started in the year 2002 with 100% growth in client population over the previous year. The programme has is now able to cover its operating costs but is not yet strong enough to cover the potential cost of funds. Otherwise, management has worked hard to control costs in light of the low level of available funds for support.

The programme has great potential to reaching full financial sustainability at most within two years. It has a well established client base of 2000 plus active clients. These constitute a good critical mass for increased revenue generation capacity. The programme is well known and highly regarded by the community in Musoma. The launching of its second product was very successful as evidenced by the demand level which has stretched the institutional financial capacity to its limit. Of course, continued funding is a key ingredient to the projected success as this would also allow management's focus on operational matters. Efficiency

5.4.1 Indicators

Table 5.6 Efficiency

Indicator	**Dec-01**	**Dec-02**	**Dec-03**	**Current, as of Sept-04**
1. Administrative efficiency	12.3%	17.7%	18.3%	5.6%
2. Operational efficiency	14.7%	19.0%	22.6%	13.9%
3. Administrative cost per active loan (TShs)	20,084	29,544	32,856	10,828
4. Personnel costs as a percentage of total administrative costs	48.1%	47.3%	34.6%	51.6%
5. Number of line staff as a percentage of total staff, end of period	66.7%	60.0%	60.0%	60.0%
6. Number of active loan clients per staff member, end of period	254	315	421	426
7. Number of active loan clients per loan officer, end of period	382	524	701	2,130
8. Outstanding portfolio per loan officer, end of period	74,245,665	80,191,951	140,108,634	403,821,971
9. Number of clients per branch office, end of				

Indicator	**Dec-01**	**Dec-02**	**Dec-03**	**Current, as of Sept-04**
period	763	787	1,052	1,065

This table clearly shows trends to improve efficiency, and they are consistent with the best performing MFIs generally and by far outperforming even the top MFIs in the country. The administrative and operational efficiency ratios have been maintained below 20% which is a clear indication of the low operational costs.

Comments on selected indicators

a) Line 4 - Personnel Costs as a percentage of total administrative costs: The drop observed in the year 2003 is mainly due to the sharp increase in total costs which is mainly attributable to the TShs 15 million loan loss write off plus the TShs 14.2 million interest/fee expense. For the current year September 2004 the observed increase is mainly due to low total expense figure of TShs 28.6 million compared to TShs. 74.6 million for the previous year. The general drop in expenditure is a direct consequence of the tight liquidity experienced in the year 2004.

b) Line 8 – Outstanding Portfolio per loan officer, end of period: There is a big change in the current year September 2004 mainly due to the fact that the programme had only one Loan Officer. Much as the other staff members were also helping with the service delivery the model is set to attribute the efficiency ratio to the number of loan officers.

The proposed rationalization of the programme structure is likely to affect the recorded efficiency ratios. This should be considered as a necessary short term (actually one time) undertaking needed to assure long term viability of the programme.

5.4 Loan portfolio analysis

The loan portfolio database consist of excel spreadsheets of client ledgers. As earlier observed in 2.8.1 the excel database structure has limited capacity for consolidation of client accounts. The output is also limited to individual client account status therefore, portfolio reports are compiled from individual ledgers and produced manually. Further, data sorting in excel is also limited which limits options for reporting and or verification of reported performance parameters.

The portfolio analysis as given here-in-below uses information as extracted from quarterly and annual reports which had been compiled and submitted to SF. It is important to point out that the information could not be cross-verified due to the database limitations noted earlier. The consultant relied more on the auditor's verification of the end of year portfolio reports and SF's review of the quarterly portfolio reports as submitted by the programme.

5.4.1 Portfolio data

Table 5.7 Portfolio data

Parameter	**Dec-01**		**Dec-02**		**Dec-03**		**Current, as of Sept-04**	
Loan product (1+2 Combined)								
1. Total principal balance outstanding, end of period	148,491,330		241,195,454		423,721,520		422,854,481	
2. Number of active loans (clients), end of period	763		1,573		2,104		2,130	
3. Average principal balance per client (line 1 divided by line 2)	194,615		153,335		201,389		198,523	
4. Average principal balance outstanding over the period[a]	115,608,715		194,843,392		332,458,487		423,288,001	
5. Loan losses written off over the period[b]	-		2,000,000		15,000,000			
6. Increase in loan loss reserve over the period[c]	-		-		-		-	
7. Loan loss rate[c]	0.0%		0.0%		0.0%		0.0%	
8. Total outstanding balance associated with loans that are:[c,d]	Amt	%	Amt	%	Amt	%	Amt	%
On time (and never refinanced)								72
On time (but have been refinanced)								-
Late (at least 1 payment)								
• 1–30 days								20
• 31–60 days								1
• 61–90 days								2
• 91–180 days								5
• 181–360 days								
• 1 year or more								
9. Portfolio-at-risk delinquency rate (more than 30							8.3	

Parameter	Dec-01	Dec-02	Dec-03	Current, as of Sept-04
days late) %				

The programme was not ageing its past dues until the year 2004 where ageing has been compiled quarterly as per SF's PMT. As can be seen from the table, loan losses as of September are above 5%. This ratio remains high even after the huge write offs amounting to TShs 2 million and TShs. 15 million posted in the years 2002 and 2003 respectively. The portfolio at risk stands at 8.3% which is outside the industry acceptable levels (5%). In any case the ratio would have been worse without the write-off referred to earlier.

It is recommended to establish a loan loss provisioning policy. The policy would provide guidance on ageing, risk classification, provision rates and write-off criteria. The policy may be structured close to the one preferred in the draft regulations thus,

Table 5.7.1: Example of Summary Provisioning Policy

PAR (days past due) – monthly repayments	PAR (days past due) – weekly repayment	Risk Classification	Provisions %
Current	Current	Current	2
Up to 30 days	Up to 15 days	Specially mentioned	25
31-60 days	16 – 30 days	Sub-standard	50
61-90 days	31 – 45 days	Doubtful	75
More than 90 days	More than 45	Loss	100

It also important to point out that the programme had issued loans to some employees of the ELCT-DM. The loans were given to individuals on the basis of requests processed through the General Secretary as staff loans, but outside the programme's general lending policies. It was also noted that some of the amounts advanced are too high to be recovered from the respective employee's salaries.

Apart from the staff loans, there is also an outstanding account with the ELCT-DM due to the project. The amount represents advances wrongly accessed by the diocese. The combined total amount outstanding in respect of advances to staff and the diocese is TShs. 19.5 million. There is no interest charged on any of the advanced amount. In this report the amount has been isolated from the outstanding portfolio to be shown under "other short term assets."

The General Secretary takes full responsibility for the two cases and expressed commitment to ensure recovery of at least the sums owed by staff as soon as the diocese financial position improves. As at the time of interviewing the General Secretary, the staff had not been paid since July 2004. The General Secretary foresees potential difficulties in the full settlement of the diocese account. The unfavourable financial position is likely to continue which may not allow for full settlement. The diocese would seek to negotiate with SF for consideration to write off part of the amount outstanding to allow for a fresh start.

The above may be characterized as an insider lending arrangement. This would have been avoided had the project been established as an entity operationally independent from the diocese. The access was facilitated by the direct involvement of the diocesan leadership in the management affairs of the programme. The practice seem to have stopped now, maybe due to the intervention by SF. However, it is important to decide how to deal with the two outstanding accounts referred to here-in-above. Apart from the stated commitment of the General Secretary, the possibility of recovery from either the staff or the diocese is highly unlikely.

5.4.2 Delinquency measurement

The programme measures/analyses delinquency in three ways namely,

- ✓ The portfolio at risk rate: outstanding balance of loans with payment past due greater than 30 days as a ratio of the outstanding loan portfolio.
- ✓ Risk Covered by Savings: the compulsory savings balance as a ratio of outstanding loan balance with payment past due greater than 30 days
- ✓ Rate of Loans due: Number of loans in arrears as a ratio of the total number of outstanding loans.

This is a very rigorous system which shows the volume of clients in arrears, the potential risk of loss due to default and the potential risk coverage should the savings balance be accessed. The use of the "greater than 30 days" datum is also in line with the industry norm and in use by most MFIs. The observed omission in the programme was that portfolio performance reports are compiled mainly to fulfill SF's funding requirements. The programme lacks a regular reporting system for internal use. This has resulted in doubtful delinquency management practice.

5.4.3 Delinquency management

The level of delinquency is reported to have increased when the programme started scheduling loan disbursements due to the tight liquidity. Further, the departure of some of the project personnel especially the two Loan Officers and the temporary withdrawal of the PC have been cited as having caused doubts on programme continuity thus increased delinquency.

Management should undertake portfolio clean-up as a special operation over a specific time frame. The operation should be detailed as to the specific branch targets, individual responsibilities, the expected results and the specific cut off date. During that period the focus should be on a complete clean up of the loan book by exercising the following:

- ✓ Portfolio analysis and verification
- ✓ Intensified pursuit of defaulters
- ✓ Enforcement of the group responsibility on pursuing defaulters
- ✓ Consider use of group savings accounts to off-set the bad debts
- ✓ Consider write off where recovery has failed

5.4.4 Provisioning

The programme does not have a policy for provisioning. Bad debts were written off in the years 2002 and 2003. The reviewer was not furnished with any documentation used in the authorization process.

5.4.5 Refinancing

The programme's principal product is the group guarantee loans which rarely require refinancing. Justifiably, the programme has a "zero tolerance" system for refinancing and does not refinance bad debts.

5.4.6 Collection

The practice is to aggressively pursue delinquent clients, then ultimately to repay the loan by using the compulsory savings of the defaulter and group members under the "two tier" guarantee which is reinforced during the pre-registration training sessions.

Collections for late payments may be done either through the group or individually calling at the respective branch office. When a loan payment is missed, the group members will normally visit the client's home or place of work to collect funds. Otherwise, for multiple arrears, the credit officer would pursue the respective clients either directly or through the local government leadership.

5.5 Liquidity management

Currently liquidity is the major problem faced by the programme. By end of September the programmes liquidity stood at 2% of the total assets or 6% of the compulsory savings balance. These ratios are too low to guarantee institutional stability and continuity. As stated elsewhere the liquidity problem has been cited as a major contributor to the deterioration observed in credit services.

5.6 Interest rate analysis

5.6.1 Rate setting

Loan interest rates are set based on three factors:

a) Market interest rates charged by competitors

b) Cost coverage for operations, loan losses

c) Determination of what clients can reasonably afford

The interest rates charged on all loans are set at 24% flat per annum. There is no interest earned on client compulsory savings. Comparatively, this rates as applied by the programme is on the low average of interest rates charged by other MFIs in the market. There is room to either maintain the rate as is or raise it slightly. However, the reviewer could not establish whether a careful and thorough analytical process was undertaken to establish the interest rates to be charged.

This may be addressed by pursuing the options as recommended earlier in *3.1.1 Loan*s. To be able to rationalize the existing product costing it is necessary to consider reviewing the products with a special focus on product costing. The successful development and implementation of the proposed rationalization of the institutional structure together with a review of the market and product features will require the support from specialized professionals. It is therefore recommended to SF to facilitate the process for outsource the necessary professional expertise to lead in the proposed rationalisation process. Specifically the candidate should demonstrate knowledge and experience in microfinance institutional and operational structures and systems, understanding of microfinance markets and product development.

5.6.2 Legal constraints

Microfinance activities in Tanzania remain un-regulated. The proposed regulatory framework for microfinance institutions awaits government gazettement before it can be implemented. In any case, the Mara Women Credit programme may not immediately fall into the licensed microfinance company category but may join the group of NGO's seeking accreditation as a best practice conforming NGO. As for now there are no legal barriers to the activities of the programme.

5.7 Liabilities and cost of funds analysis

5.7.1 Liabilities

Table 5.9 describes in detail the current composition of the MFI's liabilities.

Table 5.9 Composition of liabilities

Data as of Sept-04

Liability 1
Creditor: *Stromme Foundation*
Commercial or noncommercial liability: *Concessionary*
Balance outstanding (TShs equivalent): *205,810,968*
Currency in which repayment is due: *Tanzania shillings*
Interest rate: *Variable see table 2.1*
Amortization schedule: *Variable*
Details of external guarantee, if any, backing the credit extended to the MFI: *None*
Other relevant information: *None*

The level of commercial liabilities is high standing at 286% of the net equity. The continued programme expansion is likely to continue being funded by increasing debt. However, the terms of the facility granted by SF may not guarantee a smooth portfolio growth especially when repayment installments are made.

The specific case as observed during the review was where the programme has had to struggle to meet the armotisation schedule at the time when it is faced with a liquidity crisis. This has forced the programme to extend the disbursement stagger for repeat loans in order to manage outflows to be able to build its balances to meet the loan repayment obligations. This is a critical matter that must be addressed urgently to ensure programme continuity.

It is recommended to SF to consider options focused on relieving the programme of the overburdening loan serving obligations especially the loan repayment installments. Specifically, SF should consider a phased approach for loan re-scheduling as recommended in 3.1.3 above. However, long term it may be necessary to consider options to convert part of the loan into equity when the institutional structure permits.

5.7.2 Cost of funds analysis

Table 5.10 Cost of funds analysis

	Dec-01	**Dec-02**	**Dec-03**	**Current, as of Sept-04**
1. Interest and fee expense (line 5 of table 5.1)	2,850,000	2,550,000	14,211,855	5,732,570
2. Average funding liabilities (lines 24–29 of table 5.2)	131,006,697	234,086,892	439,457,042	358,969,210
3. Line 1 as a percentage of line 2	2.2	1.1	3.2	1.6

The programme funds are substantially subsidized as can be seen in table 5.10 with the main source being the compulsory savings balance TShs. 153,158,242 followed by donated equity amounting to TShs. 72,028,029 as of September 2004.

5.8 Capital management (solvency)

5.8.1 Equity multiplier

Table 5.12 Equity multiplier

	Dec-01	Dec-02	Dec-03	Current, as of Sept-04
1. Total assets, end of period (line 23 of table 5.2)	155,952,228	284,048,534	487,598,587	432,753,739
2. Total equity, end of period (line 39 of table 5.2)	24,945,531	49,961,642	45,441,545	72,028,029
3. Line 1 divided by line 2	6.25.	5.69.	10.73.	6.01.

The equity multiplier has remained more or less constant around 6 times save for December 2003 where it jumped up due to 10 times.

5.8.2 Sources of equity

The programme's main source of capital is the grant receipts from SF plus some retained earnings realized from operations. SF's involvement in the programme is largely centred on technical support services. These are extended through monitoring and periodic review of performance. Personnel from SF make periodic visits for on-site inspection of activities. Through contact with the ELCT-DM leadership SF has put forward proposals aimed at strengthening the programmes institutional capacity. Notable is the proposal to transform the programme from being a project of the diocese into a legal entity with an independent institutional and governance structure.

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