The United Republic of Tanzania

Preparatory Survey for
Small and Medium-sized Manufacturing
Enterprise Finance Promotion Project
in Tanzania

Final Report

September 2019

JAPAN INTERNATIONAL COOPERATION AGENCY

OPMAC Corporation

UNICO International Corporation

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Site Map

: Regions where the SME survey was conducted

Currency Equivalents

(as in April 2018)

TZS 1.00	=	0.00045 USD
TZS 1.00	=	0.04722 Japanese Yen
USD 1.00	=	2,247.05633 TZS
Japanese Yen	=	21.17747 TZS

Pictures

Papermaking machine leased by EFTA

Sewing/stitching machine leased by EFTA

Lime manufacturing company

Shoemaking company

Rice milling company

Metal processing company

Wires and cables manufacturer

High-strength plastic bags manufacturer

Drinking water manufacturer

Packaging machine used at a beverage manufacturer

Sanitary products manufacturer

5S poster displayed at a pilot company of the KAIZEN Project

Distributor for Japanese cars in Dar es Salaam

KUBOTA agricultural machinery sold at Agricom

List of Abbreviations and Acronyms

AfDB	:	African Development Bank
AGR	:	Average Growth Rate
BDS	:	Business Development Service
BOT	:	Bank of Tanzania
BRELA	:	Business Registrations and Licensing Agency
CAGR	:	Compound Average Growth Rate
CBE	:	College of Business Education
CBW	:	Covenant Bank for Women
CGS	:	Credit Guarantee Scheme
CIP	:	Census of Industrial Production
CRB	:	Credit Reference Bureau
CRDB	:	CRDB Bank
DANIDA	:	Danish International Development Assistance
DFI	:	Development Finance Institutions
DOE	:	Director of Environment
DP	:	Development Partners
DSM	:	Dar es Salaam
EFTA	:	Equity for Tanzania Limited
EIA	:	Environmental Impact Assessment
EIB	:	European Investment Bank
EIS	:	Environmental Impact Statement
EMP	:	Environmental Management Plan
EO	:	Entrepreneurs' Organization
EPs	:	Equator Principles
ESG	:	Environment, Social and Governance
ESMS	:	Environmental and Social Management System
ECL	:	Expected Credit Loss
EUR	:	EURO currency
FI	:	Financial Institutions

FMU	:	Fund Management Unit
FNB	:	First National Bank
FSDT	:	Financial Sector Deepening Trust
FY	:	Fiscal Year
FYDP 2	:	Second Five Year Development Plan
GDP	:	Gross Domestic Product
GWFP	:	Global Warehouse Finance Program
HS	:	Harmonized System Code (H.S. Code)
ICL	:	Incurred Credit Loss
IDA	:	International Development Association
IGC	:	International Growth Center
IFC	:	International Finance Corporation
IFRS	:	International Financial Reporting Standards
ILO	:	International Labour Organization
IMF	:	International Monetary Fund
JICA	:	Japan International Cooperation Agency
JPY	:	Japanese Yen
LGAs	:	Local Government Authorities
LP	:	Liquefied Petroleum
MEF	:	Mwananchi Empowerment Fund
MFI	:	Microfinance Institution
MIT	:	Ministry of Industry and Trade
MITI	:	Ministry of Industry, Trade and Investment (MITI has been renamed the Ministry of Industry and Trade (MIT) but in this report, MITI is also used as some reports refereed were published under the name of MITI.)
MOFP	:	Ministry of Finance and Planning
MSME	:	Micro, Small and Medium Enterprises
MVA	:	Manufacturing Value Added
NABW	:	Network of African Business Women
NBC	:	National Bank of Commerce
NEAC	:	National Environment Advisory Committee

NEDF	:	National Entrepreneurship Development Fund
NEEC	:	National Economic Empowerment Council
NEMC	:	National Environmental Management Council
NIDA	:	National Identification Agency
NMB	:	National Microfinance Bank
NPL	:	Non-Performing Loan
ODA	:	Official Development Assistance
OHS	:	Occupational Health and Safety
OLL	:	On-Lending Loan
OSHA	:	Occupational Safety and Health Authority
PASS	:	Private Agricultural Sector Support
PFI	:	Participating Financial Institutions
PfoR	:	Program for Results
PMU	:	Project Management Unit
PRI	:	Principles for Responsible Investment
REA	:	Rural Energy Agency
ROA	:	Return on Assets
ROE	:	Return of Equity
RRF	:	Regional Revolving Fund
SACCOs	:	Savings and Credit Cooperatives
SEA	:	Strategic Environmental Assessment
SIDA	:	Swedish International Development Cooperation Agency
SIDO	:	Small Industries Development Organization
SIDP	:	Sustainable Industrial Development Policy
SME	:	Small and Medium Enterprises
SPP	:	Small Power Producers
TA	:	Technical Assistance
TADB	:	Tanzania Agricultural Development Bank
TAFOPA	:	Tanzania Food Processors Association
TANESCO	:	Tanzania Electric Supply Company Ltd.
TBS	:	Tanzania Bureau of Standards

TCCIA	:	Tanzania Chamber of Commerce, Industry and Agriculture
TEDAP	:	Tanzania Energy Development and Access Expansion Project
TFDA	:	Tanzania Food and Drugs Authority
TGT	:	Tanzania Growth Trust
TIB	:	TIB Development Bank
TICAD	:	Tokyo International Conference on African Development
TKU		Tanzania Kaizen Unit (MITI)
TMRC	:	Tanzania Mortgage Refinance Company Limited
TOR	:	Terms of Reference
TOT	:	Training of Trainers
TPB	:	Tanzania Postal Bank
TPSF	:	Tanzania Private Sector Foundation
TRA	:	Tanzania Revenue Authority
TREEP	:	Tanzania Rural Energy Expansion Program
TRWA	:	Total Risk Weighted Assets
TSL	:	Two-Step Loan
TWB	:	Tanzania Women's Bank
TWCC	:	Tanzania Women Chamber of Commerce
TZS	:	Tanzania Shilling
UDES	:	University of Dar Es Salam
UNIDO	:	United Nations Industrial Development Organization
USAID	:	United States Agency for International Development
USD	:	United States Dollar
VoWET	:	Voice of Women Entrepreneurs Tanzania
VPO	:	Vice President's Office
WAFI	:	Women Access to Finance Initiatives
WB	:	World Bank
WCW	:	Women Creating Wealth
WED	:	Women's Entrepreneurship Development
WISE	:	Work Improvements in Small Enterprises

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Chapter 1 Outline of the Survey

1.1 Background of the Survey

(1) The United Republic of Tanzania has undergone steady economic growth since 2000, with average annual Gross Domestic Product (GDP) growth rates ranging from 6% to 7%. The country has been undertaking a structural change of the economy where agriculture and fisheries account for 29% of GDP (2016[1]) at current prices and 66.6% (2014[2]) of employment, respectively.

(2) The Government laid down the Tanzania Development Vision 2025, which directs the nation to graduate from the least developed to a semi-industrialized middle-income country by 2025. To achieve the targeted objective of becoming a middle-income economy, Tanzania formulated a Long-Term Perspective Plan 2011/2012- 2025/2026, which is to be implemented over three phases of five years each. In its second phase (Second Five Year Development Plan – FYDP 2), the focus is on nurturing an industrial economy. As it is expected that about 800,000 of the labor force will newly enter into the labor market, it is necessary to accelerate industrialization from the viewpoint of the creation of employees.

(3) The manufacturing sector is expected to lead industrialization and to play a key role in achieving sustainable growth. However, the sectoral share of GDP remained at 5.2% in 2015. The Government plans to increase the ratio to 18.0% by 2025 in the Second Five Year Development Plan and it places high priority on the promotion policy of SME manufacturers. However, Small and Medium Enterprises (SME) have faced difficulties in getting access to the medium-and long-term funds required for investment in equipment and facilities. The ratio of enterprises that received finance from banks was 13.3% in the case of enterprises with a number of employees ranging from 5 to 19, and 25.6% in the case of enterprises with a number of employees equal to or above 20 up to 99 according to the Enterprise Survey 2013 by the World Bank (WB). Meanwhile, the ratio is 39.5% in the case of enterprises with a number of employees equal to or above 100. Furthermore, the outstanding loan amount of the three big commercial banks to SME accounted for merely 8.8% of the total outstanding loan amount at the end of 2015. The lending rate of loans to SME exceeds 20% p.a. with the majority of the loans being short-term in nature.

(4) Under the above-mentioned background, an official request for the "Establishment of Preferential Loan for Industrial Promotion", prepared by Ministry of Industry, Trade and Investment (MITI) and TIB Development Bank (TIB), was submitted to the Embassy of Japan and JICA in August 2015.

(5) In response to the official request, Japan International Cooperation Agency (JICA) conduced a "Data Collection Survey on Small and Medium Enterprise Finance in the United Republic of Tanzania" from November to December 2016. Following up on the preceding data collection survey (the preceding survey), JICA launched this preparatory survey, aiming to formulate a development finance project under a Japanese Official Development Assistance (ODA) Loan Scheme.

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[1] Provisional data for 2016. National Bureau of Statistics, National Accounts of Tanzania Mainland 2007-2016, November 2017.
[2] National Bureau of Statistics, Tanzania Integrated Labor Force Survey 2014 Analytical Report, November 2015.

1.2 Objective of the Survey

The preparatory survey aims to formulate a development finance project through financial intermediaries (i.e., Two Step Loan (TSL) Project) under a Japanese ODA Loan scheme by studying the various points required for future JICA appraisal such as: project objective, project scope, implementation schedule, project cost, organizations for implementation, operation and maintenance, environmental and social considerations, etc.

The provisional outline of the TSL Project is described as follows:

(1) Project Name: Small and Medium-sized Manufacturing Enterprise Finance Promotion Project

(2) Project Objective: The Project aims to promote finance towards SME mainly in the manufacturing sector and help them expand their investment in equipment and facilities and production, by providing them with medium and long-term loans through Participating Financial Institutions (PFI), thereby contributing to the sound development of industries and the economy in Tanzania.

(3) Project Scope:
   1) TSL Portion: Provision of medium and long-term sub-loans to SME mainly in the manufacturing sector through PFI.
   2) Consulting Services: Assistance for implementation of the Project (project management, promotion, etc.) and capacity development of the Project Management Unit (PMU) to manage the Project and PFI in implementing SME finance.

(4) Project Area: Nationwide

(5) Ministry in Charge: Ministry of Finance and Planning (MOFP)[3]

1.3 Relevant Organizations in Tanzania

(1) Major Organizations
   - Ministry of Finance and Planning (MOFP)
   - Bank of Tanzania (BOT)

(2) Relevant Organizations
   - Ministry of Industry, Trade and Investment (MITI)[4]
   - Small Industries Development Organization (SIDO)
     Potential PFI (CRDB Bank Plc., NMB Bank Plc., NBC Limited, etc.)
   - Others (The World Bank, International Finance Corporation, etc.)

[3] In response to the letter from JICA in December 2017, MOFP informed JICA that the Financial Sector Development Section under the Policy Analysis Department of MOPF would be the counterpart department to coordinate activities involved in the preparation of the proposed Project. In the same letter, MOPF also wrote to communicate to JICA with regard to the selection of the Agent Bank. (Note: "Agent Bank" is interpreted as "the Executing Agency" in this report.)
[4] MITI was renamed the Ministry of Industry and Trade (MIT) during the preparatory survey period.

1.4 Terms of Reference of the Survey

Terms of Reference consist of the following main items:

TOR 1: Presentation of the survey objective and plan for discussions with the Tanzanian side.

TOR 2: Collection, review and analysis of the relevant data on government policy and conditions in the field of the financial and banking sector

TOR 3: Collection of information on the capacity of candidate financial institutions to be entrusted with fund management

TOR 4: Collection of information on credit policy and loan appraisal capacity of candidate PFI such as commercial banks and leasing companies

TOR 5: Collection and analysis of information on SME in general and specifically in the manufacturing sector

TOR 6: Questionnaire Survey with SME mainly in the manufacturing sector for the clarification of demands and availability of funds

TOR 7: Survey on ways to associate with the Kaizen Project and experts for Cluster Development

TOR 8: Confirmation of support to SME by other Development Partners

TOR 9: Preparation of the Interim Report.

TOR 10: Preparation of the implementation plan of the TSL Project

1.5 Preparatory Survey Team

The JICA preparatory survey team (also referred to as “the preparatory survey team” or “the survey team” in this report) consisted of consultants from OPMAC Corporation and UNICO International Corporation as shown in the table below.

Table 1-1: Preparatory Survey Team

Name	Title	Affiliate
Tomoo MOCHIDA (Mr.)	Team Leader/TSL Plan	OPMAC Corporation
Sawa HASEGAWA (Ms.)	Sub-Team Leader/TSL Plan/SME Study 2	OPMAC Corporation
Keita ABE (Mr.)	Financial Institution (FI) Study	OPMAC Corporation
Yoshinari YAMAMOTO (Mr.)	SME Study 1	UNICO International Corporation
Junko (FUJIWARA) KUWABARA (Ms.)	Environmental and Social Considerations	OPMAC Corporation
Hitomi YOKOYAMA (Ms.)	Gender Mainstreaming	UNICO International Corporation

1.6 Survey Schedule

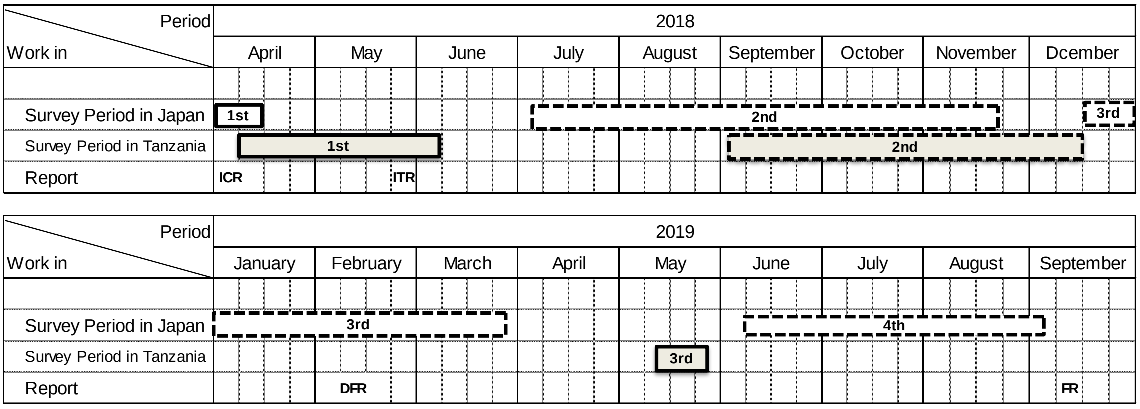
The schedule of the survey is shown as follows:

(1)	Commencement of the Survey	:	April 2, 2018
(2)	Preparatory work in Japan	:	April 2 to April 10, 2018
(3)	Submission of the Inception Report	:	April 10, 2018
(4)	1st Survey in Tanzania	:	April 10 to June 7, 2018

(5) Interim Report : End of May 2018
(6) Follow-up Survey in Japan : July – November 2018
(7) 2nd Survey in Tanzania : September to December 2018
(8) Follow-up Survey in Japan : December 2018 – March 2019
(9) Draft Final Report : February 2019
(10) 3rd Survey in Tanzania : May 2019
(11) Follow-up Survey in Japan : June – September 2019
(12) Final Report : September 2019

The following table describes the overall schedule from April 2018 to September 2019.

Table 1-2: Survey Schedule



Note: ICR=Inception Report, ITR=Interim Report, DFR=Draft Final Report and FR=Final Report.

1.7 Survey Area

The survey areas were selected in order to examine SME activities and/or their financing needs. Eight regions including Dal es Salaam, Arusha, Kilimanjaro, Manyara, Mbeya, Morogoro, Dodoma and Mwanza where the number of SME is relatively large in Tanzania were chosen as sites for survey visits by the preparatory survey team.[5]

[5] The SME survey was carried out in collaboration with six local consultants; Mr. Richard Jackson, Mr. Riziki J. Messa, Mr. Abel A. Kassa, Mr. Ale Alex Kaaya and Mr. Jackson Leonard (as data entry) were in charge of the survey in Dal es Salaam, Arusha, Dodoma, Kilimanjaro, Manyara, Mbeya and Morogoro, and Ms. Evelyne Magambo was in charge of the survey in Mwanza.

Chapter 2 Small and Medium-sized Enterprises in Tanzania and Government Policies

2.1 Macro-economic Situation and Government Finance

2.1.1 Gross Domestic Product and Gross Fixed Capital Formation

Tanzania's macro economy has shown good performances in recent years according to the government statistics as shown below. GDP has grown at a rate of about 7 percent annually since 2013 although the contributions of domestic demand (i.e., final consumption and gross capital formation) to the growth decelerated in 2015. The contribution of gross capital formation further declined in 2015 and 2016. However, Per Capita GDP reached just above 1,000 USD at market prices again in 2016 after contractions in 2015.

Table 2-1: GDP, Contributions to the Growth and Per Capital GDP

Item	2010	2011	2012	2013	2014	2015	2016p
GDP at Current Prices (Billion TZS)	43,836	52,763	61,434	70,953	79,718	90,864	103,744
GDP at 2007 Prices (Billion TZS)	31,676	34,179	35,936	38,547	41,231	44,101	47,165
GDP Growth Rate at 2007 Prices (%)	6.4	7.9	5.1	7.3	7.0	7.0	6.9
Contributions to the Growth Rate:							(%)
Final Consumption (C)	-	5.9	4.0	8.2	2.8	0.2	11.6
Household Consumption	-	5.1	2.0	5.3	2.8	0.9	9.7
Gross Capital Formation (I)	-	9.4	-2.3	3.2	1.8	-1.0	-1.3
Export of Goods and Services	-	1.9	3.1	0.1	3.5	5.1	-3.0
Import of Goods and Services	-	-7.9	0.3	-3.7	-1.0	2.0	-0.5
Absorption (Sum of Shares of C+I)	110.8	116.9	112.8	115.8	112.5	104.5	107.3
Per Capita GDP at Market Prices (USD)	771	818	896	991	1,044	967	1,006
Population (million persons)	41.9	43.2	43.6	44.8	46.0	47.4	49.0
Growth rate of population (%)	2.9	3.1	0.9	2.8	2.7	3.0	3.4

Source: National Bureau of Statistics, Tanzania in Figures 2016
Note: p = provisional

The recent IMF report projects that the economy is estimated to slow down in 2016/17 and 2017/18, and then to pick up growth momentum to maintain a real growth rate of a little more than 6% for the next three years as shown in the table below.[6]

Table 2-2: Actual and Projection of GDP

Item	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate		Projection			
GDP at Current Prices (Billion TZS)	97,304	108,351	119,694	132,701	148,533	166,406	186,607
GDP at Current Prices (Million USD)	45,128	49,265	53,181	57,396	62,370	67,812	73,779
Real GDP Growth Rate (%)	7.0	6.0	5.9	6.2	6.6	6.7	6.8
Per Capita GDP at Market Prices (USD)	937	998	1,052	1,113	1,186	1,264	1,348
Population (million persons)	48.2	49.4	50.5	51.6	52.6	53.6	54.7
Growth rate of population (%)	-	2.5	2.2	2.2	1.9	1.9	2.1

Source: Tanzanian authorities and the Financial Sector Assessment Program team estimates and projections cited in the IMF, Financial System Stability Assessment, November 2018
Note: According to the National Five Year Development Plan 2016/17-2020/21 (FYDP II), which is elaborated in Chapter 2.2 of this Report, it was planned that the annual real GDP growth would be raised to 10 percent by 2021 (from 7.0 percent in 2015) and the per capita income to USD 1,500 (from USD 1,043 in 2014).

[6] According to the IMF/World Economic Outlook (April 2019), however, the real growth rate in 2019 is projected at 4%.

As seen from the table, the population is projected to grow at an annual rate of more than 2%. The table below shows yearly trends in terms of the shares of GDP of economic activities on a constant price basis (2007 prices) from 2010 to 2017. While the share of "agriculture, forestry and fishing" has exhibited a decreasing trend, that of "industry and construction," has shown a tendency to increase particularly the share of "construction". "Manufacturing" has been found to remain more or less unchanged in terms of its share. In the "service" sector, it is noted that the share of the "transport and storage"[7] has demonstrated a gradual increase.

Table 2-3: Share of GDP at 2007 Prices by Economic Activities, Tanzania Mainland

Unit: %

Economic Activities	2010	2011	2012	2013	2014	2015	2016	2017
A: Agriculture, Forestry and Fishing	26.3	25.2	24.8	23.8	23.0	22.0	21.0	20.3
B: Industry and Construction	20.5	21.3	21.1	21.5	22.2	23.1	23.9	25.0
Out of which: Manufacturing	7.5	7.5	7.4	7.3	7.3	7.3	7.4	7.4
Out of which: Construction	7.8	8.9	8.7	9.3	9.9	10.8	11.4	12.2
C: Services	47.6	47.8	48.8	48.7	48.8	48.8	49.0	48.8
Out of which: Wholesale and retail trade; repairs	10.0	10.4	10.2	10.0	10.2	10.3	10.3	10.2
Out of which: Transport and storage	6.0	5.8	5.7	6.0	6.3	6.4	6.7	7.3
Out of which: Information and communication	3.4	3.4	4.0	4.2	4.3	4.5	4.7	5.1
Financial Intermediation indirectly measured	-1.4	-1.6	-1.6	-1.5	-1.5	-1.6	-1.7	-1.4
Taxes on products	7.1	7.3	7.0	7.5	7.5	7.7	7.8	7.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Bureau of Statistics, National Accounts of Mainland Tanzania 2007 to 2016. BOT, Monetary Policy Statement 2018/19

The following table describes the real growth rates of selected economic activities. The growth rates of "construction" and "transport and storage" showed a robust increase although the growth decelerated in 2015 for "transport and storage" and in 2016 for "construction". "Information and communication" also exhibited strong growth.

Table 2-4: Real Growth of Selected Economic Activities (2007 Prices), Tanzania Mainland

Unit: %

Economic Activities	2011	2012	2013	2014	2015	2016	2017
A: Agriculture, Forestry and Fishing	1.9	3.2	3.2	3.4	2.3	2.1	3.6
B: Industry and Construction	11.2	4.0	9.5	10.3	11.3	10.7	12.1
Manufacturing	6.9	4.1	6.5	6.8	6.5	7.8	7.1
Construction	21.9	3.2	14.6	14.1	16.8	13.0	14.1
C: Services	8.4	7.2	7.1	7.2	6.9	7.6	6.6
Wholesale and retail trade; repairs	11.3	3.8	4.5	10.0	7.8	6.7	6.0
Transport and storage	4.4	4.2	12.2	13.5	7.9	11.8	16.6
Information and communication	8.6	22.2	13.3	8.0	12.1	13.0	14.7
Total	7.9	5.1	7.3	7.0	7.0	7.0	7.1

Source: National Bureau of Statistics, National Accounts of Mainland Tanzania 2007 to 2016. BOT, Monetary Policy Statement 2018/19

The table below shows the amount and GDP share of the Gross Fixed Capital Formation from 2010. The absolute amounts both in TZS and USD exhibited a tendency to increase over the reported period and the shares of GDP accounted for about 30% and more. However, it is noted

[7] "Transport and storage" include trans-shipment activities that can be also affected by the business environment of neighboring countries.

that the share of the Gross Capital Formation in the GDP, after adjustments of changes in inventories, showed contractions in both 2015 and 2016.

In terms of types of investment, the share of "building and structures" increased from 51% in 2010 to 69% in 2016. In terms of economic activities, "construction" accounted for the largest share of 43% as it is considered that it was supported by the fact that "building and structures" accounted for the largest share in terms of types of investment. "Construction" activities were followed by "transport, storage and communication" and "manufacturing" with the corresponding shares being 19% and 14%, respectively. These three sectors add up to more than three-quarters of the Gross Fixed Capital Formation. Those economic activities seem to be thriving and may need finance for capital purchases. It is further noted that the private sector accounted for about three-quarter of the Gross Fixed Capital Formation as shown in the table below.

Table 2-5: Gross Fixed Capital Formation and Gross Capital Formation at Current Prices by Kind of Economic Activity, Tanzania Mainland

Unit: Billion TZS

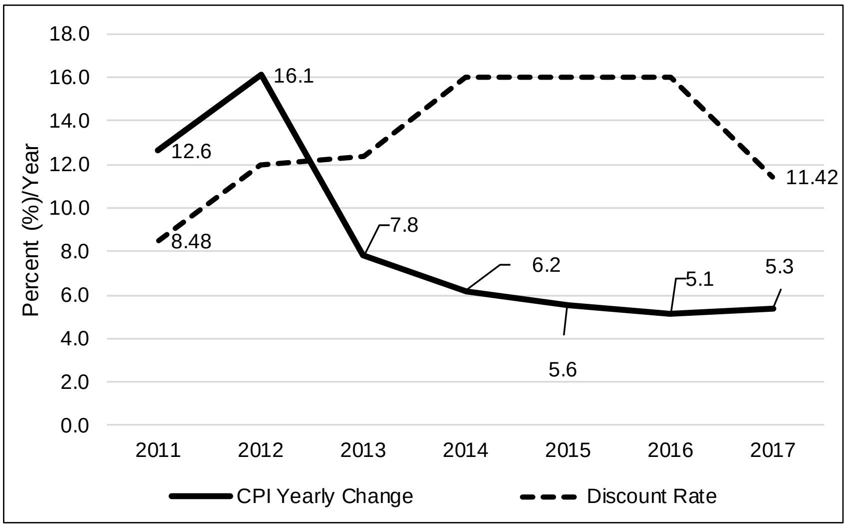
Item	2010	2011	2012	2013	2014	2015r	2016p
At Current Prices							
Gross Fixed Capital Formation							
Gross Fixed Capital Formation (Billion TZS)	12,572	17,325	18,786	21,625	25,944	31,123	34,768
Share of Gross Fixed Capital Formation in the GDP (%)	28.7	32.8	30.6	30.5	32.5	34.3	33.5
Gross Fixed Capital Formation (Billion USD Note 2)	9.0	11.1	12.0	13.5	15.7	15.6	16.0
Share of selected types of capital formation out of Gross Fixed Capital Formation (%)							
Share of building and structures	50.9	52.1	51.9	60.1	63.3	69.0	69.3
Share of transport equipment	4.3	4.1	5.2	3.5	3.3	2.6	2.4
Share of machinery and equipment	39.1	38.7	37.9	31.6	29.0	24.2	24.2
Sub-total of above three types	94.3	94.9	95.0	95.2	95.7	95.8	95.9
Share of selected economic activities out of Gross Fixed Capital Formation (%)							
Share of Manufacturing	14.8	14.7	14.6	14.5	14.4	14.4	14.4
Share of Construction	42.2	42.3	42.7	42.9	42.8	42.8	42.8
Share of Transport, Storage & Communication	19.7	19.6	19.5	19.4	19.5	19.2	19.2
Sub-total of above three activities (%)	76.7	76.6	76.8	76.8	76.6	76.3	76.3
Share of Private Sector out of Gross Fixed Capital Formation (%)							
Share of Private Sector	70.7	70.8	74.4	77.6	77.5	77.4	75.0
Gross Capital Formation (after adjustments of changes in inventories)							
Gross Capital Formation (Billion TZS)	11,965	17,538	17,511	21,516	24,020	24,717	25,558
Share of Gross Capital Formation in the GDP (%)	27.3	33.2	28.5	30.3	30.1	27.2	24.6

Source: National Bureau of Statistics, National Accounts of Mainland Tanzania 2007 to 2016
Note 1: r= revised, p=provisional
Note 2: Period averages of the exchange rates have been applied based on data from International Finance Statistics of the International Monetary Fund.

2.1.2 Inflation Rate, Interest Rate and Foreign Exchange Rate

The inflation rate, as represented by the Consumer Price Index (CPI), has been kept below 6% since 2015 under tight monetary policy, the economy having experienced double-digit inflation in 2011 and 2012. The BOT discount rate was raised to 12% in November 2011, and further up to 16% in November 2013 being maintained at this level until February in 2017. Other contributing factors to ease inflation rates were improved food supply and improvements in domestic power supply.[8]

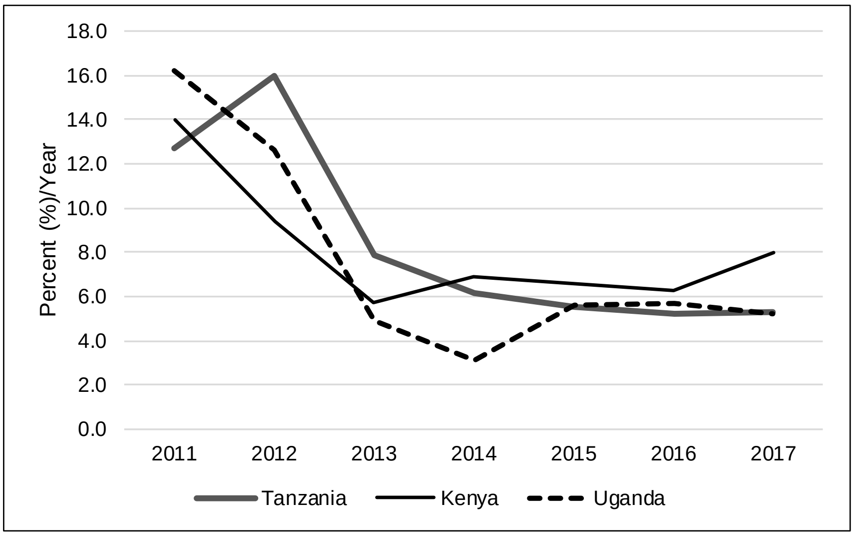
[8] BOT, Monetary Policy Statement 2018/19, June 2018. Food supply was within the required self-sufficiency ratio of 120% from 2013/14 to 2016/17 and the growth rate of the volume of electricity generation increased from 2.6% in 2014 over the previous year to 9.1% in 2016 (BOT, Annual Report 2016/17, January 2018).



Source: BOT, Annual Report 2017/18
IMF, International Financial Statistics, 2017

Figure 2-1: Consumer Price Index and Discount Rate of the Central Bank

The figure below compares the consumer price indexes of Tanzania with those of neighboring countries (i.e., Kenya and Uganda). The comparison shows almost the same pattern of inflation during the same period.



Source: World Bank, World Development Indicators
Note: Calculated based on 2010 prices

Figure 2-2: Comparison of National Consumer Price Indexes of East African Countries

It is estimated that the inflation rate has continued to show a declining trend from 2016/17 and it is expected to increase slightly from 2018/19, but within the BOT target level.[9]

[9] The BOT medium target for the inflation rate (annual headline inflation) is 5.0 percent (BOT, Monetary Policy Statement 2018/19).

Table 2-6: Period Average of CPI

Unit: %

Index	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate		Projection				
CPI (period average)	6.0	5.3	4.3	3.8	4.6	4.9	5.0	5.0

Source: Tanzanian authorities and Financial Sector Assessment Program team estimates and projections cited in IMF, Financial System Stability Assessment, November 2018

The following Figure 2-3 describes the annual growth rate of the extended broad money supply (M3) and monthly changes in the annual growth rate of credit to the private sector together with the BOT discount rate in the past three years since March 2015. As seen in the figure below, the annual growth of the extended broad money supply (M3)[10] sharply declined toward the end of 2016 as did the credit to the private sector. BOT[11] pointed out the tight liquidity conditions in the banking system, as represented by the sustained slowdown in the growth of monetary aggregates (in particular, the broad money supply and the credit to the private sector), attributing them largely to the cumulative impact of substantial decline in net foreign budgetary inflows and the transfer of public institutions' deposits to BOT.[12] The stagnated credit growth is partly due to rising Non-Performing Loans of banks as detailed in Chapter 4 of this Report, coupled with the weak business climate.[13] In order to address the tight liquidity conditions among banks, BOT injected liquidity into the economy through reverse repo operations, the purchase of foreign exchange from the domestic market, inward foreign exchange swaps and the provision of short-term loans to banks. BOT reduced the discount rate from 16.0 percent to 12.0 percent in March 2017 and the statutory minimum reserve requirement on private sector deposits from 10.0 percent to 8.0 percent. However, the growth rate of credit to the private sector is yet to show a tendency to increase as of March 2018.[14] [15]

[10] BOT set the monetary policy target for the annual growth of broad money supply (M3): the annual growth rate should not exceed 12.3% in 2016/17.

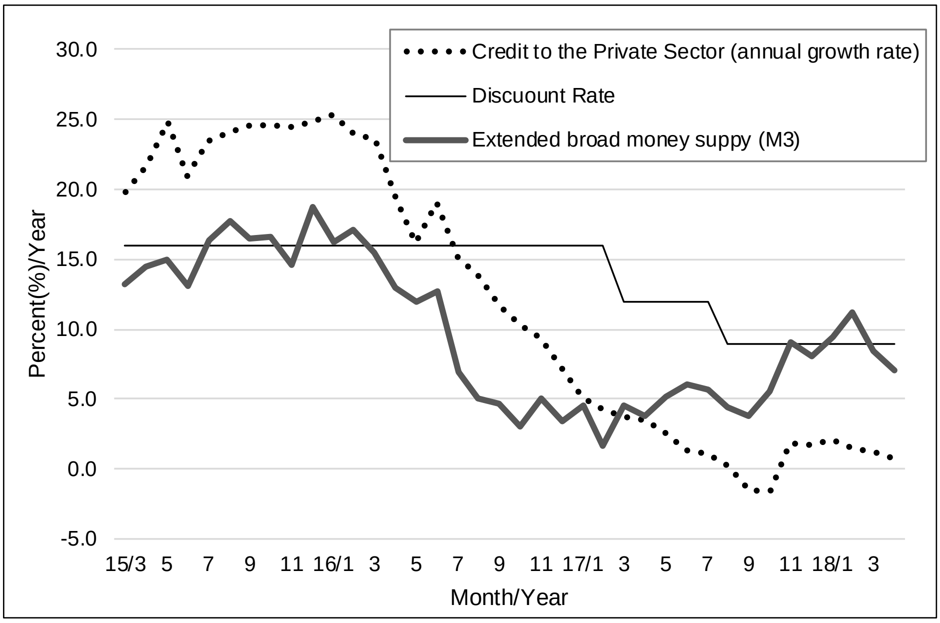
[11] BOT, Monetary Policy Statements 2017/18.

[12] IMF points out that the under-execution of fiscal spending was a factor behind the tighter-than-programmed domestic liquidity conditions (IMF, Seventh Review under the Policy Support Instrument, January 2018).

[13] According to the World Bank Doing Business, Tanzania was ranked 131 out of 189 in 2015, 139 out of 189 in 2016, 132 out of 190 in 2017, 137 out of 190 in 2018 and 144 out of 190 in 2019. These rankings first appeared in the publications of the respective years before being revised in the publications of the following years. BOT also points out other factors behind the slow credit growth of the private sector in 2016/17 such as a slowdown in consumption demand, slower growth in deposits, and asset portfolio diversification by banks in favor of low risk government securities (BOT, Annual Report 2016/17, January 2018.

[14] According to the Quarterly Economic Bulletin of BOT in December 2018, the growth rate of credit extended to the private sector by banks recovered to 4.9% year-on-year in September and in December 2018.

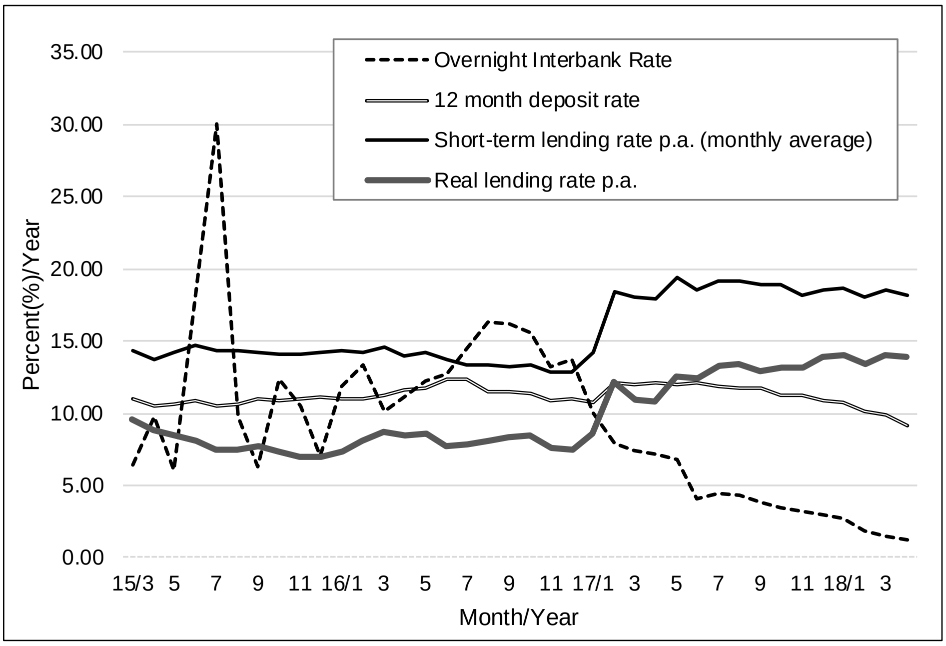
[15] The discount rate was lowered to 7.0% in August 2018 and this level (7.0%) is maintained as of May 2019.



Source: BOT, Monetary Policy Statements

Figure 2-3: Discount Rate of the Central Bank, Growth Rate of Broad Money (M3) and Growth Rate of Credit to the Private Sector

After a sharp increase in August 2016, the overnight interbank rate started to decline toward the end of 2016 and declined further at the beginning of 2017. Twelve-month deposit rates have also shown a tendency to gradually decrease. On the other hand, however, the short-term lending rate hovered around the level of 18% p.a. in 2018 after having increased at the beginning of 2017. With a decreasing tendency of the inflation rate, the real lending rate has tended to increase further.

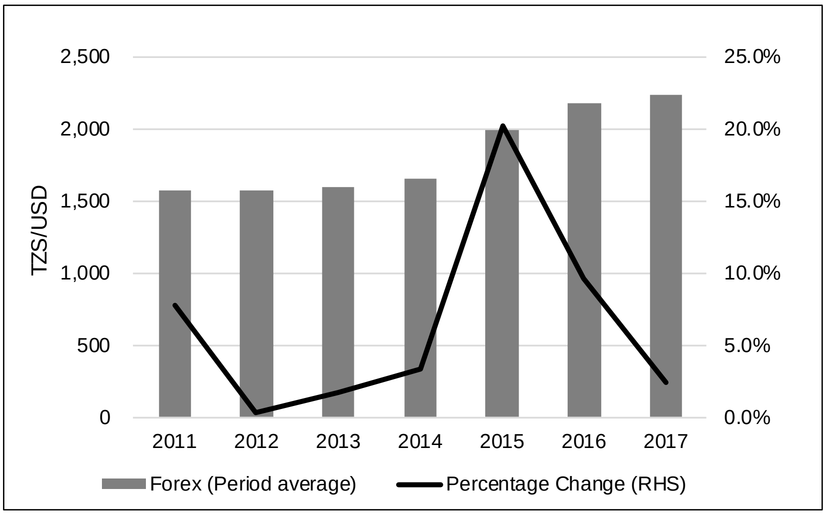


Source: BOT, Monetary Policy Statements

Note: Real lending rates have been calculated using headline inflation rates and short-term lending rates.

Figure 2-4: Overnight Interbank Rate, Deposit Rate, Lending Rates

The following figure shows period averages of the foreign exchange rates between USD and TZS. After having experienced a sharp depreciation[16] in 2015, the exchange rates were found to be relatively stable with a gradual depreciation trend of TZS against USD. IMF[17] points out currency appreciation pressures stemming from a sharp fall in the current account deficit, which were offset by BOT net purchases of foreign exchange as part of its operations to inject liquidity to the system. BOT operation, coupled with the slow execution of major infrastructure projects, has led to an increase in gross international reserves, which could be also deemed as de facto exchange rate arrangement.



Source: IMF, International Financial Statistics, 2017
Note: RHS=Right Hand Scale

Figure 2-5: Foreign Exchange Rate with Yearly Percentage Changes

2.1.3 Exports, Imports, Actual and Projected Balance of Payment

(1) Exports

Tanzania has gradually diversified its export base over the years. As shown in the table below, the main export commodities from Tanzania are minerals, manufacturing goods and traditional goods such as tobacco, cashew nuts and coffee. The value of the traditional export accounts for less than 20% in USD terms while the value of the manufacturing exports ranges from 20% to 26% depending on the year in question. The sudden deprecation of the exchange rate of TZS in 2015 might have caused the increase of exports in terms of TZS, but the values of exports remain largely unchanged in USD terms.

[16] IMF analysis said that the depreciation against USD in 2014/15 reflected the global strength of the dollar, the loosening of monetary policy in late 2014, seasonal patterns of foreign exchange inflows, delays in mobilizing external financing and, perhaps, uncertainty in the run up to the elections (IMF, Staff Report for the 2016 Article IV Consultation and Fourth Review under the Policy Support Instrument, July 2016). In addition, BOT points out delays in foreign budgetary financing, the low season of export earnings and the high season for dividend payments (BOT, Annual Report 2014/15).

[17] IMF, Seventh Review under the Policy Support Instrument, January 2018.

Table 2-7: Export by Type of Commodity

Unit: Million USD

Items	2012	2013	2014	2015	2016P
Traditional Exports					
Coffee	186.6	171.0	121.5	162.2	154.2
Cotton	164.9	111.7	54.7	30.2	46.8
Sisal	18.4	16.9	16.8	26.5	17.2
Tea	56.1	56.9	45.7	44.0	44.7
Tobacco	350.1	307.0	315.0	287.6	312.7
Cashew nuts	142.6	162.4	222.2	218.8	270.6
Cloves	38.1	43.0	52.9	24.1	39.3
Sub-total	956.7	868.9	828.8	793.3	885.6
Non-Traditional Exports					
Minerals	2,197.8	1,782.1	1,469.2	1,285.4	1,582.2
Manufacturing goods	1,037.3	1,072.1	1,239.6	1,277.0	1,050.1
Other exports	929.2	849.1	1,089.8	1,477.8	1,628.6
Sub-total	4,164.4	3,703.3	3,798.6	4,040.1	4,260.9
Grand Total	5,121.1	4,572.2	4,627.4	4,833.4	5,146.5
Growth Rate of Traditional Exports (%)	-	-9.2	-4.6	-4.3	11.6
Growth Rate of Non-Traditional Exports (%)	-	-11.1	2.6	6.4	5.5
Growth rate of Total Exports (%)	-	-10.7	1.2	4.5	6.5
Share of Traditional Exports (%)	18.7	19.0	17.9	16.4	17.2
Share of Manufacturing Goods (%)	20.3	23.4	26.8	26.4	20.4

Source: Tanzania Revenue Authority, quoted from BOT Annual Report 2016/17

The table below shows the top five export destinations in 2017 according to data from International Trade Center. Three out of five countries import gold as a major item. Vietnam imports a large amount of cashew nuts and Kenya imports a variety of products from Tanzania.

Table 2-8: Tanzania Top Five Export Destinations (2017)

Unit: Thousand USD

India		South Africa		Vietnam		Kenya		Switzerland	
All products	982,927	All products	699,791	All products	314,808	All products	291,541	All products	262,393
Gold, incl. gold plated with platinum, unwrought or not further worked than semi-manufactured ...	596,664	Gold, incl. gold plated with platinum, unwrought or not further worked than semi-manufactured ...	672,804	Coconuts, Brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled	293,485	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared	54,037	Gold, incl. gold plated with platinum, unwrought or not further worked than semi-manufactured ...	235,265
Coconuts, Brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled	234,473	Tea, whether or not flavored	5,956	Bran, sharps and other residues, whether or not in the form of pellets, derived from sifting, ...	5,082	Live bovine animals	52,930	Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, ...	10,256
Dried leguminous vegetables, shelled, whether or not skinned or split	74,956	T-shirts, singlets and other vests, knitted or crocheted	4,756	Meat of horses, asses, mules or hinnies, fresh, chilled or frozen	3,894	Uncoated craft paper and paperboard, in rolls of a width > 36 cm or in square or rectangular ...	25,252	Precious-metal ores and concentrates	10,146
Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed,	19,033	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes ...	3,988	Fish, fit for human consumption, dried, salted or in brine; smoked fish, fit for human consumption.	2,501	Grain sorghum	23,067	Cotton, carded or combed	1,663
Precious stones and semi-precious stones, whether or not worked or graded, but not strung, ...	9,765	Coconuts, Brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled	1,720	Other nuts, fresh or dried, whether or not shelled or peeled (excluding coconuts, Brazil nuts ...	2,468	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting ...	14,528	Natural sands of all kinds, whether or not colored (excluding gold- and platinum-bearing sands, ...	1,348

Source: International Trade Center, Trade Map

(2) Imports

Tanzania's main imports include capital goods such as machinery and transport equipment, intermediate goods such as oil and industrial raw materials, and consumer goods. The capital goods account for about 30% to 40% of the total imports, in particular machinery.[18] Compared to the import values of the previous years, the values of imports such as capital goods, oil and consumer goods sharply declined in 2015 and 2016. One of the factors was the reduction of world oil prices in 2015.[19] The sudden deprecation of the exchange rate of TZS in 2015 may also have contributed to the decrease in imports. Reduction may be attributed to the slowdown in consumption and gross capital formation in 2015 and 2016 as described in Chapter 2.1.1. It is also pointed out that the fall in the importation of capital goods in 2016 followed the completion of major construction projects including cement factories, power plants and gas pipelines.[20]

Table 2-9: Major Imports (FOB)

Unit: Million USD

Items	2012	2013	2014	2015	2016P
Capital Goods					
Transport equipment	1,158.2	1,160.2	1,214.8	1,096.5	907.7
Building and construction	805.8	959.8	1,032.4	908.0	817.2
Machinery	1,722.5	1,340.5	1,351.0	1,808.4	1,772.5
Sub-total	3,686.5	3,460.4	3,598.1	3,813.0	3,497.4
Intermediary Goods					
Oil	3,380.6	4,308.6	3,656.8	2,760.7	1,807.7
Fertilizers	133.9	160.1	122.8	145.6	118.6
Industrial raw materials	805.7	736.6	884.0	790.4	937.0
Sub-total	4,320.2	5,205.2	4,663.6	3,696.6	2,863.2
Consumer Goods					
Food and food stuffs	656.6	646.4	632.6	541.7	445.5
All other consumer goods	1,655.9	1,717.1	2,023.4	1,791.8	1,657.5
Sub-total	2,312.5	2,363.5	2,656.1	2,333.5	2,103.0
Grand Total	10,319.1	11,029.1	10,917.8	9,843.1	8,463.6
Growth Rate of Capital Goods (%)	-	-6.1	4.0	6.0	-8.3
Growth Rate of Intermediary Goods (%)	-	20.5	-10.4	-20.7	-22.5
Growth Rate of Consumer Goods (%)	-	2.2	12.4	-12.1	-9.9
Growth Rate of Total Imports (%)	-	6.9	-1.0	-9.8	-14.0
Share of Capital Goods (%)	35.7	31.4	33.0	38.7	41.3
Share of Industrial Raw Materials (%)	7.8	6.7	8.1	8.0	11.1

Source: Tanzania Revenue Authority, quoted from BOT Annual Report 2016/17

[18] IMF cited a statement of the Executive Director for the United Republic of Tanzania in the Fifth Review under the Policy Support Instrument prepared in December 2012 that the rise in imports of capital goods reflected higher foreign direct investment in oil and gas exploration. The report prepared under the Fifth Review pointed out the prospects for the confirmation of commercial quantities of natural gas, resulting in foreign direct investment in the natural gas sector over the next 5 years.

[19] Brent crude oil price decreased from 98.89 USD per barrel in 2014 to 52.32 USD in 2015. (https://www.statista.com/statistics/409404/forecast-for-uk-brent-crude-oil-prices/). IMF points out a shift from imported oil to domestically-produced gas for electricity generation as another factor for the reduction in the current account deficit in 2016/17 (IMF, Seventh Review under the Policy Support Instrument, December 2017). According to Tanzania Electric Supply Company Ltd. (TANESCO) quoted in the BOT Annual Report 2016/17, the shares of electricity generation using gas and diesel have changed as in the table below.

Source	2014	2015	2016
Share of electricity generated using gas (%)	45.1	50.6	59.0
Share of electricity generated using diesel (%)	11.5	15.2	5.4

[20] BOT, Annual Report 2016/17.

Tanzania imports many products from various countries. The table shows that China is the main source of electrical machinery and machinery and mechanical appliances. India also exports this machinery but the values thereof are much less than that from China.

Table 2-10: Tanzania Top Five Import Sources (2017)

Unit: Thousand USD

China		India		United Arab Emirates		Saudi Arabia		South Africa	
All products	1,504,301	All products	1,167,465	All products	596,046	All products	469,105	All products	415,152
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	246,070	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	431,343	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	409,654	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	323,758	Iron and steel	70,174
Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	218,452	Pharmaceutical products	251,904	Plastics and articles thereof	35,384	Plastics and articles thereof	108,129	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	51,813
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	147,807	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	82,679	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	29,710	Fertilizers	26,368	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	39,180
Iron and steel	94,428	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	70,352	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	24,902	Sugar and sugar confectionery	2,102	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	29,733
Rubber and articles thereof	78,980	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	40,988	Sugar and sugar confectionery	14,679	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	1,934	Paper and paperboard; articles of paper pulp, of paper or of paperboard	24,897

Source: International Trade Center, Trade Map

(3) Balance of Payments

The table below shows the actual and projected balance of payments until 2020/21. As seen from the table below, it is predicted that the current account deficits will continue to increase until 2020/21 while the share of the deficit in terms of GDP is projected to be reduced to 2.7% in 2016/17 from 10.7% in 2013/14. The amount of trade deficit was projected to be reduced in

2016/17[21] due to a reduction in import goods. The services account continues to show surpluses and travel receipts constitute a robust source of the surplus. It is noted that the amount of foreign direct investment declined in 2015/16 and this trend is projected to continue until 2018/19.[22] The foreign program and project assistance as a percentage of GDP also showed a decline in 2015/16. Gross official reserves reached 5 billion USD in 2016/17, covering 5.2 months of imports of goods and services. Gross official reserves are expected to increase over the projected period and the number of months when goods and services are covered with official reserves is expected to remain high, ranging from 4.6 months to 4.9 months.

Table 2-11: Actual and Projected Balance of Payments

Unit Million US$ unless otherwise indicated

Item	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	Actual			**Projected**				
A. Current account	-4,985	-4,169	-2,937	-1,337	-2,560	-3,384	-3,838	-3,724
Trade balance	-5,728	-4,998	-3,317	-2,326	-3,515	-4,213	-4,815	-4,972
Exports, f.o.b.	5,619	5,661	5,601	5,240	5,601	6,153	6,809	7,498
Imports, f.o.b	-11,347	-10,659	-8,918	-7,565	-9,116	-10,366	-11,624	-12,470
Services (net)	648	971	887	1,639	1,733	1,878	2,020	2,331
Income (net)	-648	-717	-841	-1,106	-1,288	-1,588	-1,616	-1,663
Current transfers (net)	744	575	334	455	511	538	573	580
B. Capital account	748	520	320	457	415	386	492	498
C. Financial account	3,947	3,838	2,404	2,216	2,546	3,380	3,862	3,970
Foreign Direct Investment	2,066	2,003	1,463	1,273	1,368	1,552	1,976	2,358
Public Sector, net	1,404	1,431	616	787	1,294	2,017	2,068	1,889
D. Errors and omissions	513	-289	-155	-130	0	0	0	0
E. Overall balance	223	-100	-368	1,206	401	382	516	744
F. Financing	-223	100	368	-1,206	-401	-382	-516	-744
Change in BOT reserve assets	-232	158	425	-1,131	-316	-285	-476	-717
Memorandum Items:								
Gross official reserves	4,683	4,285	3.870	5,000	5,316	5,601	6,077	6,794
Months of Imports of Goods and Services	4.2	4.0	4.8	5.2	4.9	4.6	4.7	4.7
Exports (% of GDP)	12.0	11.7	12.4	10.6	10.4	10.5	10.7	10.8
Imports (% of GDP)	-24.3	-22.0	-19.8	-15.4	-17.0	-17.7	-18.2	-18
Current account deficit (% of GDP)	-10.7	-8.6	-6.5	-2.7	-4.8	-5.8	-6	-5.4
Foreign program and project assistance (% of GDP)	3.8	2.5	1.9	2.5	3.1	3.6	3.6	3.6
Nominal GDP	46.636	48,353	45,128	49,265	53,655	58,552	63,758	69,365
Exchange Rate (period average, TZS/USD)	1,615	1,764	2,156	2,199 Estimated	2,251 Estimated	-	-	-

Source: IMF, Tanzania, the Seventh Review under the Policy Support Instrument

[21] Improvement in the trade accounts put pressure on the appreciation of TZS and resulted in the purchase of foreign exchange by BOT, leading to an increase in the foreign reserves (IMF, Seventh Review under the Policy Support Instrument, January 2018). According to IMF, the annual percentage change of the real effective exchange rate (end of period) is calculated as follows:

Item	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Annual Percentage Change in Real Effective Exchange Rate (depreciation = -) (%)	0.8	-9.5	0.9	0.5	-1.2

[22] As described above, the reduction can be partly explained by the completion of major construction projects.

2.1.4 Government Finance

Tax revenue accounted for more than 90% of the total revenue in 2013/14 under central government operations. The share of tax revenue is expected to have decreased to about 85% in 2017/18. Among the tax revenue items, revenues from income taxes and value-added taxes accounted for about 41% and 24%, respectively, in 2013/14. It is projected that the shares of these taxes will have changed to about 36% and 28%, respectively, in 2017/18. The total revenue covered about three-quarter of total expenditure in 2013/14 and this ratio continued and continues to be observed in the actual and projected years except for 2016/17 when the ratio was expected to increase to 88%.

According to IMF[23], the overall fiscal deficit on a cash basis was 1.5 percent of GDP in 2016/17 as opposed to the revised program target of 3 percent of GDP and an initial program target of 4.6 percent of GDP. The lower deficit resulted from "a slow budget execution, particularly of development projects, due to a more centralized and deliberate approach to decision-making and delays in external financing and project preparation and implementation". As seen in the table below, it was projected that development expenditure would increase substantially in 2017/18.

Table 2-12: Tanzanian Central Government Operations, 2014/15–2017/2018

Unit: Billion TZS

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual.			Preliminary.	Projected.
Total revenue	**10,182**	**10,958**	**13,907**	**16,640**	**17,940**
Tax revenue	9,294	9,892	12,411	14,055	15,323
Import duties	694	784	923	998	1,063
Value-added tax	2,189	2,439	2,960	3,915	4,260
Excises	1,509	1,671	2,123	2,102	2,251
Income taxes	3,779	3,720	4,600	4,830	5,442
Other taxes	1,124	1,279	1,805	2,211	2,307
Nontax revenue	888	1,066	1,496	2,585	2,616
Total expenditure	**13,958**	**14,604**	**17,760**	**18,890**	**24,035**
Recurrent expenditure	10,299	10,893	13,420	11,617	13,673
Wages and salaries	3,969	4,618	5,627	5,599	6,276
Interest payments	977	1,261	1,486	1,715	1,803
Domestic	743	917	1,010	1,216	1,130
Foreign	234	344	477	500	673
Goods and services and transfers	5,352	5,015	6,306	4,302	5,594
Development expenditure	3,660	3,710	4,340	7,273	10,362
Grants	1,588	1,024	495	1,092	998
Overall balance (cash basis)	**-2,498**	**-2,807**	**-3,428**	**-1,594**	**-5,098**
Foreign (net)	2,271	2,634	1,390	1,732	2,990
Foreign loans	2,452	2,860	1,946	2,805	4,173
Program (including basket loans)	734	538	453	257	1,153
Project	524	641	778	1,294	1,402
Non concessional borrowing	1,195	1,682	715	1,254	1,618
Amortization	-181	-227	-556	-903	-1,183
Domestic (net)	227	173	2,038	-138	2,108
Excluding gas pipeline	977	800	2,299	-111	2,108
Bank financing	956	488	1522	-1057	1238
Nonbank financing	21	312	777	946	870
Credit to TPDC Note (gas pipeline)	-750	-627	-261	-27	…

23 IMF, Seventh Review under the Policy Support Instrument, January 2018.

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual.			Preliminary.	Projected.
Nominal GDP	**75,336**	**85,291**	**97,304**	**108,351**	**120,822**
Overall balance (cash basis)/ Nominal GDP (%)	-3.3	-3.3	-3.5	-1.5	-4.2
Total Public Debt (Share of GDP) (%)	31.4	35.4	38.5	-	-

Source: IMF, Tanzania, the Seventh Review Under the Policy Support Instrument, January 2018.
Note: TPDC=Tanzania Petroleum Development Corporation

2.2 Outline of Small- and Medium-Sized Enterprises and Manufactures

In this section, Census of Industrial Production (CIP), Statistical Business Register Report 2014/2015, and National Accounts of Tanzania Mainland 2007–2016 are the primary reference materials. Since each statistical survey provides various "years conducted" and different survey methodologies, numbers of companies also differ.

2.2.1 Outline of Companies in Tanzania

2.2.1.1 Regional Distribution of Companies

Table 2-13 shows the definition of micro, small, medium and large sized company according to the SME Development Policy 2002.

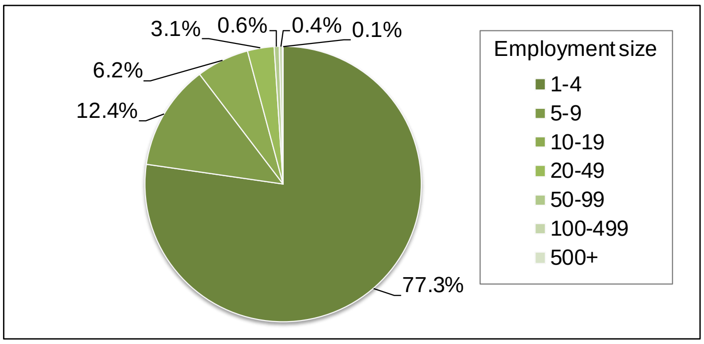
Table 2-13: Definition of SME

Category	Employees	Capital Investment in Machinery (TZS)
Micro enterprise	1-4	Up to 5 million
Small enterprise	5-49	Above 5 million to 200 million
Medium enterprise	50-99	Above 200 million to 800 million
Large enterprise	100 +	Above 800 million

Source: SME Development Policy 2002

While stakeholders have reviewed the definition of SME, the following analysis is based on the definition shown in the table above.

According to the Statistical Business Register Report, out of 154,618 companies, 153,932 companies (99.6%) are defined as micro-, small-, and medium-sized enterprises. The companies with 4 or fewer workers represent 77.3% of the total, while the number of companies with more than 4 workers and 100 workers accounts for 34,424 companies comprising 22.3% of the total. (See Figure 2-6).



Source: Statistical Business Register Report 2014/2015

Figure 2-6: Share of Companies by Employment Size

2.2.1.2 Selected Regional and Sectorial Distribution of Companies

According to the Statistical Business Register Report, about 29,000 companies are located in Dar es Salaam, followed by 11,000 companies in Mbeya, less than 10,000 companies in Morogoro, 7,900 companies in Ruvuma, and 7,800 companies in Arusha.

There are 54,017 companies in the manufacturing sector, while 52,820 companies are in the retail and wholesale sector, and 11,136 companies are in the education sector. The sum of manufacturers, retailers, and wholesalers accounts for about 70% of the total number of companies (see Table 2-14).

Table 2-14: Distribution of Companies by Sector in Selected Regions

Unit: number of companies

Region	Manufacturing	Trade	Education	Human health/ social work	Others	Sub total	Share
DSM	8,759	13,744	895	362	5,300	29,060	18.8%
Mbeya	3,125	4,451	857	526	2,144	11,103	7.2%
Morogoro	3,317	4,274	382	114	1,832	9,919	6.4%
Ruvuma[24]	3,538	2,089	897	416	978	7,918	5.1%
Arusha	2,374	3,026	761	300	1,372	7,833	5.1%
Others	32,904	25,236	7,344	3,045	20,256	88,785	57.4%
Subtotal	54,017	52,820	11,136	4,763	31,882	154,618	100.0%
Share	34.9%	34.2%	7.2%	3.1%	20.6%	100.0%	

Source: Statistical Business Register Report 2014/2015
Note: Trade includes wholesale, retail, motorcycle and car repair

2.2.2 Outline of Manufactures

2.2.2.1 Regional Distribution of Manufactures

According to CIP, 7,443 companies, 15.1% of 49,243[25] companies nationwide, are located in Dar es Salaam, followed by 3,549 companies in Mara (7.2% of the total), and 3,477 companies in Ruvuma (7.1% of the total).

There are 41,919 micro sized manufactures with 4 or fewer employees accounting for 85.1% of the total. The number of small manufactures with 5 to 9 employees is 6,002 companies, 12.2% of the total. The number of companies with 1 to 9 employees is 47,921, comprising 97.3% of the total. There are 1,075 SME with 10 or more employees and no more than 99 employees, the main target of this survey, estimated to account for 2% of the total.

The number of large corporations is 247 companies, about 0.5% of the total. According to the 2008 statistics, the number of companies with 10 or more employees was 729 companies (Annual Survey of Industrial Production 2008), indicating an increase of nearly 600 companies in the year 2013. Especially companies with more than 20 to 49 employees increased nearly 2.5 times from 168 companies to 412 companies.

[24] Ruvuma has a large number of companies, but most of them are micro enterprises with 1 to 4 employees, and there are few SME with 5 or more employees.
[25] Among these, 48,474 manufacturing industries, 769 companies including mining companies, electricity and gas supply, water supply, sewage / disposal companies.

Table 2-15: Number of Companies by Employment Size in Selected Regions

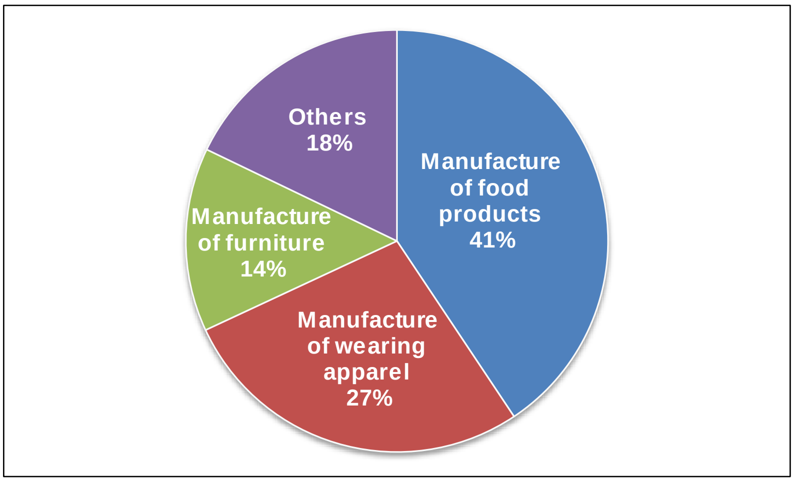
Region	Employment Size							Total	Percentage
	1-4	5-9	10-19	20-49	50-99	100-499	500+		
DSM	5,802	1,253	111	118	68	81	11	7,443	15.1%
Mara	2,981	540	8	9	4	4	2	3,549	7.2%
Morogoro	2,627	403	17	17	1	5	7	3,077	6.2%
Mbeya	2,542	248	33	23	6	12	0	2,864	5.8%
Iringa	2,277	209	9	7	6	7	3	2,518	5.1%
All regions	41,919	6,002	493	412	170	199	48	49,243	100.0%
Percent	85.1%	12.2%	1.0%	0.8%	0.3%	0.4%	0.1%	100.0%	

Source: Census of Industrial Production 2013

The table above shows that 10 or more employees accounting for 1,322 companies nationwide, of which 389 (29.5%) are in Dar es Salaam, 167 (12.6%) in Manyara, and 89 (6.7%) in Arusha.

2.2.2.2 Number of companies and employees by subsector

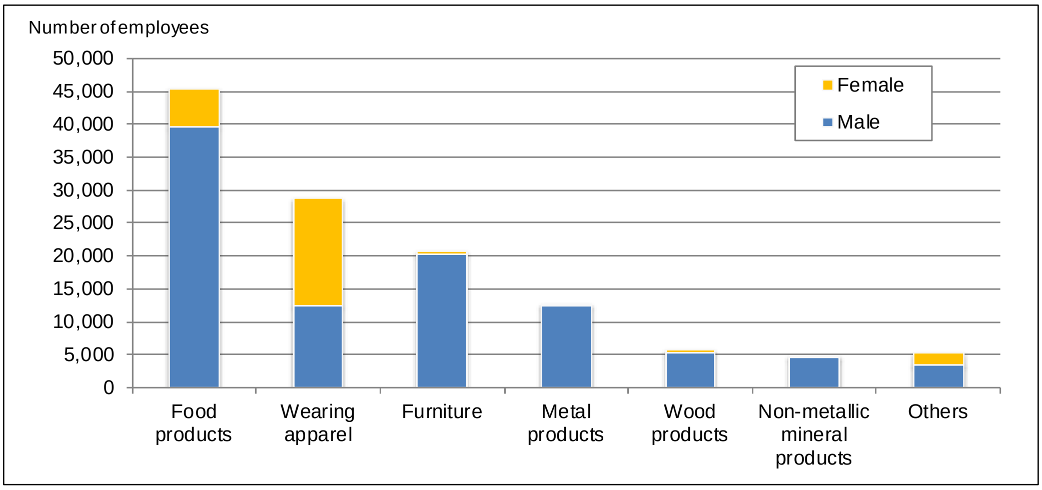
According to CIP 2013, 19,700 food-processing companies account for 41% of the total number of companies, followed by 13.293 wearing apparel companies (27%), 6,823 furniture companies (14.1%). These three sub-sectors together account for more than 80% of the total. However, these companies in the subsectors are mainly small-sized companies (see Figure 2-7).



Source: Census of Industrial Production 2013

Figure 2-7: Share of Manufactures by Sub-sectors

The number of employees in the manufacturing industry is 123,366, with an average of 2.5 employees per company. The sub-sector with the largest number of employees is food processing with 45.299 employees, accounting for 36.7% of the total. The second largest subsector is wearing apparel with 28,795 employees (23.3%) (see Figure 2-8).



Source: Census of Industrial Production 2013

Figure 2-8: Number of Employees by Selected Industrial subsector

The proportion of female employees is about 20%. Among them, textiles, wearing apparel and cigarettes companies have the high proportion of female employees accounting for 76.0%, 56.7% and 40.8% respectively. On the other hand, female employees represent 0%, 2.5%, and 2.8% in paper making, furniture and metal processing sub-sectors, respectively.

2.2.2.3 Investment of Manufacturers and National Accounts

According to CIP, out of 1,103 companies with 10 or more employees, 829 companies are considering future investment. Of these, the manufacturing industry comprises 594 companies (71.1%). Out of 594 manufacturers, of which 510 companies have investment plan for expansion in production capacity, 466 in technology improvement, and 418 companies with renewal of aging facilities.

According to the National Accounts of Tanzania Mainland 2007-2016, the manufacturing industry's share of nominal GDP in 2016 is 5.1% showing a decreasing trend from 7.0% in 2007. The GDP share is small despite the proportion of the total number of companies exceeding 30% which might be due to small or no growth in creation of added value in individual companies.

Based on interviews the survey team conducted, several obstacles hinder the growth of manufacturers besides difficulties in accessing finance: 1) high cost of raw materials, 2) tax and regulation, and 3) inadequate infrastructures. These obstacles cause high cost of operation, thus making manufacturers unable to compete with import goods especially from China. In addition, the business environment including transportation system, industrial human resources, and acquiring necessary technology are not favorable for Tanzanian manufacturers.

The GDP share of agricultural industry is 15.5%, followed by construction at 14.0% (2016). The GDP share of construction in 2007 was only 7.9%, but that proportion sharply increased against the backdrop of favorable construction demand.

On the other hand, Kenya's manufacturing industry accounts for 9.2% of GDP (2016), and Uganda’s 9.9% (2016). Tanzania' s manufacturing industry 's GDP share is lower than these.

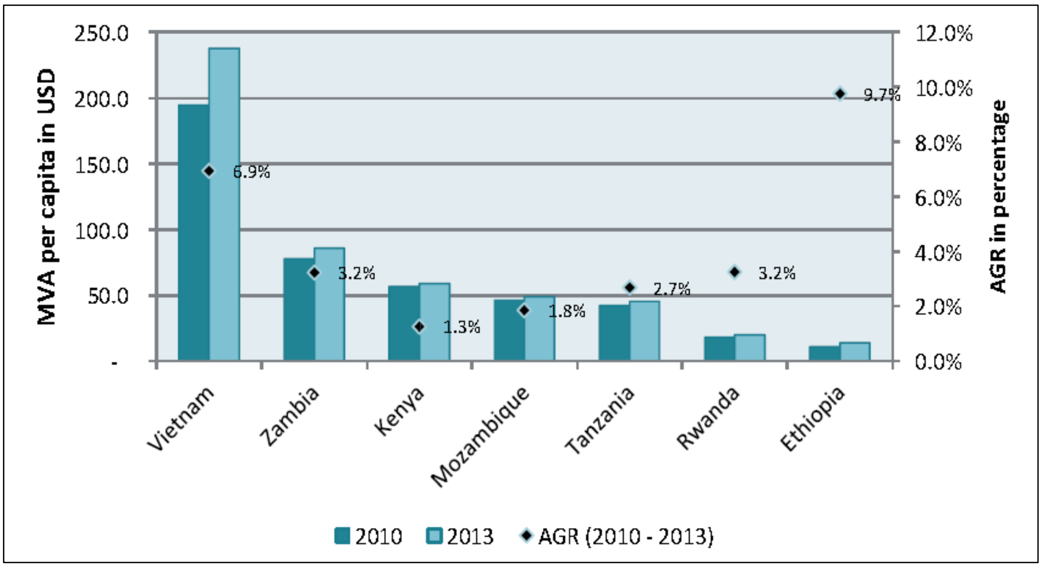
Tanzania's real GDP growth rate (fixed price in 2007) from 2014 to 2016 was 7% for three consecutive years. In contrast, the manufacturing industry has growth rates of 6.8%, 6.5%, and 7.8% each year (see Table 2-16).

Table 2-16: GDP Share and Growth Rate of Manufacturing Sector

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP Share (%)	7.3	7.5	7.0	7.0	6.9	6.9	7.6	7.5	6.4	5.6	5.2	5.1
Growth Rate (%)	9.6	8.4	11.5	11.4	4.7	8.9	6.9	4.1	6.5	6.8	6.5	7.8

Source: National Bureau of Statistics

Figure 2-9 shows that the level of manufacturing value added (MVA) per capita is not so different from Kenya and Mozambique and higher that those of Rwanda and Ethiopia. However, the average growth rate (AGR) of Tanzania is much lower than that of Ethiopia, indicating that Tanzania must accelerate industrial development and increase its manufacturing value added to be competitive among faster growing neighboring countries.



Source: Tanzania Industrial Competitiveness Report 2015

Figure 2-9: Manufacturing Value Added per Capital for Tanzania and Competitors

2.2.2.4 Export by Manufactures

Tanzania's product exports from 2012 to 2016 did not grow steadily (see Table 2-17). Gold and primary products are vulnerable to price fluctuations in the commodity market situation, and agricultural production is easily influenced by weather. Among export items, gold is the biggest based on value. Tobacco-related products are the next largest export item, most exported as raw material. The second largest items (fruits and ores) are not processed goods, and the fifth largest coffee and tea are thus the largest manufacturing export item. Of the glass products in Harmonized System (HS) Code 70, glass containers for beverages account for the majority of exports, having increased rapidly in 2016 to 3.7 times the previous year. Most of fish and crustaceans (HS code 03) processed to fish meat and fillets, are exported to Europe, Middle East, Hong Kong, etc. With exception of glass products, Tanzania’s manufacturers make most of their exported goods from domestic materials.

Table 2-17: Major Export Items

Unit: 1000 USD

HS Code	Product label	2012	2013	2014	2015	2016
	All products	5,547,229	4,412,549	5,704,654	5,854,231	4,741,925
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad.	1,911,817	1,621,083	1,361,293	1,459,885	1,716,525
24	Tobacco and manufactured tobacco substitutes	223,124	129,077	322,943	293,555	370,410
08	Edible fruit and nuts; peel of citrus fruit or melons	189,859	193,785	399,550	279,315	359,161
26	Ores, slag and ash	832,828	400,136	713,718	471,293	323,426
09	Coffee, tea, maté and spices	281,864	261,063	213,482	228,975	208,967
23	Residues and waste from the food industries; prepared animal fodder	75,374	47,556	114,773	293,286	202,267
70	Glass and glassware	53,424	31,425	33,363	54,037	201,686
07	Edible vegetables and certain roots and tubers	133,596	105,051	249,765	398,570	186,897
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	157,082	170,849	360,450	166,246	165,870
03	Fish and crustaceans, mollusks and other aquatic invertebrates	166,001	129,151	188,395	236,648	141,945

Source: ITC calculations based on UN COMTRADE statistics.

2.2.2.5 Distribution of Major Industrial Subsectors

According to MITI data on the 1,006 companies, manufacturers with 10 or more employees are distributed as follows.

Table 2-18: Distribution of Manufacturers with 10 or more employees in Selected Regions

Unit: Number of manufacturers

ISIC	Sector	Dar es Salaam	Arusha	Kilimanjaro	Mbeya	Manyara	Mwanza	All region
10	Manufacture of food products	55	27	14	23	24	17	342
11	Manufacture of beverages	15	12	6	9	0	5	61
12	Manufacture of tobacco products	2	0	0	0	0	0	3
13	Manufacture of textiles	9	4	0	1	0	4	29
14	Manufacture of wearing apparel	5	0	0	2	0	0	19
15	Manufacture of leather and related products	12	1	6	0	0	1	22
16	Manufacture of wood and of products of wood and cork	13	7	13	0	0	4	67
17	Manufacture of paper and paper products	7	2	1	0	0	2	14
18	Printing and reproduction of recorded media	29	3	3	0	0	1	45
19	Manufacture of coke and refined petroleum products	3	0	0	0	0	0	4
20	Manufacture of chemicals and chemical products	21	0	2	6	1	2	38
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations	5	1	0	0	0	0	6
22	Manufacture of rubber and plastics products	33	4	1	0	0	2	46

ISIC	Sector	Dar es Salaam	Arusha	Kilimanjaro	Mbeya	Manyara	Mwanza	All region
23	Manufacture of other non-metallic mineral products	34	12	4	4	0	5	102
24	Manufacture of basic metals	9	1	0	0	0	2	13
25	Manufacture of fabricated metal products, except machinery and equipment	27	9	1	0	0	2	57
26	Manufacture of computer, electronic and optical products	0	1	0	0	0	0	1
27	Manufacture of electrical equipment	11	1	0	0	0	0	13
28	Manufacture of machinery and equipment n.e.c.	2	3	1	1	3	0	14
29	Manufacture of motor vehicles, trailers and semi-trailers	9	5	0	0	0	0	15
30	Manufacture of other transport equipment	1	0	0	0	0	1	3
31	Manufacture of furniture	33	3	0	2	1	6	74
32	Other manufacturing	13	1	0	0	0	0	15
33	Repair and installation of machinery and equipment	3	0	0	0	0	0	3
	Total	351	97	52	48	29	54	1,006

Source: Company database provided by MITI

Table 2-18 shows that even among the manufacturing companies with 10 or more employees, food processing is the largest subsector nationwide in terms of the number of companies. The next largest is non-metal processing enterprises followed by furniture manufacturing, wood processing, beverage production, and metal-working.

Dar es Salaam has companies in all the subsectors, and more than half of the companies of many subsectors are located there. Many manufacturing-subsector industries also operate in Arusha. There are six companies with more than 100 employees; two of those have more than 1000 employees. Kilimanjaro has a relatively large number of lumber-related companies. Mbeya has many agro-processing facilities, including such processes as rice milling, coffee processing, tea processing, and sunflower-oil processing. Meanwhile, in Manyara, some companies concentrate on food processing, such as sunflower-oil processing and sugar production. Fish processing is flourishing in Mwanza, which has the second-largest population nationwide. 12 Large-scale companies with more than 100 employees, and 10 medium-sized companies with 50 or more and 99 employees or less, also operate there.

2.3 Policy Support for SME

In this section are explanations of the industrial development policies of Tanzania, which provide the basis of the policy for development of SME, as well as the measures related to MITI and SIDO, which are actually responsible for industrial policy and SME policy

2.3.1 Development Policies of Tanzania

Policies including the Tanzania Development Vision 2025, Sustainable Industrial Development Policy, National Five-Year Development Plan, and the MITI strategy plan are explained below to clarify the direction of industrial policy in Tanzania.

2.3.1.1 Tanzania Development Vision 2025

The Tanzania Development Vision 2025 describes the development of Tanzania from one of the poorest countries to one of the middle-income countries by 2025, converting from its agricultural economy to an industrial economy, aiming for higher living standard, good governance, compliance with law and a competitive economy. Regarding the economy, it states, "We should create a strong, diversified, resilient and competitive economy that can deal with various issues and adapt to changing markets and technical conditions of the region and the world economy". Also, the goal is set to increase the percentage of industries, 17% at the time of this vision creation, to 40% of GDP.

2.3.1.2 Sustainable Industrial Development Policy 1996 – 2020 (SIDP)

SIDP aims at achieving the Tanzania Development Vision 2025 and strengthening sustainable industry growth. In SIDP, the government commits to industrialization led by the private sector, encouraging growth and formalization of informal business and emphasizing the promotion of SME. Policy objectives include contributions to human resources development and creation of employment opportunities, economic reform to achieve sustainable economic growth, improvement of international balance of payments, protection of the environment, and equitable development.

2.3.1.3 Tanzania Five Year Development Plan 2016/17-2020/21 (FYDP 2)

FYDP 2 is built on three pillars, namely industrialization, human development, and implementation effectiveness. Specifically, FYDP 2 aspires to:

i. Build a base for transforming Tanzania into a semi-industrialized nation by 2025;

ii. Foster development of sustainable productive and export capacities;

iii. Consolidate Tanzania’s strategic geographical location through improving the environment for doing business and positioning the country as a regional production, trade and logistical hub;

iv. Promote availability of requisite industrial skills (production and trade management, operations, quality assurance, etc.) and skills for other products and services delivery;

v. Accelerate broad-based and inclusive economic growth that reduces poverty substantially and allows shared benefits among the majority of the people through increased production capacities and job creation especially for the youth and disadvantaged groups;

vi. Improve the quality of life and human well-being;

vii. Foster and strengthen implementation effectiveness, including prioritization, sequencing, integration and alignment of interventions;

viii. Intensify and strengthen the role of local actors in planning and implementation; and

ix. Ensure global and regional agreements are adequately mainstreamed into national development planning and implementation frameworks for the benefit of the country.

2.3.1.4 MITI Strategic Plan 2016/2017 - 2020/2021

This Five-Year Strategic Plan of MITI was prepared to correspond with the Tanzania Development Vision 2025, SIDP, FYDP 2. This strategic plan reviews the previous five-year plan, citing the following achievements that will strengthen SME sector development, one of the main objectives: 1) nurture industrial clusters, 2) establish a credit-guarantee system, 3) evaluate coffee, milk, fruit, meat, and drinking-water processing industry and access to TIB loans, 4) prioritize market infrastructure development, sunflower oil cluster design, and Tanzania Food and Drugs Authority (TFDA) certification, 5) develop radio program on business information, 6) monitor and evaluate the value chain, 7) conduct a field evaluation of SME related to the agricultural-sector development program, 8) produce 281 kinds of machinery and tools, 9) implement One District One Product. Also the plan picks up major problems of SME, including market access, concessional loans, entrepreneurial skills of SME, infrastructure and business sites, SME technology, and packaging quality.

In Five-year Strategic Plan, the following industries are cited as main target industries.

i. Natural resource-based industries (agricultural commodities, livestock products, forestry, marine products, mineral, cement plants, glass factory plastic and synthetic product)
ii. Geographical advantage based industry (logistic hub, Special Economic Zones)
iii. Labor intensive industries which expect to absorb abundance of existing youth labor.
iv. SME and Light industry (agricultural processing, consumer goods production, assembly, for example, meat, leather, fruit, nuts, wood, paper etc.)
v. Fast growing service industry (Information and Communication Technology)
vi. Urban Industry (the industries of the rapidly developing regional cities such as Moshi, Tanga, Mbeya, Dodoma, Kigoma, Iringa, Bagamoyo, Zanzibar and Kibaha.)
vii. Basic industry (iron, coal, chemical, natural gas, etc.)

Table 2-19 shows the selected impact indicator of MITI, especially for industrial development and SME promotion. Many institutions under MITI including SIDO are expected to act as executing agencies in order to attain these goals.

Table 2-19: Selected Indicators of Industrial Development and SME Development of MITI

Indicator	Base Line		Target Value in 5th year
	Base Year	Value	
Industrial Development			
Manufacturing sector growth rate (%)	2014	6.8	15
Share of manufacturing sector to GDP (%)	2014	6.9	12
% Contribution of manufacturing employment to total employment	2014	19.1	40
The values of manufacturing exports (in USD)	2014	741 (million)	1.5 (Billion)
Labor productivity in manufacturing industries (%)	2013	1	3
Commodity-based value addition in agro processing, textile, leather, and wood products (%)	2014	40	80
Capacity utilization in manufacturing sector (%)	2014	50	70
Number of SME institutionalized with Kaizen activities	2014	NA	1,000
Number of privatized industries operating as per sales agreement	2015	NA	50
Number of manufacturing industries operate with modern, environmental friendly technology	2015	NA	50
Number of investors attracted and invest into seven subsectors (iron & steel, textile, leather, edible oil, meat, milk and packaging)	2015	NA	50
Number of Industrial parks and sector clusters (leather and sunflower) established	2015	NA	5
Funds for financing large industrial project (%)	2015	NA	50
Number of subsectors (textile, leather, sunflower, purses) value chain initiatives projects implemented	2015	NA	4

Indicator	Base Line		Target Value in 5th year
	Base Year	Value	
SME Development			
Percent of SME Sector contribution to employment of both men and women.	2014	11.4	25
Percentage of SME accessing modern technology.	N/A	N/A	50
Percentage of SME accessing financial services and affordable credits	N/A	N/A	55
SME working sites utilized in 10 Regions	N/A	N/A	10
SMEs Industries established in Special Economic Zones	N/A	N/A	20
SME industrial clusters (Sunflower-Singida; Groundnuts- Dodoma, Furniture-DSM) established	2015	1	3
Model schemes for engaging commercial banks to SME developed	N/A	N/A	6 (cumulative results)
SME access to Business Development Service (BDS), technology	N/A	N/A	12,000
SME meeting standards (packaging materials, marking, bar codes, weight and measures)	N/A	N/A	12,000
SME accessing industrial and business skills	N/A	N/A	12,000
SME in sub-sectors (handicrafts and artisanal; Spices) complied with business regulations	N/A	N/A	1,000
Number of SME accessing market opportunities	N/A	N/A	16,000

Source: MITI Strategic Plan (2016/2017 – 2020/2021)

2.3.2 Industrial Development and SME Policies of MITI

2.3.2.1 Mission, Vision, Organization

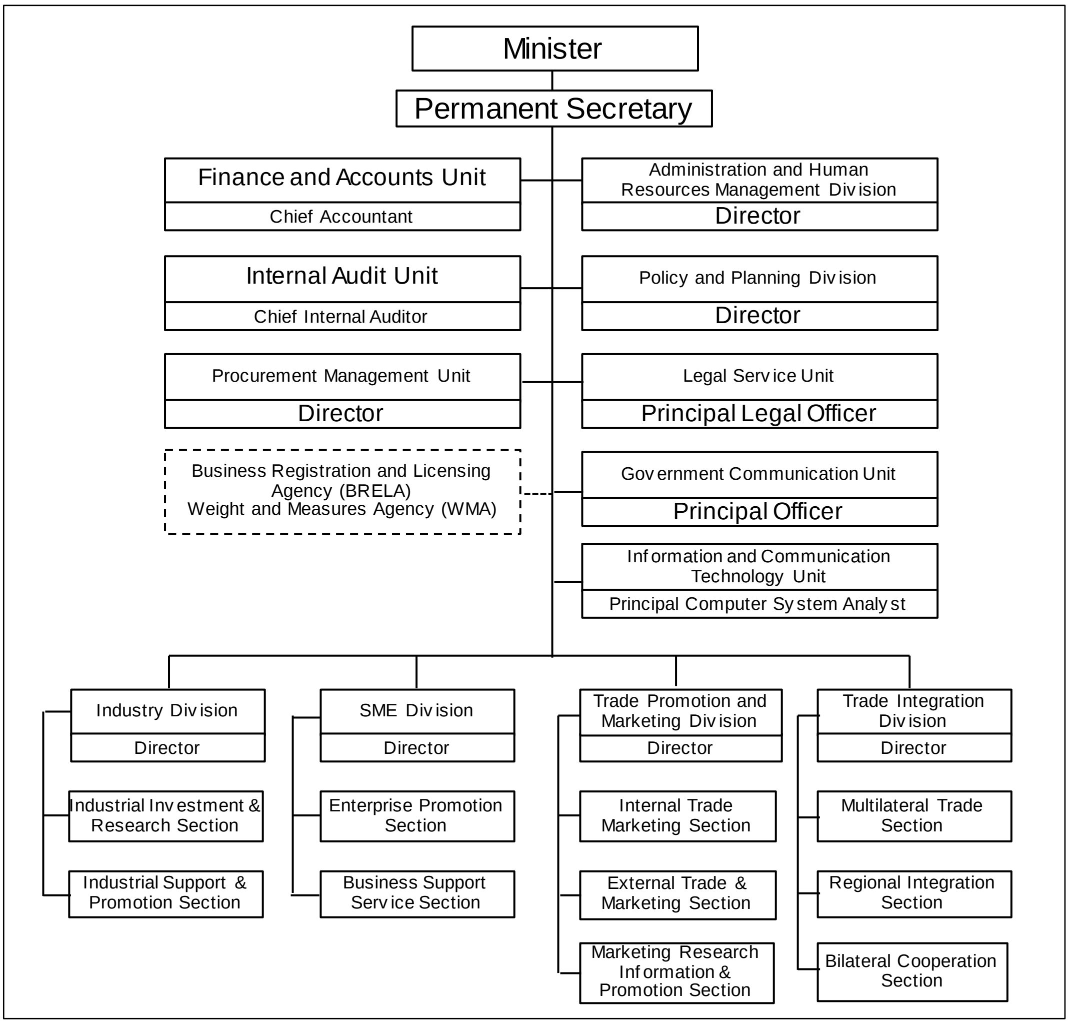
(a) Vision of MITI

"A competitive industrial base that supports inclusive and sustainable economic growth"

(b) Mission Statements of MITI

"To promote a competitive and sustainable Industry base with global supply base for trade that takes geographical advantage, and resource endowment, through policies, strategies and plans for inclusive industrial transformation".

(c) Organizational Chart



Source: http://www.mit.go.tz/pages/organisation-structure 2018/05/10

Figure 2-10: MITI Organizational Chart

2.3.2.2 Strategy and Policy for SME

(1) Priority industries

- Industries that utilize natural resources
- Industries with geographical advantages
- Industries that add value to agricultural products and livestock products
- Industries and basic industries in rapidly growing urban areas

For these industries, the government implements various measures to improve productivity, promote R & D, strengthen linkages between local industries and foreign-funded enterprises, and strengthen management of industrial pollution.

(2) SME Promotion and Policies

MITI sets forth the following four strategies for SME promotion.

1. Develop infrastructure for SME
2. Make SME access financial and financial services, Business Development Services (BDS), market
3. Celebrate the competitiveness of SME products
4. Preparing adjustment structure for SME by June 2021

The indicator for these strategies is "to increase the number of male and female employees in SME from 5 million to 7 million".

As a part of strategy 2 above, the policies for the improvement of financial access include commercial finance, access to Financial Services, and an SME credit-guarantee system.

The following items are proposed by MITI as measures.

a. Build a database of agricultural product processing companies and strengthen linkage with buyers. Provide technical and financial support to farmers to improve production and quality and enhance competitiveness.
b. Support SME to create business plans with support of SIDO and other agencies so that SME can access finance.
c. To improve the knowledge and ability of SME, MITI provides training and improves BDS related to it.
d. MITI will prepare places where SME can operate in all provinces through local governments.
e. Promote technology development through SIDO taking cluster development as an example. SIDO is directly involved in SME promotion in urban areas and suburbs by various methods.
f. Review the SME development policy in 2002 and make it adaptable to emerging industries such as oil and gas and new policies such as "Kilimo kwanza" and "Big Results Now".
g. Advance cluster development that is advantageous for information sharing, technology development, supply of BDS, supply of infrastructure such as roads and electricity, access to markets.
h. Facilitate access to BDS, roads and electricity. Provide services such as water and sewage, promote the development of a better business environment for SME such as tax collection and formalization

2.3.3 Outline of SIDO and Credit Schemes

2.3.3.1 Vision, Mission, Organization

(1) Vision and Mission

The Act of Parliament No. 28 of 1973 establishes the Small Industries Development Organization (SIDO) and mandates the organization’s planning, coordination, promotion and service provision to SME. The responsibility of the organization includes facilitating entrepreneurship development and offering extension services, promoting technology development and transferring and providing technical services, disseminating business information and marketing, and providing workplaces and financial services.

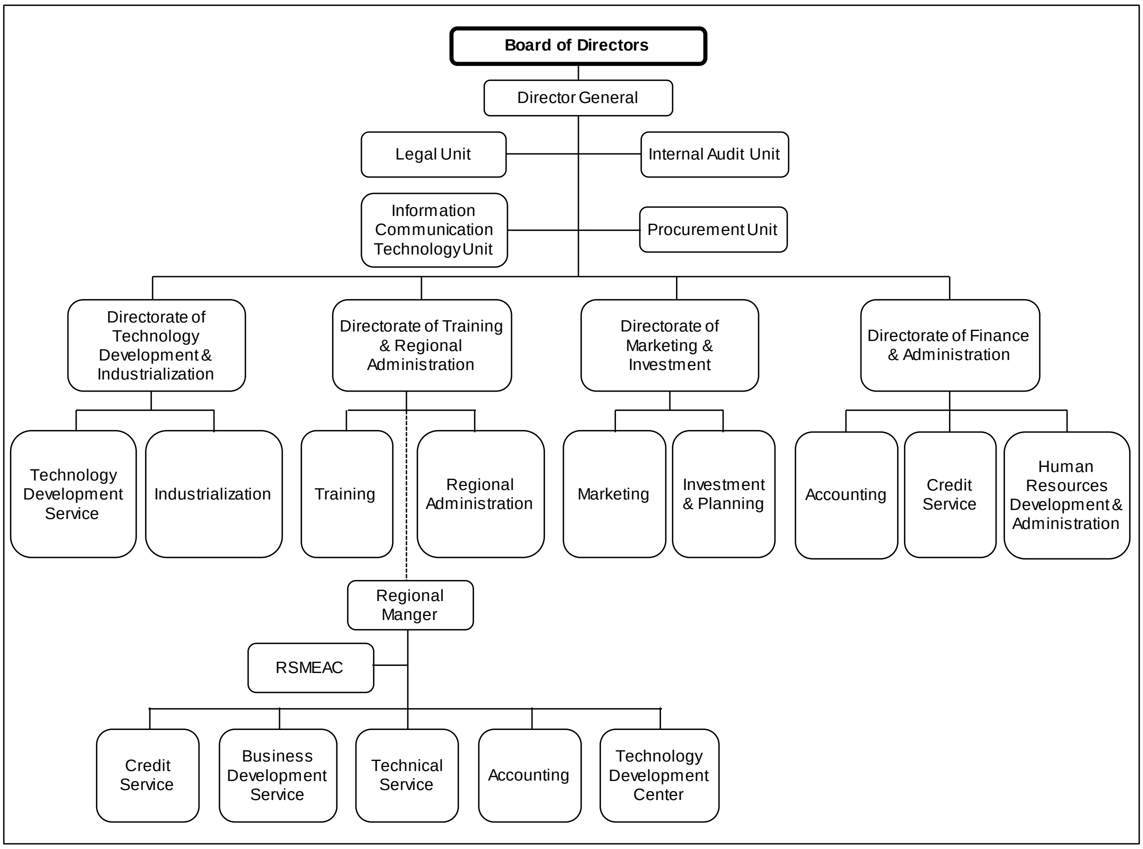
The vision and mission of SIDO is described as follows.

Vision: A leading business support organization unlocking potentials for growth and competitiveness of SME.

Mission: Create, promote and sustain innovative entrepreneurial base by providing SME with tailor-made services in a businesslike manner.

(2) Organizational Chart

SIDO is organized as follows. The head office is located in Dar es Salaam, with regional offices located in each region. Several SIDO industrial estates located in selected regions. The Technology Development Center also has several locations for developing agricultural machinery and offering technical training.



Source: SIDO Corporate Strategic Plan 2014/2015-2016/2017

Figure 2-11: SIDO Organizational Chart

2.3.3.2 SIDO Corporate Strategy

According to the FYDP and the plan of MITI, SIDO reviews organizational strategy every two years. SIDO has set five objectives and carries out corresponding programs and projects to achieve them. The finalization of the 2017/2018–2019/2020 version is currently underway. The following objectives are based on information in the Corporate Strategy 2014/2015–2016/2017 edition.

OBJECTIVE 1: To facilitate SME innovative capacity, access to technology, infrastructure and technical services

OBJECTIVE 2: To facilitate business skills development for SME’s growth and competitiveness

OBJECTIVE 3: To facilitate SME access to markets and information

OBJECTIVE 4: To facilitate SME access to finance
OBJECTIVE 5: To enhance operational capacity of the organization

2.3.3.3 SIDO Financial Scheme

SIDO financial schemes address the needs of MSME with growth potential. These financial schemes make commercial loans more accessible for the MSME.

(a) SIDO SME CREDIT GUARANTEE SCHEME (CGS)

In 2015, SIDO and CRDB Bank PLC implemented this new program in seven regions, i.e., Morogoro, Dodoma, Singida, Manyara, Arusha, Kilimanjaro, and Mbeya. The Program intends CRDB Bank PLC to provide loans facilities to SME investment and business-promotion activities in the field of agro-processing and agri-business that SIDO specifies. This scheme's loan limits vary from 5,000,000 TZS to 50,000,000 TZS.

In 2017, a major modification in this scheme expanded it to 16 regions. The interest rate was also decreased to 17%, excluding CGS's 1% fee. The survey team visited the regional offices in Dodoma, Morogoro, Arusha, and Moshi and asked the credit officers about CGS's performance. As the table below shows, while Morogoro and Arusha together had seven applications approved, Dodoma and Kilimanjaro did not get any loans with CGS. All of the regional SIDO offices submitted several applications, but many of them were rejected or put on the waiting list. The reasons for rejections could be "lack of collateral" and "small amount of loan submitted." Table 2-20 indicates that Singida was the most successful in terms of the number of loans, followed by Morogoro, which was the highest in terms of the amount of loans. Mbeya had two applications approved and the average of the loans was 17.5 million TZS, the lowest among all regions. According to the Credit Officers, the evaluation periods for loan applications were too long and using the normal credit scheme of CRDB was faster. It seems that CRDB prefers using its own credit schemes with higher interest rates. As a result, those companies accepted by CRDB were those that would be eligible for a bank loan without CGS.

Table 2-20: Distribution of CGS by Regions
(June 2017 - April 2018)

Unit: TZS

No.	Region	Number of Loans	Amount	Average
1	Dar es Salaam	1	50,000,000	50,000,000
2	Morogoro	5	200,000,000	40,000,000
3	Singida	7	195,000,000	27,857,143
4	Arusha	2	90,000,000	45,000,000
5	Mbeya	2	35,000,000	17,500,000
6	Kigoma	1	40,000,000	40,000,000
7	Iringa	3	140,000,000	46,666,667
8	Mwanza	1	30,000,000	30,000,000
9	Dodoma	0	0	n.a.
10	Tanga	0	0	n.a.
11	Kilimanjaro	0	0	n.a.
12	Manyara	0	0	n.a.
13	Ruvuma	0	0	n.a.
14	Mtwara	0	0	n.a.
15	Coast	0	0	n.a.
16	Njombe	0	0	n.a.
	Total	**22**	**780,000,000**	**35,454,545**

Source: SIDO

According to Table 2-21, the total loan amount for agro processing is more than three times larger than that for agri business and the average loan amount was twice as large. This may indicate that the demands of loans for agro processing are high, probably more than 50 million TZS, since the average is 42 million TZS.

Table 2-21: Distribution of Loans with CGS by Industry

	No. of loan	Loan Amount (TZS)	Average Loan Amount (TZS)
Disbursed in Agro Processing Industries	14	600,000,000	42,857,143
Disbursed in Agri business (Poultry/ livestock)	8	180,000,000	22,500,000

Source: SIDO

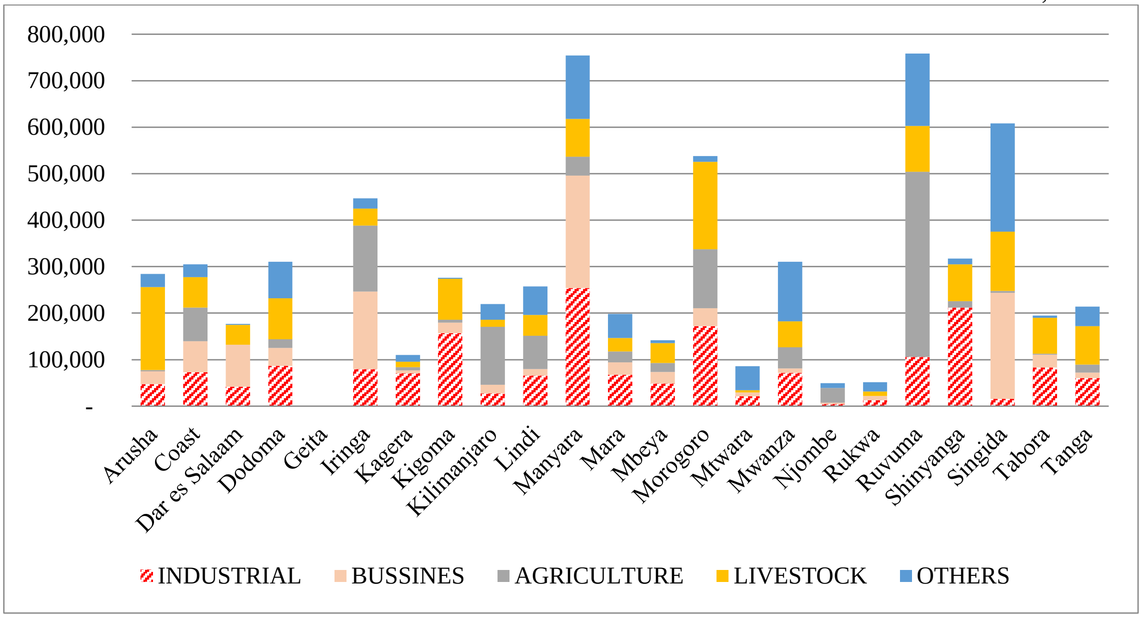
(b) Credit Facilities of SIDO

SIDO has two programs that extend credit facilities to clients. These are the National Entrepreneurship Development Fund (NEDF) and the Regional Revolving Fund (RRF). Loans can be to individuals or groups of SME. The credit officers in each regional SIDO office examine the loan application from a beneficiary and decide which loan fund is more appropriate, based on the content of the application and other conditions.

a) NATIONAL ENTREPRENEURSHIP DEVELOPMENT FUND (NEDF)

Loan amounts vary from 500,000 TZS to 5,000,000 TZS with interest rates of 18% and 22% p.a. for manufacturing and non-manufacturing sectors respectively. The beneficiaries of this loan program are start-ups and existing businesses.

Unit: 1,000 TZS



Source: SIDO

Figure 2-12: NEDF Outstanding Balance up to 30 JUNE 2017

Figure 2-12 indicates the outstanding balance of NEDF. The figure includes manufacturing (industrial) and non-manufacturing sector. Table 2-22 shows the percentage of industrial sector accounts at 27% of the total.

Table 2-22: Top 5 Regions with High Outstanding Balance of NEDF up to 30 June 2017

Region	Total		INDUSTRIAL		
	No.	Value (000'TZS)	No.	Value (000'TZS)	Out of Total (%)
Manyara	893	754,603	303	254,371	33.7%
Singida	777	608,202	228	15,917	2.6%
Shinyanga	308	317,528	187	211,904	66.7%
Morogoro	604	537,686	164	172,405	32.1%
Kigoma	273	275,864	154	156,938	56.9%
All regions	7,125	6,609,509	1991	1,780,342	26.9%

Source: SIDO

Manyara has the highest loan outstanding balance while Shinyanga has the highest percentage of loans for the industrial sector. The total amount of loans for the industrial sector in Shingida is only 16 million TZS for 228 companies.

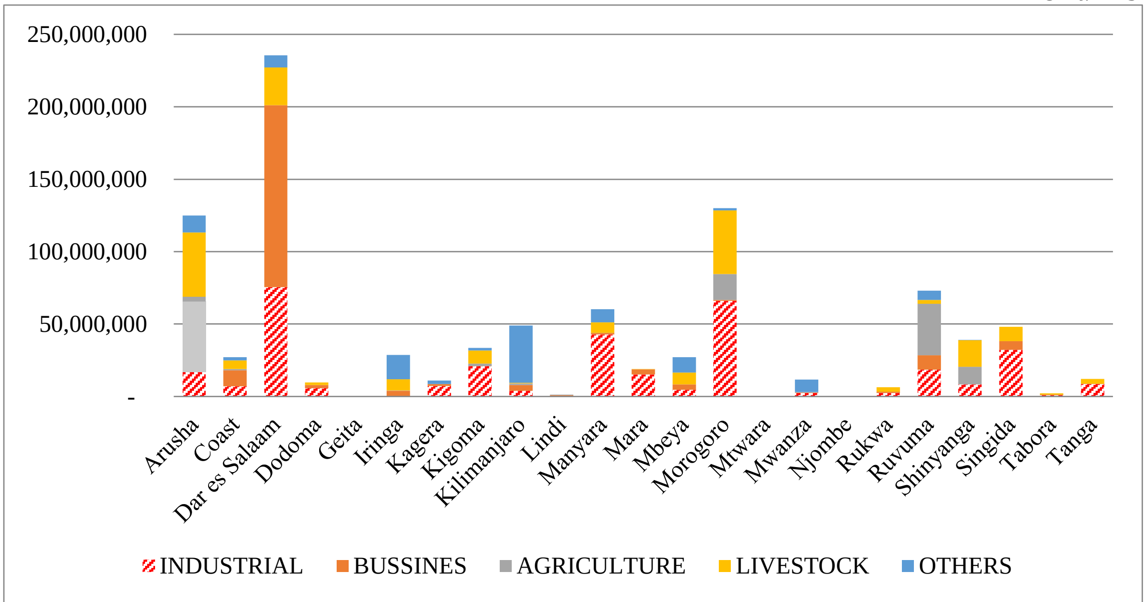
SIDO evaluates the soundness of financing by the rate of recovery i.e., the amount recovered divided by the amount due (Principal) of loans during a certain period x 100. As of March 2017, the recovery rate of NEDF was 92.7% and the rate improved from 74.6% in 2000 due to improvement of appraisal of loans and continuous follow up on loan repayments.

In April 2018, the Permanent Secretary of MITI approved raising the limit of NEDF from 5 million TZS to 200 million TZS during the Steering Committee meeting for the Fund. Next fiscal year's budget includes 7.16 Billion TZS and raising the loan limit is expected within six months. However, there are concerns as to whether the present loan application evaluation and monitoring system can be adopted for loans with higher ceilings.

b) REGIONAL REVOLVING FUND (RRF)

Loan amounts range from 500,000 TZS to 6,500,000 TZS with the interest rate at 22% per annum for manufacturing and non-manufacturing sectors.

Unit: TZS



Source: SIDO

Figure 2-13: RRF Outstanding Balance up to 30 JUNE 2017

Figure 2-13 above shows Dar Es Salaam has the highest RRF outstanding balance followed by Morogoro and Arusha. This outstanding balance includes non- manufacturing sector loans. Table 2-23 below illustrates outstanding balances and the percentages of loans for the industrial sector out of the total in the selected regions.

Table 2-23: Top Five Regions with High Outstanding Balance of RRF Loans for Industrial Sector up to 30 June 2017

Region	Total		INDUSTRIAL (out of total)		
	No.	Value (TZS)	No.	Value (TZS)	Out of Total (%)
Dar es Salaam	166	235,659,627	35	75,464,224	32.0%
Morogoro	59	130,030,182	26	65,971,629	50.7%
Manyara	25	60,187,453	17	42,797,596	71.1%
Singida	29	48,027,326	23	32,142,694	66.9%
Kigoma	19	33,506,524	11	20,917,917	62.4%
All Regions	721	949,628,584	220	339,246,187	35.7%

Source: SIDO

Those regions with high outstanding balances with RRF have a high concentration of loans in the industrial sector. Loans for industries in above regions except Dar es Salaam account for more than 50% of total RRF loans.

(c) Financial advisory and linkage services

SIDO offers financial advisory services to clients and also can assist SME in acquiring and managing financial resources for their businesses. SIDO also links SME to financial institutions by introducing their clients with past good performance as growth oriented companies to financial institutions for purposes of getting loans.

According to the working paper[26] issued by the International Growth Center (ICG), the amount of SIDO loan ceiling is too small although the loans appear to have positive impact on the early stage companies. It also indicates that technical and business training from SIDO positively impact the loan performance. However, more advanced or high potential companies including manufacturers and agro-processors have a demand for loans ranging from 10- 50 million TZS but are not able to access formal financial institutions. The main reasons for this are their lack of collaterals, and poor record keeping and business planning.

[26] Joshua Chipman, Jed Silver, October 2016, “Report and comments on the IGC-SIDO impact evaluation scoping visit”, International Growth Center, ref: F-40406-TZA-1

Chapter 3 Current Conditions of Small and Medium-sized Manufacturing Enterprises and Analysis of Issues

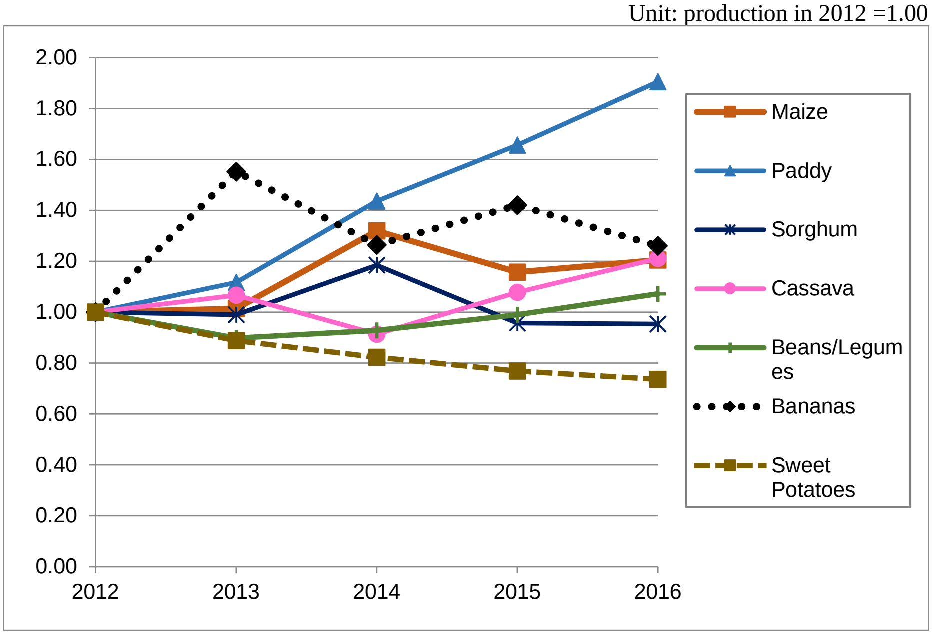
3.1 Present Situation and Challenges of Manufacturing Enterprises

The purpose of this section is to correctly understand the results of the questionnaire survey described in the next section by knowing the current manufacturing industry based on the statistical figures and public documents the Tanzanian Government issued

3.1.1 Changes in Major Agricultural Product Yields

Since Tanzania's manufacturing industry is mainly concentrated in food and agricultural processing, the production volume of agricultural products as raw materials is extremely important. Of course, the changes in climate as well as producers' choices of crops reflecting the search for higher earnings influence at production volume. In terms of production volume, maize production is the largest, exceeding 6,000 tons in 2016. Rice (paddy), cassava, and beans/legumes each produced about 2,000 tons in the same year. It should be noted that rice showed the rapid increasing trend and production volume doubled in four years.

Unit: production in 2012 =1.00

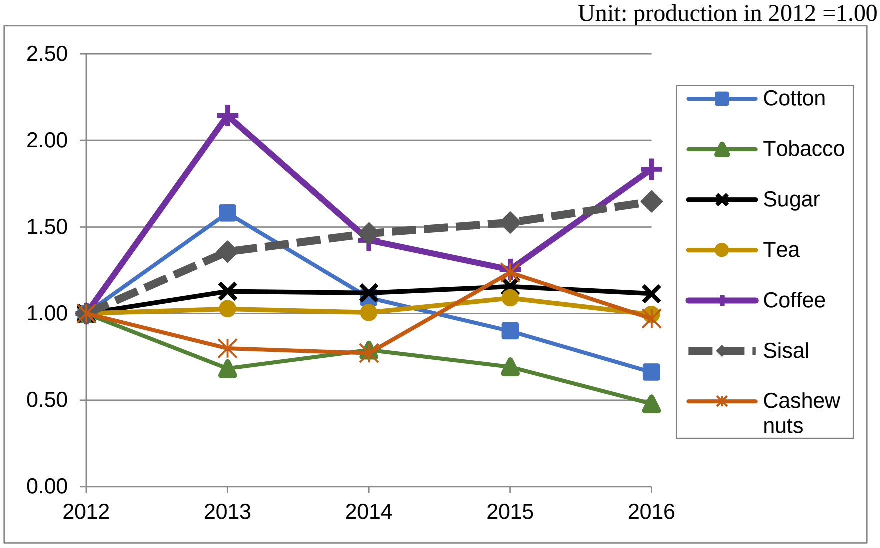


Source: National Bureau of Statistics, Tanzania in Figures 2016

Figure 3-1: Production of Food Crops, Tanzania Mainland, 2012 – 2016

Most of the cash crops are for export. Coffee production fluctuated intensely while sisal showed steady growth. The production volume of tobacco decreased by half in four years, although the export value increased during the same period.

Unit: production in 2012 =1.00



Source: National Bureau of Statistics, Tanzania in Figures 2016

Figure 3-2: Production of Cash Crops, Tanzania Mainland, 2012 – 2016

As the people's income rises, the demand for meat and dairy products increases. Milk production was increasing steadily from 2011 to 2016 and the Compound Average Growth Rate (CAGR) of the total milk production during the same period recorded 4.1% growth. Meat production also increased during the same period by 4.3%. Among different meats, pork production showed the fastest growth at 12.7%. The production of chicken meat was unstable; it decreased in 2012, then increased until 2015, and then turned to a declining trend again. Egg production grew steadily by 5.4%.

Table 3-1: Production of Livestock Products, Tanzania Mainland, CAGR 2012 – 2016

Product	2011	2012	2013	2014	2015	2016	CAGR
Milk Production ('000 liters)							
Indigenous Cattle	1,135,422	1,255,938	1,297,775	1,339,613	1,381,451	1,423,288	4.6%
Hybrid Cattle	608,800	597,161	623,865	650,570	677,275	703,979	2.9%
Total	**1,744,222**	**1,853,099**	**1,921,640**	**1,990,183**	**2,058,726**	**2,127,267**	4.1%
Meat Production (ton)							
Beef	262,606	289,835	299,581	309,086	323,775	319,112	4.0%
Goat/ Sheep	103,709	111,106	115,652	120,199	129,292	124,745	3.8%
Pork	43,647	47,246	50,814	74,174	54,360	79,200	12.7%
Chicken	93,534	84,524	87,408	95,292	104,292	99,540	1.3%
Total	**503,496**	**532,711**	**553,455**	**598,751**	**611,719**	**622,597**	4.3%
Egg Production (number)							
Egg	3,339,566	3,494,584	3,725,200	3,899,569	4,153,800	4,353,182	5.4%

Source: National Bureau of Statistics, Tanzania in Figures 2016

Among selected manufactured goods, cement was growing at the fastest pace in production seemingly. It seems to be due to the expansion of demand for construction materials supported by vigorous construction projects. The production of rolled steel more than doubled in 2014 and dropped by half in the next year. Beer and cigarette production increased steadily.

Table 3-2: Quantities of Manufactured Goods, Tanzania Mainland, CAGR 2010 – 2016

Product	Unit	2011	2012	2013	2014	2015	2016	CAGR
Beer	mill. liters	323	338	374	380	386	383	3.5%
Cigarette	mill. pieces	6,630	7,723	7,710	8,028	7,837	8,091	4.1%
Textiles	mill. m^2.	102	81	98	119	100	76	-5.7%
Paints	'000 liters	31,710	35,025	36,623	38,308	38,372	35,096	2.0%
Cement	'000 ton	2,409	2,558	2,370	2,796	3,135	4,572	13.7%
Rolled steel	'000 ton	40	47	49	130	63	66	10.5%
Iron sheets	'000 ton	77	81	85	87	91	91	3.4%
Aluminum sheets	ton	33	23	37	27	32	14	-15.8%

Source: National Bureau of Statistics, Tanzania in Figures 2016

3.1.2 Situation Analysis based on the Existing Materials

3.1.2.1 Outline of Manufacturing Industry

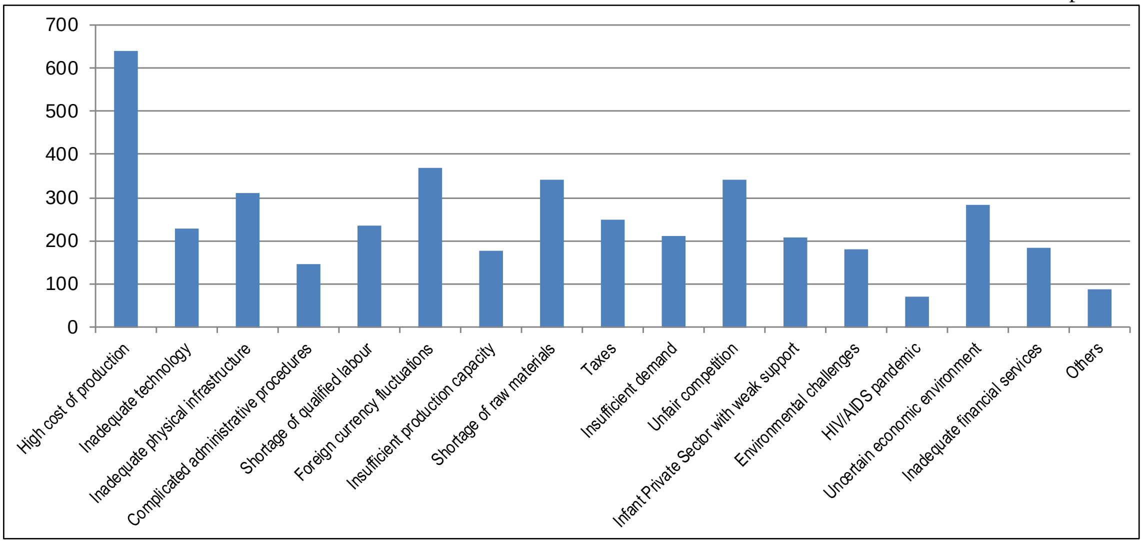
Based on the statistical analysis in Chapter 2 and other materials, each of the sub-sectors is explained as follows.

- The manufacturing industry is occupied by food processing and apparel with 98% of food processing companies and 99% of apparel companies having less than 10 employees.
- The agricultural-processing and food-processing divisions are diversified into traditional export products such as coffee and tea, and emerging products such as edible oils, meat, and flowers etc. One of the serious problems in the food processing sector, is that acquisition of standard certification of Tanzania Food and Drug Authority (TFDA) and Tanzania Bureau of Standards (TBS) cannot be obtained easily.
- Wood processing and furniture basically aim at the domestic market. Modernization of the facilities is not yet progressing. There are many micro and small enterprises other than companies that manufacture furniture as a division of a saw making company.
- Plastic-processing companies manufacture home supplies and other consumable goods. However, Chinese products dominate this market.
- Metal-processing enterprises manufacture construction materials, agricultural tools, agricultural processing machinery and parts of various types of machinery. With few large-scale enterprises, most are categorized as micro or small companies. Special steel materials are difficult to obtain in the domestic market, which cannot meet wide-ranging needs of other industries.
- Because Tanzania grows cotton, there are oil-extraction firms and spinning industries as well as textile companies using cotton spinning. Cotton and cotton items once were a major export item, but production has decreased in recent years.

3.1.2.2 Challenges of Manufacturers

According to CIP, the most serious issue among the manufacturing companies with 10 or more employees (998 responding companies, 64%) is high production cost. Second is a fluctuation of foreign exchange, thirdly, unfair competition, and fourthly is shortage of raw materials (see Figure 3-3). High production cost is the most common issue in most sub-sectors. In food processing and wood processing which have a large number of enterprises, the shortage of raw materials is the next most common issue, and both sub-sectors seem to have challenges procuring raw materials from the domestic market. Many other companies point to the inadequacy of infrastructure as a serious issue. Especially the continuous power shortage places big burden on manufacturing and the inadequacy of the roadway infrastructure becomes an obstacle to the transportation of goods.

Unit: number of responses



Source: Census of Industrial Production

Figure 3-3: Challenges of Manufactures

3.2 SME Survey

3.2.1 Objective of the SME Survey

The survey of SME in Tanzania was specially conducted as part of the preparatory survey. The objectives of the SME survey were as follows.

a) To obtain a general profile of potential SME end-borrowers
b) To collect and analyze information on any constrains and needs in mobilizing medium- and long-term investment funds.

In addition to the objectives above, it is intended that the survey results could be used for future evaluation by providing the ex-ante conditions of SME prior to the commencement of the TSL Project.

3.2.2 Method of Sampling and Limitation of the Survey

The SME survey was conducted through a questionnaire-based face-to-face interview survey. The selection of SME to be surveyed was carried out not through a random sampling method but rather a purposive selection method. Since the main objective of the SME survey was not to obtain statistical data on SME in Tanzania but to learn the specific nature and characteristics of the needs of SME to invest in machinery and equipment/facilities as well as to borrow from financial institutions for their investment. SME, which are prospective end-borrowers for the TSL Project, were selected for the survey. From this viewpoint the results of the survey do not show general data which enables a statistical inference for the characteristics and features of SME in Tanzania but data which can be used basically as reference for the preparatory survey.

The companies surveyed were originally selected from small and medium-sized companies in the company list provided by MITI based on the criteria of the number of employees and sub-sectors. However, the company list was made in 2013 and the information in the list was so out of date that the survey team was unable to contact some of the companies selected from the list. Companies introduced by SIDO and Tanzania Revenue Authority (TRA) were therefore added as targets of the survey.

The planned sample size of SME for the survey was 100. The selection of survey areas was made by taking into consideration the geographical distribution of potential SME end-borrowers coupled with the possible participating financial institutions. As a result, the survey was conducted in the following regions: Dar es Salaam, Arusha, Dodoma, Kilimanjaro, Manyara, Mbeya, Morogoro and Mwanza.

Against the planned sample number of SME, the actual number of SME surveyed was 118. The distribution of the geographic locations of the SME surveyed is shown below.

Table 3-3: Regional Distribution of SME Surveyed

	Region	Number of SME surveyed	Distribution of SME in each region in the country	
1	Dar es Salaam	40 (34%)	21.9%	
2	Arusha	10 (8%)	4.2%	
3	Dodoma	7 (6%)	3.4%	
4	Kilimanjaro	16 (14%)	3.6%	
5	Manyara	3 (3%)	4.5%	52.8%
6	Mbeya Note	13 (11%)	4.4%	
7	Morogoro	14 (12%)	6.2%	
8	Mwanza	15 (13%)	4.6%	
9	Other regions	-	47.2%	
	Total	**118 (100%)**	**100%**	

Source: SME survey (effective number of responses: 118), National Bureau of Statistics, Tanzania - Census of Industrial Production Statistical 2013 (for the distribution of SME in each region in the country)

Note: Although Mbeya Region was divided into two regions, Mbeya Region and Songwe Region in 2017, it is treated as one region in the survey results for the sake of convenience.

The above table also compares the regional distribution of the number of SME surveyed with "Distribution of SME in each region in the country". The eight regions where the survey was conducted account for 52.8% of SME in the country.

3.2.3 Structure of the Questionnaire

The questionnaire used for the SME survey consisted of the following three parts; 1) Part A: General Information on Operations of the Company; 2) Part B: Borrowing History, Future Investment and Financing Plan; and 3) Part C: Needs for Technical Assistance. The outline of the questions in the respective parts are described as follows (The questionnaire for the SME survey is attached as Annex 3-1).

Table 3-4: Outline of Questions in the Respective Parts of the Questionnaire

Part	Main questions
Part A: General Information on Operations of the Company	Year of starting business, status of registration and licenses, types of company, membership of business associations, shareholders, main products, types of industrial sectors, asset value, machines installed, the number of management and employees, sales and profits, markets and supply sources of inputs, challenges of the business, preparation of business plans and financial statements, etc.
Part B: Borrowing History, Future Investment and Financing Plan	History of borrowing with terms and conditions of loans, repayment status, status of financing access, future investment plans and financing plans, etc.
Part C: Needs for Technical Assistance	Needs for advisory and consulting services, needs for technical support and training, etc.

Source: Questionnaire for the SME survey prepared by the preparatory survey team

3.2.4 Results of the Survey

The reviews of selective survey results for the respective parts are shown as follows.

3.2.4.1 General Information on Operations of the Company

The following results are for the operation situation of the companies surveyed.

Table 3-5: Type of Company

	Type of company	No. of responses
1	Sole proprietorship	29
2	Partnership	4
3	Public	0
4	Parastatal	0
5	Cooperative	3
6	Private company by guarantee	0
7	Private company limited	82
8	Foreign-affiliated	0
9	Others	0
	Total	**118**

Source: SME survey (effective number of responses: 118)

Table 3-6: Status of Registration and Operation License

	Status	No. of responses
1	Registered and operation license obtained	117
2	Registered but no license obtained	1
3	Not registered and no operation license	0
	Total	**118**

Source: SME survey (effective number of responses: 118)

Table 3-7: Length of Business Operation

	Length of business operation	No. of responses
1	Less than 5 years	19
2	5-10 years	29
3	10-20 years	38
4	More than 20 years	32
	Total	**118**

Source: SME survey (effective number of responses: 118)

As shown in Table 3-5 and Table 3-6 above, approximately 70% of the companies surveyed belonged to private limited companies (82 out of 118) and 25% were in sole proprietorship (29 out of 118). In addition, all the companies surveyed were registered and had business licenses except for one company. Most of the companies surveyed (99 out of 118) had been in operation over five years, as seen from Table 3-7 above.

The SME Development Policy 2002 defined micro, small, medium and large-sized company in terms of "employees" and "capital investment in machinery" as shown in Table 2-13 in the previous chapter. However, it is not clear whether "employees" means permanent employees or whether it includes temporary employees. Furthermore, it is not also clear whether or not the number of employees includes the number of management staff. Especially for SME, management staff are also engaged as an important labor force of the companies and the number of management staff could be included in the number of employees. The following table classifies the companies surveyed in terms of the number of permanent, temporary and the total number of employees (which includes permanent employees and management).

Table 3-8: Number of Employees

	Permanent employees		Temporary employees		Total employees	
	No. of employees	No. of responses	No. of employees	No. of responses	No. of employees	No. of responses
1	1-4	20	1-4	35	1-4	0
2	5-49	72	5-49	54	5-49	76
3	50-99	14	50-99	5	50-99	24
4	100 and over	7	100 and over	5	100 and over	16
	Total	**113**	**Total**	**99**	**Total**	**116**

Source: SME survey (effective number of responses: 118)
Note: The data of the number of permanent employees in the five companies as well as that of the total number of employees in the two companies were not available, so the total numbers of responses do not add up to 118 in both cases.

As shown in Table 3-8 above, approximately 66% (76 out of 116) of the companies surveyed were small-sized companies (5-49 employees) and 21% (24 out of 116) of were medium-sized companies (50-99 employees) if the total number of employees is used for classification. Although 18% (20 out of 113) of those surveyed would be categorized into micro-sized enterprises if only permanent employees were counted, none of the companies surveyed were classified into micro-sized enterprises when the total number of employees was applied for classification.

The sub-sectors to which the companies surveyed belong were as follows. Some companies deal with business in more than one sub-sector, so those engaged in several sub-sectors were requested to respond with the three main sub-sectors.

Table 3-9: Sub-sectors to which SME belong

	Sub-sector	No. of responses (primary)	No. of responses (secondary)	No. of responses (tertiary)
1	**Manufacture of food products**	**62**	1	3
2	Manufacture of textiles	3	0	0
3	Manufacture of apparel	3	0	0
4	**Manufacture of leather and related products**	**6**	3	0
5	Manufacture of wood and of products of wood and cork, except furniture	1	1	0
6	Manufacture of chemicals and chemical products	4	0	0
7	Manufacture of rubber and plastics products	5	2	1
8	Manufacture of other nonmetallic mineral products	5	1	0
9	**Manufacture of fabricated metal products, except machinery and equipment**	**6**	7	1
10	Manufacture of electrical equipment	1	0	0
11	**Manufacture of machinery and equipment n.e.c.**	**8**	3	1
12	Manufacture of furniture	5	2	0
13	Other manufacturing (e.g. pads, woven baskets, optical lenses, biomass briquettes, etc.)	5	7	1
14	Wholesale and retail	0	5	1
15	Transport and distribution	0	1	0
16	Construction	2	2	0
17	Service	2	6	4
18	Others	0	2	1
	Total	**118**	**43**	**13**

Source: SME survey (effective number of responses: 118)

As shown above, the most common sub-sector to which the companies surveyed belong is the manufacture of food products, accounting for almost half. The second largest sub-sector is the manufacture of machinery and equipment and the third is the manufacture of fabricated metal products except for machinery and equipment as well as the manufacture of leather and related products. In addition, 40% (43 out of 118) of the companies surveyed operate a business in a different sub-sector and 10% (13 out of 118) of the companies are engaged in more than two different sub-sectors. It is considered that even small and medium-sized companies in Tanzania diversify their business operations for the purpose of risk avoidance. During the interview survey, the survey team learned that such risk diversification would also contribute to the smoothing of cashflow against the seasonality of the businesses, making it a little easier to comply with the regular repayment of loans from financial institutions.

The following results show the primary markets of the main products/merchandise/services of the companies surveyed, their main clients, the areas where they purchase/procure their main goods/services, and the suppliers/subcontractors where they procure their main goods/services. It is noted that 14% (17 out of 118) of the companies surveyed responded that their primary market was “Export” (leather products, home textiles, rice/fish processing, etc.) and 36% (43 out of 118) of the companies responded that they used imported materials, implying the potential need for loans in foreign currencies.

Table 3-10: Primary Market

	Primary market	No. of responses (multiple selection)
1	Local community or Within the same district	34
2	Within the same region	31
3	Adjoining regions	40
4	DSM	32
5	Whole country	47
6	**Export**	**17**
7	Others	14

Source: SME survey (effective number of responses: 118)

Table 3-11: Main Clients

	Clients	No. of responses (multiple selection)
1	Manufacturers	25
2	Wholesalers	76
3	Retailers	68
4	Government	36
5	Individual consumers	68
6	Others	18

Source: SME survey (effective number of responses: 118)

Table 3-12: Areas Where Main Goods/Services are Purchased/Procured

	Areas of purchase/ procure	No. of responses (multiple selection)
1	Local community or Within the same district	41
2	Within the same region	34
3	Adjoining regions	29
4	DSM	21
5	Whole country	13
6	**Import**	**43**
7	Others	12

Source: SME survey (effective number of responses: 118)

Table 3-13: Suppliers/Subcontractors for the Procurement of Goods/Services

	Suppliers/ Subcontractors	No. of responses (multiple selection)
1	Manufacturers	47
2	Wholesalers	29
3	Retailers	10
4	Suppliers/Producers	51
5	Others	14

Source: SME survey (effective number of responses: 118)

Table 3-14 shows the serious business challenges which the companies surveyed have been facing and continue to face.

Table 3-14: Serious Business Challenges SME Currently Face

	Challenges	No. of responses (multiple selection)
1	Unfavorable market changes	32
2	Market access	21
3	Severe competition	32
4	**Financing - Working capital**	**69**
5	**Financing - Investment financing**	**87**
6	Quality of products/services	10
7	Cost of products/services	25
8	**Access to appropriate technology**	**51**
9	Production Capacity to meet requirements of clients	31
10	Procurement of raw materials	20
11	Employment of workers	16
12	Access to appropriate utilities like water and electricity	27
13	Factory, office, shop, warehouse space	25
14	Compliance with environmental standards to operate factories	13
15	**Government policy & regulations**	**51**
16	No challenges	0
17	Others	29

Source: SME survey (effective number of responses: 118)

As shown above, the first most serious challenge among the companies surveyed is the insufficiency of investment financing, with 74% (87 out of 118) responding that they faced challenges in investment financing. The second most serious challenge is the insufficiency of working capital financing, as responded by 58% (69 out of 118). This result indicates that most SME have a challenge in securing their financial conditions. In addition, the third most serious challenges are access to appropriate technology and government policy and regulations, as responded by 43% (51 out of 118). According to interviews with companies, recent changes in government policy and regulations have affected their business conditions; not only for SME but also for large-sized companies in Tanzania. In addition, many SME complained about too many kinds of taxes, and the registration fees, etc. that registered companies are required to pay, and indicated that the government should adopt policies and actions which promote the protection of local manufacturers. Access to appropriate technology is also one of the serious challenges for SME, as they have limited access to advanced technology due to their limited access to information and financing.

By the same token, the serious issues which the companies surveyed recognize they should improve are as follows.

Table 3-15: Serious Issues to be Improved regarding Production/Services

	Issues to be improved	No. of responses (multiple selection)
1	Quality	30
2	Cost	42
3	Delivery	27
4	**Production capacity**	**73**
5	**Technological capability for product improvement/ development**	**83**
6	Others	5

Source: SME survey (effective number of responses: 118)

As shown above, the issues the companies surveyed find necessary to be improved are the technological capability for product improvement/development and production capacity, as responded by 70% (83 out of 118) and 62% (73 out of 118) respectively.

Regarding the machines or equipment which the companies surveyed are planning to purchase within the next three years, 255 items of machines and equipment were provided from 108 companies. The number of items of these machines and equipment per range of estimated unit prices (in TZS and USD) are as follows.

Table 3-16: Number of Items of Machines and Equipment to be Purchased per Price Range

	Price range of machines/equipment (million TZS)	No. of items	Price range of machines/equipment (thousand USD)	No. of items
1	1-49	65	1-9	9
2	50-99	26	10-49	33
3	100-149	16	50-99	22
4	150-199	11	100-499	34
5	200-499	17	500-999	5
6	500-999	11	1,000-4,999	3
7	1,000 and over	2	5,000 and over	1
	Total No.	**148**	**Total No.**	**107**
	Maximum unit price	**2,300 million TZS**	**Maximum unit price**	**20 million USD**
	Minimum unit price	**2 million TZS**	**Minimum unit price**	**595 USD**
	Average unit price	**142 million TZS**	**Average unit price**	**336 thousand USD**
	Median unit price	**62 million TZS**	**Median unit price**	**54 thousand USD**
	Total amount	**21,636 million TZS**	**Total amount**	**39,871,140 USD**

Source: SME survey (effective number of responses: 108)
Note: The unit prices of machines and equipment above are approximate values estimated by the respondents.

As shown above, while the maximum unit prices of machines/equipment are 2.3 billion TZS (current generator) and 20 million USD (textile wide-width bedsheet machine), the minimum unit prices are 2 million TZS (sewing machine, camera and freezer) and 595 USD (wood sanding machine). The maximum unit price in USD (textile wide-width bedsheet machine) is not for a single machine but for the entire production line, including building and tools. The other machines/equipment with a unit price of more than 1 billion TZS or 1 million USD include a maize milling machine (1 billion TZS), a non-woven fabric line (4 million USD), a digital printing machine (1.35 million USD) and an ultrathin folded machine (1.18 million USD). There is a high demand for machines/equipment with a price range of 25 million TZS or less, such as industrial refrigerators, polishing machines, mixers, sewing machines, packaging machines, etc. 80% of the unit prices of machines/equipment to be purchased is less than 200 million TZS and 90% of the unit prices is less than 500 thousand USD.

Regarding the preparation status of business plans and financial statements, as shown in the table below, while 84% (99 out of 118) of the companies surveyed prepare their financial statements, only half of them (62 out of 118) prepare their business plans. Coupled with the fact that the majority of the companies surveyed have run their businesses for a period of 5 years or longer, the preparation status of business plans and financial statements indicates that those surveyed were not classified into the lowest layer of SME in the hierarchical structure.

Table 3-17: Preparation of Business Plans and Financial Statements

		No. of responses
1	Preparing business plans	62
2	Preparing financial statements	99

Source: SME survey (effective number of responses: 118)

The operating results of the companies surveyed, mainly obtained from their financial statements, are as follows. As seen from the table below, 61 companies out of the 78 companies whose data on annual total sales in FY2016 were available recorded equal or higher than 100 million TZS in annual total sales in FY2016.

Table 3-18: Financial Statements

	Amount (million TZS)	Annual total sales			Cost of goods/services sold			Gross profit		
		No. of responses			No. of responses			No. of responses		
		FY2014	FY2015	FY2016	FY2014	FY2015	FY2016	FY2014	FY2015	FY2016
1	1-99	9	14	17	16	20	24	21	26	38
2	100-499	15	16	22	10	14	20	10	13	16
3	500-999	3	7	9	5	4	7	3	6	5
4	1,000-1,999	6	3	6	2	5	4	4	9	11
5	2,000-2,999	0	4	2	1	2	2	2	2	4
6	3,000-3,999	1	3	3	1	3	4	2	0	0
7	4,000-4,999	0	3	3	2	4	5	0	2	0
8	5,000 and over	10	11	16	6	6	8	0	0	1
	Total No.	**44**	**61**	**78**	**43**	**58**	**74**	**42**	**58**	**75**
	Maximum	**42,120**	**42,320**	**80,000**	**38,350**	**37,860**	**36,690**	**3,958**	**4,460**	**7,370**
	Minimum	**20**	**29**	**25**	**9**	**14**	**13**	**-168**	**-142**	**-4,291**
	Average	**2,890**	**3,165**	**3,976**	**2,234**	**2,488**	**2,384**	**512**	**574**	**489**
	Median	**401**	**520**	**485**	**284**	**358**	**227**	**97**	**158**	**97**

	Amount (million TZS)	Depreciation expenses out of the cost			Labor cost for production out of the cost		
		No. of responses			No. of responses		
		FY2014	FY2015	FY2016	FY2014	FY2015	FY2016
1	1-99	26	42	44	23	34	43
2	100-499	7	9	14	8	13	15
3	500-999	1	1	0	2	4	4
4	1,000-1,999	0	0	1	0	0	0
5	2,000 and over	0	1	1	0	0	0
	Total	**34**	**53**	**60**	**33**	**51**	**62**

Source: SME survey (effective number of responses: 99)
Note: The data above for some of the companies surveyed were not available, so the total numbers of responses do not necessarily add up to 99 for the respective questions.

Table 3-19: Asset Values

	Amount (million TZS)	No. of responses				
		Land Note 2	Building	Machinery	Other equipment/ facilities	Total
1	1-99	17	15	46	44	16
2	100-499	17	18	16	18	30
3	500-999	7	12	5	3	14
4	1,000-1,999	4	3	6	1	4
5	2,000-2,999	3	2	5	0	6
6	3,000-3,999	0	1	1	3	1
7	4,000-4,999	1	0	0	0	1
8	5,000 and over	5	1	2	2	14
	Total No.	**54**	**52**	**81**	**71**	**86**
	Maximum amount	**30,680**	**6,500**	**9,261**	**72,500**	**84,600**
	Minimum amount	**10**	**4**	**0**	**0**	**14**
	Average amount	**1,755**	**606**	**567**	**1,401**	**2,897**
	Median amount	**250**	**250**	**83**	**40**	**428**

Source: SME survey (effective number of responses: 99)
Note 1: The data for asset values for some of the companies surveyed was not available, so the total numbers of responses do not necessarily add up to 99 for the respective assets.
Note 2: The amount of land for some of the companies surveyed includes the amount of buildings.

Table 3-19 above shows the asset values by amount. If capital investment in machinery in the SME Development Policy 2002 is applied for classification of the companies surveyed, a little over 10% of those surveyed are classified into large companies (above 800 million TZS in terms of the capital investment in machinery).

The following results are the distribution of sales and profit by the number of employees in companies surveyed. Many of the financial institutions surveyed classify their clients in terms of the amount of sales (turnover) and indicate the amount to calculate a maximum loanable amount. For example, one commercial bank classifies companies as small companies if their annual sales range from 300 million TZS to 850 million TZS and as medium companies if their annual sales range from 850 million TZS to 10,000 million TZS. Another commercial bank defines SME as companies whose annual sales range from 40 million TZS to 4,000 million TZS. According to the interviews, financial institutions set a ratio of 4 to 7 to determine loanable amounts by referring to the annual sales amount (i.e., if the amount of sales ranges from 200 million TZS to 2,000 million TZS, then the loanable amount ranges from 50 million TZS to 500 million TZS in cases where the ratio of 4 is applied.)

The table below compares the amount of annual total sales and the total number of employees (including permanent employees and management staff). In the case of small-sized enterprises (5-49 employees), as defined by the total number of employees, a concentration of companies is seen with a sales amount of less than 500 million TZS. In the case of medium-sized enterprises (50-99 employees), such a concentration is observed in the amount ranging from 500 million TZS to 4,999 million TZS.

Table 3-20: Distribution of Annual Total Sales by the Number of Employees

	Annual total sales for FY2016 (million TZS)	Number of permanent employees				
		1-4	5-49	50-99	100 and over	Total
1	1-99	0	16	1	0	**17**
2	100-499	0	19	2	1	**22**
3	500-999	0	5	4	0	**9**
4	1,000-1,999	0	3	3	0	**6**
5	2,000-2,999	0	1	0	1	**2**
6	3,000-3,999	0	0	2	1	**3**
7	4,000-4,999	0	0	3	0	**3**
8	5,000 and over	0	0	1	7	**8**
	Total	**0**	**44**	**16**	**10**	**70**

Source: SME survey (effective number of responses: 70)

Table 3-21: Distribution of Gross Profit by the Number of Employees

	Gross profit for FY2016 (million TZS)	Number of permanent employees				
		1-4	5-49	50-99	100 and over	Total
1	1-99	0	33	3	2	**38**
2	100-499	0	8	8	0	**16**
3	500-999	0	3	0	2	**5**
4	1,000-1,999	0	1	7	3	**11**
5	2,000-2,999	0	2	1	0	**3**
6	3,000-3,999	0	0	0	0	**0**
7	4,000-4,999	0	0	0	0	**0**
8	5,000 and over	0	0	0	1	**1**
	Total	**0**	**47**	**19**	**8**	**74**

Source: SME survey (effective number of responses: 74)

3.2.4.2 Borrowing History, Future Investment and Financing Plan

The following results show the existing access to finance and terms and conditions of loans drawn for the companies surveyed.

As shown in Table 3-22 below, about 70% (84 out of 118) of the companies have borrowed funds from financial institutions in the past three years. It is noted that about 10% (11 out of 118) of those surveyed failed to obtain loans.

Table 3-22: Experience of Borrowing Funds/Goods from any Financial Institutions

		No. of responses
1	Has been borrowing	84
2	The company tried, but failed	11
3	Never borrowed in the past three years	23
	Total	**118**

Source: SME survey (effective number of responses: 118)

The following results are the terms and conditions of the loans for 84 companies which have been borrowing. Most of the companies borrowed from banks and about half of the loans falls within a range of 1 to 99 million TZS. It is noted that about 45% of the loans ranges from 100 to 1,999 million TZS and five loans denominated in USD exceed one million USD. The sub-sector and main products of the companies which have these five foreign currency-denominated loans are the manufacturing of food products including 1) the processing and export of marine products, 2) seeds of maize, sunflower, sesame, sorghum, etc., 3) the processing of Nile perch products. One company manufactures chemicals and chemical products (foams and related products), and there was one service company (TV and radio broadcasting). In terms of the repayment period, 65% (71 out of 109) of the loans bears a maturity period from 1 to 3 years and 30% (33 out of 109) exceeds 3 years. Financial institutions that finance loans of 5 years or longer are, among others, identified as TIB (four loans) and CRDB (three loans). Presumably, most of the 84 companies which have been borrowing possess their own land or buildings as collateral so that banks evaluate they have the credibility to be offered a medium or long-term repayment period. In addition, 77% (86 out of 111) of the purpose of loans is working capital-use, and relatively longer-term repayment periods (i.e., by means of rolling-over the short repayment cycle of short-term loans) was applied in such cases. There are eight loans denominated in USD. These foreign denominated loans were mainly utilized for the acquisition of imported machinery and equipment. Furthermore, the companies export their products, enabling them to make repayment in USD.

Table 3-23: Terms and Conditions of Current Loans

Type of lender

	Type of lender	No. of loans
1	Banks	103
2	Informal financial institutions	0
3	Non-banks	14
	Total	**117**

Amount of loan

	Million TZS	No. of loans	Thousand USD	No. of loans
1	1-99	52	1-99	0
2	100-499	29	100-499	2
3	500-999	9	500-999	1
4	1,000-1,999	11	1,000-1,999	4
5	2,000-2,999	3	2,000-2,999	0
6	3,000-3,999	2	3,000-3,999	0
7	4,000-4,999	1	4,000-4,999	0
8	5,000 and over	2	5,000 and over	1
	Total No.	**109**	**Total No.**	**8**
	Maximum	**5,000**	**Maximum**	**15,000**
	Minimum	**2**	**Minimum**	**100**
	Average	**496**	**Average**	**2,688**
	Median	**100**	**Median**	**1,200**

Annual rate of interest

	Interest rate (in TZS)	No. of loans	Interest rate (in USD)	No. of loans
1	1-5%	1	1-5%	0
2	6-10%	0	6-10%	8
3	11-15%	8	11-15%	0
4	16-20%	58	16-20%	0
5	21% and over	38	21% and over	0
	Total No.	**105**	**Total No.**	**8**
	Maximum	**36**	**Maximum**	**10**
	Minimum	**5**	**Minimum**	**6**
	Average	**20**	**Average**	**8**
	Median	**20**	**Median**	**8**

Repayment period

	Repayment period	No. of loans
1	Less than 1 year	5
2	1- less than 3 years	71
3	3 - less than 5 years	18
4	5 - less than 10 years	15
5	10 years and over	0
	Total	**109**

Grace period included in the repayment period

	Grace period	No. of loans
1	1-6 months	87
2	7-12 months	6
	Total	**93**

No. of months required from the initial application date to the signing date of the loan contract

	Months required	No. of loans
1	Less than 1 month	14
2	1-6 months	72
3	More than 6 months	8
	Total	**94**

Purpose of loan

	Purpose	No. of loans
1	Investment only	25
2	Working capital only	63
3	Both	23
	Total	**111**

Kind of collateral provided

	Collateral	No. of loans
1	Land and buildings	64
2	Residences	28
3	Land and machines	3
4	Residences and machines	4
5	Machines	2
6	Vehicles	3
7	Others	5
	Total	**109**

Repaid without delay

	Status	No. of loans
1	No delay	105
2	Delayed	9
	Total	**114**

Source: SME survey (effective number of responses: 117)
Note: While the number of companies which have been borrowing is 84, some companies have several loans, so the total number of loans including those in TZS and those in USD is 117. In addition, some data on the respective loan information such as for interest rates was not available.

The following table shows the number of loans and loan amount by the financial institutions which have provided one loan or more to the companies surveyed. As for the number of loans, CRDB and NMB are the two major financial institutions from which the companies surveyed have been borrowing. As for the average loan amount, while those of TIB, Diamond Trust and EXIM are comparatively high at more than 1,000 million TZS, that of SIDO is low at 3 million TZS.

Table 3-24: Number of Loans and Loan Amount by Financial Institutions

	Financial institutions	No. of loans	Total loan amount (million TZS)	Average loan amount (million TZS)	Total loan amount (thousand USD)	Average loan amount (thousand USD)
1	CRDB	28	11,905	425		
2	NMB	24	5,196	217		
3	SIDO	7	22	3		
4	TIB	7	8,830	1,261		
5	Diamond Trust	5	3,540	1,180	1,700	850
6	EXIM	5	5,783	1,446	1,150	1,150
7	NBC	5	1,050	210		
8	AKIBA	3	23	8		
9	KCB	3	1,400	700	15,000	15,000
10	SME Impact Fund	3	500	167		
11	STANBIC	3	2,072	691		
12	Uchumi Commercial	3	390	130		
13	AMANA	2	200	100		
14	AZANIA	2	9,000	4,500		
15	DCB	2	650	325		
16	Standard Chartered	2	550	275		
	Total	**103**				

Source: SME survey (effective number of responses: 103)
Note: Abbreviated expressions are used for the names of financial institutions above.

Regarding the annual rate of interest in Table 3-23 above, the following table shows detailed information on the nine loans for which the interest rates are 15% and under.

Table 3-25: Detailed Information on Loans with Low Interest Rates

	Financial institutions	Annual interest rate	Loan amount (million TZS)	Repayment period	Disbursement year	Purpose of loan	Collateral
1	TIB	5%	250	60 months	2014	100% Investment	Farm
2	AMANA	12%	100	24 months	2017	100% Investment	Residences
3	Standard Chartered	12%	500	12 months	2016	100% Working capital	Machinery
4	Diamond Trust	12%	500	NA	NA	100% Working capital	Fixed assets
5	Uchumi Commercial	14%	300	36 months	2013	30% Investment 70% Working capital	Land and buildings
6	SIDO	14%	3	12 months	2017	100% Working capital	None
7	AZANIA	14.5%	5,000	60 months	2017	80% Investment 20% Working capital	Properties
8	AZANIA	14.5%	4,000	12 months	2017	100% Working capital	Properties
9	SIDO	15%	2	6 months	2017	100% Investment	None

Source: SME survey (effective number of responses: 9)

The following table and figure show the number of loans and the total of the loan amounts per the annual rate of interest for the loans in TZS. The horizontal axis in Figure 3-2 shows the annual interest rate while the vertical axis shows the number of loans and the total loan amount in million TZS. As seen from the table below, the most frequent interest rate is 20% (20 loans), followed by 22% (15 loans), 18% (14 loans) and 21% (12 loans). On another front, the total loan amount is the largest where the interest rate is 14.5%, amounting to 9,000 million TZS, although the number of these loans is only two. Three-quarters of the total of all loan amounts (39,518 out of 51,897 million TZS) fall within the interest rates of 14.5% to 19%.

Table 3-26: Number of Loans and Total of Loan Amount per Annual Rate of Interest

	Annual rate of interest	Number of loans	Total sum of loan amount (million TZS)
1	5%	1	250
2	6%	0	0
3	7%	0	0
4	8%	0	0
5	9%	0	0
6	10%	0	0
7	11%	0	0
8	12%	3	1,100
9	13%	0	0
10	14%	2	303
11	14.5%	2	9,000
12	15%	1	2
13	15.5%	1	50
14	16%	3	7,950
15	16.5%	2	4,800
16	17%	9	6,832
17	17.5%	3	3,400
18	18%	14	5,434
19	18.5%	1	200
20	19%	5	1,850

	Annual rate of interest	Number of loans	Total sum of loan amount (million TZS)
21	20%	20	1,693
22	21%	12	4,993
23	22%	15	2,108
24	23%	1	1,300
25	24%	5	309
26	25%	1	3
27	26% and over	4	320
	Total	**105**	**51,897**

Source: SME survey (effective number of responses: 105)

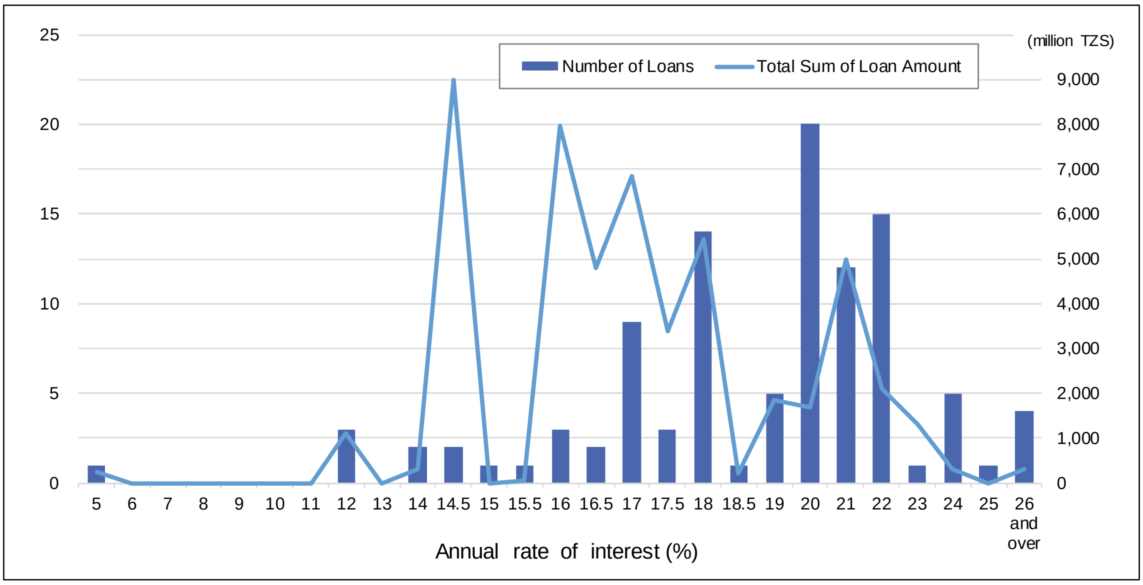


Figure 3-4: Number of Loans and Total Loan Amount per Annual Rate of Interest

On the other hand, there were only three cases of lease utilization: one tractor leased from SUMA JKT, one leather ink and milling machine leased from EFTA Loans Equipment and one compressor (the name of the leasing company is not available).

The following shows the sources of funds from which SME have been repaying for their current loans. Almost all the companies (82 out of 84) have been repaying from revenue of business.

Table 3-27: Sources of Funds for Loan Repayment

	Sources of funds	No. of responses (multiple selection)
1	**Revenue of business**	**82**
2	From past savings	0
3	Funds borrowed from other sources	2
4	By reducing the procurement of raw materials	1
5	By delaying the payment of salaries to employees	0
6	By delaying payment to suppliers	0
7	Others (personal savings)	1

Source: SME survey (effective number of responses: 84)

On the other hand, the following are the reasons why companies have not taken loans. Two types of companies are examined: one is the companies that have never taken loans in the past three years (23 companies) and another is the companies that failed to take loans (11 companies).

Table 3-28: Reasons for not Borrowing

	Reasons	No. of responses (multiple selection)
1	The company had no need of funds.	4
2	The company needed funds, but funds were available from other sources.	3
3	The company needed funds but could not access any financial institutions because it did not have any relation with them.	0
4	The company needed funds but could not access any financial institutions because it did not have knowledge about borrowing from them.	4
5	The company needed funds but did not have interest in borrowing from financial institutions.	7
6	The company negotiated with a financial institution for a loan, but failed to borrow.	12
7	Others	10

Source: SME survey (effective number of responses: 34)

In addition to the reasons above, the following shows the specific reasons why the 23 companies who responded with reasons of 4, 5 or 6 to the question above did not negotiate with financial institutions for a loan or failed to borrow from financial institutions.

Table 3-29: Reasons for Having not Negotiated with Financial Institutions for a Loan or Failing to Borrow from Financial Institutions

	Reasons	No. of responses (multiple selection)
1	No existence of financial institutions in a reachable geographical location	0
2	Absence of financial institutions offering loans for SME	0
3	Absence of financial institutions offering medium/long term loans	2
4	**Unable to submit the collateral**	**8**
5	**High interest rate offered by financial institutions**	**13**
6	Unable to prepare and submit the financial statements	3
7	Do not know the reason	2
8	Others	1

Source: SME survey (effective number of responses: 23)

As shown above, the biggest obstacle in borrowing for the companies surveyed was the high interest rate offered by financial institutions, which was given as reason by about half of the companies who responded. The second biggest obstacle was the failure to submit collateral, which was given as a reason by about 30% of the companies who responded.

The following shows the number of companies surveyed with or without an intention to make new investments in the next three years and the year planned for the new investments.

Table 3-30: Intention for New Investment

		No. of responses
1	Having an intention	112
2	No intention	6
	Total	**118**

Source: SME survey (effective number of responses: 118)

Table 3-31: Intention for Borrowing

		No. of responses
1	Having an intention	102
2	No intention	10
	Total	**112**

Source: SME survey (effective number of responses: 112)

Table 3-32: Planned Year for New Investment

	Year	No. of responses
1	Year 2018	45
2	Year 2019	52
3	Year 2020	7
4	Year 2021	1
5	Not before Year 2022	2
6	Not yet decided	5
	Total	**112**

Source: SME survey (effective number of responses: 112)

As shown above, 112 companies out of the 118 companies surveyed have an intention to make new investments in the next three years. Also, 102 out of the 112 companies with an intention for new investments have the intention to borrow money from financial institutions. A strong willingness to make new investments as well as to borrow was found among the companies surveyed.

The following shows the contents of the new investment according to the companies which have an intention for new investments.

Table 3-33: Type of New Investment

	Type	No. of responses (multiple selection)
1	Purchase of land	29
2	**Purchase or expansion of buildings**	**46**
3	**Purchase of production equipment**	**103**
4	Purchase of office equipment	24
5	Purchase of vehicles	36
6	Others	12

Source: SME survey (effective number of responses: 112)

Table 3-34: Purpose of New Investment

	Purpose	No. of responses (multiple selection)
1	**Expansion of existing business**	**89**
2	**Improvement of productivity**	**72**
3	**Improvement of quality of product/service**	**56**
4	Cost reduction	35
5	Research & Development	8
6	Environmental protection	14
7	Start of new business	9
8	Others	8

Source: SME survey (effective number of responses: 112)

As shown above, the most popular type of new investment is the purchase of production equipment and the second most popular is the purchase or expansion of buildings. In addition, the most popular purpose of new investment is the expansion of existing business, the second most popular is the improvement of productivity, and the third most popular is the improvement of the quality of products/services. This means that the majority of the companies surveyed has an intention to expand their business as well as to purchase machinery and equipment to improve productivity and quality, and this is why they have an intention to make new investments.

The following Table 3-35 and Table 3-36 show the planned amount of funds for the new investments as well as the planned amount of loans from banks among the companies surveyed.

Table 3-35: Planned Amount of Funds for New Investments (in TZS and USD)

Investment in equipment and facilities		**Investment in land (purchase of land)**		**Working capital**		**Total amount of investment**	
Million TZS	**No. of responses**	**Million TZS**	**No. of responses**	**Million TZS**	**No. of responses**	**Million TZS**	**No. of responses**
1-99	12	1-99	13	1-99	14	1-99	7
100-499	30	100-499	13	100-499	31	100-499	30
500-999	11	500-999	5	500-999	12	500-999	16
1,000-1,999	9	1,000-1,999	0	1,000-1,999	3	1,000-1,999	11
2,000-2,999	0	2,000-2,999	1	2,000-2,999	0	2,000-2,999	6
3,000-3,999	1	3,000-3,999	1	3,000-3,999	0	3,000-3,999	0
4,000-4,999	2	4,000-4,999	0	4,000-4,999	0	4,000-4,999	0
5,000 and over	2	5,000 and over	0	5,000 and over	1	5,000 and over	7
Total No.	**67**	**Total No.**	**33**	**Total No.**	**61**	**Total No.**	**77**
Maximum	**8,666**	**Maximum**	**3,000**	**Maximum**	**5,000**	**Maximum**	**14,840**
Minimum	**24**	**Minimum**	**15**	**Minimum**	**10**	**Minimum**	**15**
Average	**805**	**Average**	**335**	**Average**	**355**	**Average**	**1,300**
Median	**347**	**Median**	**100**	**Median**	**150**	**Median**	**500**
Thousand USD	**No. of responses**	**Thousand USD**	**No. of responses**	**Thousand USD**	**No. of responses**	**Thousand USD**	**No. of responses**
1-99	4	1-99	2	1-99	4	1-99	4
100-499	13	100-499	2	100-499	4	100-499	12
500-999	2	500-999	0	500-999	1	500-999	5
1,000-1,999	4	1,000-1,999	0	1,000-1,999	1	1,000-1,999	2
2,000-2,999	1	2,000-2,999	0	2,000-2,999	0	2,000-2,999	3
3,000-3,999	0	3,000-3,999	1	3,000-3,999	0	3,000-3,999	0
4,000-4,999	0	4,000-4,999	0	4,000-4,999	0	4,000-4,999	0
5,000 and over	4	5,000 and over	1	5,000 and over	3	5,000 and over	6
Total No.	**28**	**Total No.**	**6**	**Total No.**	**13**	**Total No.**	**32**
Maximum	**170,000**	**Maximum**	**5,000**	**Maximum**	**30,000**	**Maximum**	**200,000**
Minimum	**7**	**Minimum**	**47**	**Minimum**	**8**	**Minimum**	**15**
Average	**8,697**	**Average**	**1,556**	**Average**	**3,268**	**Average**	**10,297**
Median	**343**	**Median**	**200**	**Median**	**150**	**Median**	**468**

Source: SME survey (effective number of responses: 112)

Table 3-36: Planned Amount of Loan for New Investment (in TZS and USD)

Loan for investment in equipment and facilities		Loan for investment in land (purchase of land)		Loan for working capital		Total amount of loan	
Million TZS	**No. of responses**	**Million TZS**	**No. of responses**	**Million TZS**	**No. of responses**	**Million TZS**	**No. of responses**
1-99	13	1-99	10	1-99	15	1-99	8
100-499	32	100-499	7	100-499	28	100-499	32
500-999	11	500-999	3	500-999	10	500-999	16
1,000-1,999	5	1,000-1,999	0	1,000-1,999	1	1,000-1,999	13
2,000-2,999	0	2,000-2,999	0	2,000-2,999	1	2,000-2,999	1
3,000-3,999	3	3,000-3,999	0	3,000-3,999	1	3,000-3,999	2
4,000-4,999	1	4,000-4,999	0	4,000-4,999	0	4,000-4,999	0
5,000 and over	2	5,000 and over	0	5,000 and over	0	5,000 and over	5
Total No.	**67**	**Total No.**	**20**	**Total No.**	**56**	**Total No.**	**77**
Maximum	**8,666**	**Maximum**	**800**	**Maximum**	**3,000**	**Maximum**	**14,840**
Minimum	**24**	**Minimum**	**15**	**Minimum**	**10**	**Minimum**	**15**
Average	**752**	**Average**	**178**	**Average**	**317**	**Average**	**1,086**
Median	**300**	**Median**	**95**	**Median**	**150**	**Median**	**480**
Thousand USD	**No. of responses**	**Thousand USD**	**No. of responses**	**Thousand USD**	**No. of responses**	**Thousand USD**	**No. of responses**
1-99	5	1-99	2	1-99	2	1-99	5
100-499	9	100-499	0	100-499	3	100-499	9
500-999	2	500-999	0	500-999	1	500-999	3
1,000-1,999	4	1,000-1,999	0	1,000-1,999	1	1,000-1,999	2
2,000-2,999	1	2,000-2,999	0	2,000-2,999	0	2,000-2,999	4
3,000-3,999	0	3,000-3,999	1	3,000-3,999	0	3,000-3,999	0
4,000-4,999	0	4,000-4,999	0	4,000-4,999	0	4,000-4,999	0
5,000	2	5,000	0	5,000	1	5,000	3
Total No.	**23**	**Total No.**	**3**	**Total No.**	**8**	**Total No.**	**26**
Maximum	**170,000**	**Maximum**	**3,800**	**Maximum**	**30,000**	**Maximum**	**200,000**
Minimum	**7**	**Minimum**	**47**	**Minimum**	**8**	**Minimum**	**15**
Average	**8,564**	**Average**	**1,312**	**Average**	**4,029**	**Average**	**9,360**
Median	**335**	**Median**	**90**	**Median**	**185**	**Median**	**435**

Source: SME survey (effective number of responses: 102)

As seen from the tables above, 48% (32 out of 67) of the planned investment loans for equipment and facilities in domestic currency ranges from 100 to 499 million TZS, eleven loans are from 500 to 999 million TZS and another eleven loans are of 1,000 million TZS or more. The average loan size is 752 million TZS with the median value being 300 million TZS and the standard deviation being 1,413 million TZS (Frequency Distribution of Investment Loan Size for Figure 3-3). The maximum planned amount of a loan is 8,666 million TZS, which is planned to be utilized for splitting machines, scaving machines and sawing machines, etc. for the manufacture of leather and related products. Among the responses, 23 planned loans are denominated in USD, out of which seven loans are one million USD or more. The purpose of these foreign currency-denominated loans is to purchase imported machinery and equipment to be paid in USD.

The following figures show the frequency distribution of loan size for investment, working capital and both uses (i.e., planned amount of loans for new investment in TZS).

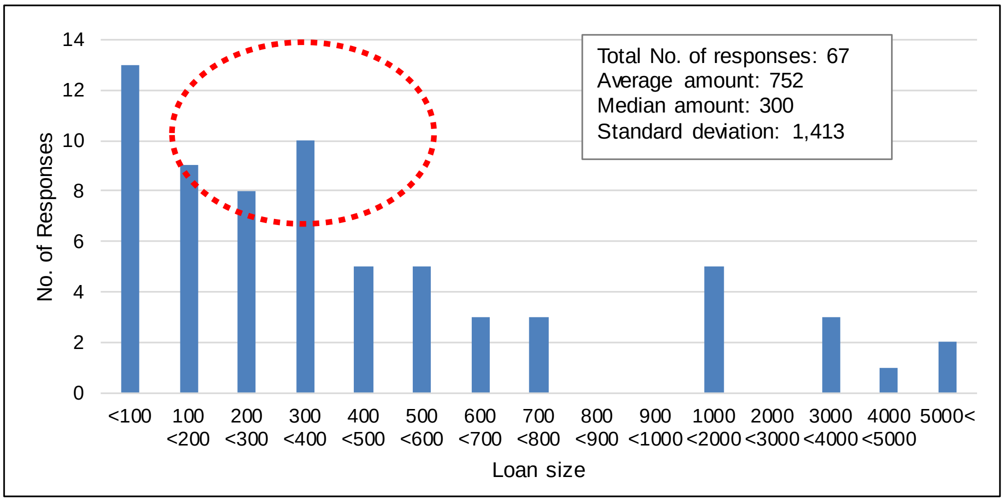


Figure 3-5: Frequency Distribution of Investment Loan Size (Million TZS per loan)

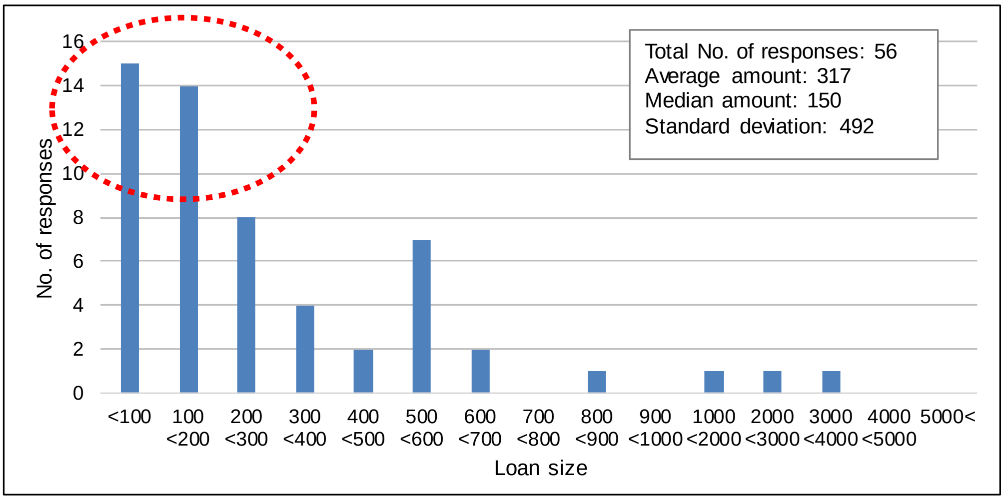


Figure 3-6: Frequency Distribution of Working Capital Loan Size (Million TZS per loan)

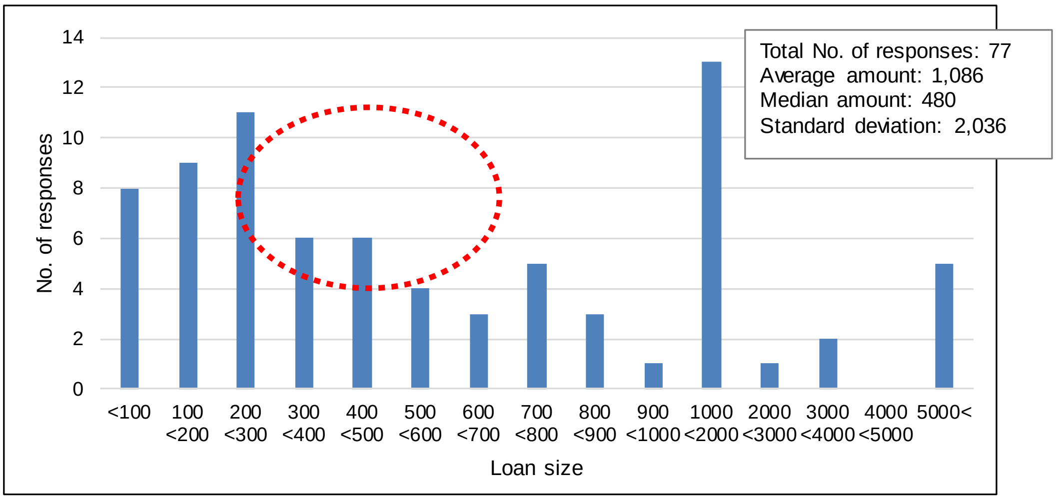


Figure 3-7: Frequency Distribution of Investment and Working Capital Loan Size (Million TZS per loan)

The following Table 3-37 and Table 3-38 show the maximum affordable interest rate and the preferred repayment period for new loans among the companies surveyed.

Table 3-37: Maximum Affordable Interest Rate for New Loans

	Interest rate (in TZS)	No. of responses	Interest rate (in USD)	No. of responses
1	1-5%	6	**1-5%**	**10**
2	**6-10%**	**42**	6-10%	2
3	**11-15%**	**43**	11-15%	0
4	16-20%	5	16-20%	0
5	21% and over	0	21% and over	0
	Total	**96**	**Total**	**12**

Source: SME survey (effective number of responses: 102)

Table 3-38: Preferred Repayment Period for New Loans

	Repayment period	No. of responses
1	Over 10 years	16
2	**between 5-10 years**	**53**
3	**between 3-5 years**	**25**
4	between 1-3 years	6
5	Less than 1 year	0
	Total	**100**

Source: SME survey
(effective number of responses: 102)

As shown above, the most affordable range of interest rate in TZS for new loans is between 11% and 15% and the second most affordable is between 6% and 10%. The most affordable range of interest rate in USD is between 1% and 5%. In addition, the most preferred range of repayment period for new loans is between 5 and 10 years and the second most preferred is between 3 and 5 years.

Table 3-39 shows a comparison between the applied terms and conditions for current loans and the preferred terms and conditions for new loans.

Table 3-39: Comparison between the Currently-Applied Terms and the Preferred Terms for Interest Rates and Repayment Period

	Interest rate (in TZS)	TZS		USD		Repayment period	No. of responses (current period)	No. of responses (preferred period)
		No. of responses (current rate)	No. of responses (affordable rate)	No. of responses (current rate)	No. of responses (affordable rate)			
1	1-5%	1	6	0	**10**	Over 10 years	0	16
2	6-10%	0	**42**	**7**	1	Between 5-10 years	15	**53**
3	11-15%	8	**43**	0	0	Between 3-5 years	18	25
4	16-20%	**58**	5	0	0	Between 1-3 years	**71**	6
5	21% and over	**38**	0	0	0	Less than 1 year	5	0
	Total	**105**	**96**	**7**	**11**	**Total**	**109**	**100**

Source: Prepared by the preparatory survey team based on the results of the SME survey

As shown above, the difference between the currently applied interest rate and the maximum affordable interest rate for new loans is obvious in that, while the two ranges of interest rate, i.e., 16-20% and 21% and over in TZS are the frequently observed values in the current rate, 6-10% and 11-15% are frequently observed in the affordable rate. In the same way, the range of interest rate 6-10% in USD is most frequently observed in the current rate in proportion to the range of 1-5% being frequently observed in the affordable rate. In the same way, the difference between the current repayment period and the preferred one for new loans is also large: 1-3 years is the most frequent range for the current repayment period while 5-10 years is the most frequent for the preferred period.

The following shows the collateral/securities which the companies surveyed are ready to provide for new loans.

Table 3-40: Collateral/Securities that Companies are ready to Provide for New Loans

	Collateral/Securities	No. of responses (multiple selection)
1	**Fixed assets (land and/or buildings and fixtures thereon)**	**88**
2	Cash deposit	1
3	Personal guarantee (loan or borrower is guaranteed by a third person/party)	4
4	Letter of credit issued by a bank	0
5	**Equipment purchased**	**54**
6	Credit guarantee	1
7	Others	1
8	Unable to provide any of the above	0

Source: SME survey (effective number of responses: 102)

Most of the companies surveyed are able to provide collateral/securities and the most popular collateral/securities is fixed assets such as land and/or buildings. Half of the companies are able to provide equipment purchased for the loans.

On the other hand, the following shows the responses from the six companies which do not have an intention to make new investments in the next three years.

Table 3-41: Reasons for No Interest in New Investment

	Reasons	No. of responses (multiple selection)
1	The company is satisfied with its current business operation.	3
2	Market conditions are not favorable for new investment including expansion of existing facilities (e.g. tough competition, low profitability).	2
3	The company has no capacity for new investment due to business conditions (no or minimum profit, lack of human resources/ technical know-how, etc.)	0
4	The company is interested in new investment, but loan conditions are not favorable.	1
5	The company is interested in new investment but have no means to procure money for investment.	0
6	Others	0

Source: SME survey (effective number of responses: 6)

The following list is the financial institutions at which the companies surveyed maintain their accounts (abbreviated names are used for the respective financial institutions). Every company has more than one account at different financial institutions and CRDB, NMB and NBC are the three major financial institutions which the survey team found to be popular among the companies surveyed.

Table 3-42: Financial Institutions at which the Companies Surveyed Maintain their Accounts

	Financial institutions	No. of responses		Financial institutions	No. of responses		Financial institutions	No. of responses
1	CRDB	60	10	Standard Chartered	5	19	TPB	2
2	NMB	48	11	AKIBA	4	20	TWIGA	2
3	NBC	19	12	AMANA	3	21	Uchumi Commercial	2
4	EQUITY	10	13	BOA	3	22	BANK M	1
5	EXIM	10	14	DCB	3	23	FINCA	1
6	Diamond Trust	8	15	ACCESS	2	24	HABIB	1
7	KCB	8	16	AZANIA	2	25	LETSHEGO	1
8	STANBIC	6	17	CBA	2	26	NIC	1
9	TIB	6	18	EFC	2			
							Total	**212**

Source: SME survey (effective number of responses: 212)
Note: Some companies have several accounts at different financial institutions, so the total number of responses is 212.

The following shows the loan related services which the companies surveyed think financial institutions in Tanzania should improve.

Table 3-43: Loan Related Services to be Improved

	Reasons	No. of responses (multiple selection)
1	Provision of information regarding loans for SME	20
2	**Complicated loan applications/Long check-lists**	**33**
3	Attitude of bank officers	15
4	**Requirements of the borrower (collateral and others)**	**43**
5	**Loan conditions (interest rate, repayment period, good financial performance)**	**75**
6	No need to improve	14
7	Others	15

Source: SME survey (effective number of responses: 118)

As shown above, issues that companies think need to be improved by financial institutions are the loan conditions (interest rate, repayment period, good financial performance), the requirements of the borrower (collateral and others) and complicated loan applications/long check-lists. Furthermore, in interviews, some companies complained of the additional charges which commercial banks impose on their loans such as 2% loan service fees, etc.

3.2.4.3 Needs for Technical Assistance

Regarding the needs for technical assistance among the companies surveyed, two kinds of questions were asked about the advisory and consulting services required by companies in terms of 1) financing and bank borrowing and 2) management. The results are as follows.

Table 3-44: Advisory and Consulting Services SME Want to Receive in terms of Financing and Bank Borrowing

	Kinds of advisory and consulting services	No. of responses (multiple selection)
1	Advisory and consulting services on how to start transactions with financial institutions	15
2	Advisory and consulting services on how to prepare loan applications	19
3	Advisory and consulting on accounting and how to prepare financial statements	28
4	**Advisory and consulting on financial management**	**55**
5	**Advisory and consulting on tax management**	**46**
6	**Advisory and consulting on investment planning and evaluation**	**65**
7	Introduction of financial institutions to the company	19
8	Others (specific answers) - Only for in-coming textile industry	1
9	No needs	27

Source: SME survey (effective number of responses: 118)

As shown above, the most popular kind of advisory and consulting services is for investment planning and evaluation, with the second most popular being for financial management and the third for the tax management. This means that many of the companies surveyed need guidance on appropriate investment planning as well as on financial and tax management.

Table 3-45: Advisory and Consulting Services SME Want to Receive in terms of Management

	Kinds of advisory and consulting services	No. of responses (multiple selection)
1	Advisory and consulting services on management and business planning	42
2	Advisory and consulting services when starting business	9
3	Provision of legal advice	17
4	**Provision of technical advice on production management**	**56**
5	**Provision of technical advice on production technology**	**69**
6	Information provision - market and customer information	32
7	Information provision - technology information	34
8	**Marketing support (exhibitions, trade fair,s etc.)**	**54**
9	**Workers' training**	**65**
10	Provision of opportunities for cooperation with other companies	32
11	Material/product testing	21
12	Others (specific answers) - Quality consideration on products - Support from NEMC and design of INC	2
13	No needs	14

Source: SME survey (effective number of responses: 118)

As shown above, the most popular kind of advisory and consulting services in terms of management is the provision of technical advice on production technology as well as production management. Workers' training and the marketing support (exhibitions, trade fairs, etc.) are also popular.

3.2.5 Important/Necessary Aspects to be considered in formulating a TSL Project under a Japanese ODA Loan Scheme

(1) Potential target sub-sectors, regions and PFI

Based on the results of the SME survey, it seems that it is difficult to point out specific sub-sectors and regions that have future development potential although the agro-processing sub-sector has an advantage over other sub-sectors in view of its large size and projected future growth in Tanzania. According to the interviews with the companies surveyed, the rice industry among the agro-processing has particular potential against a background of recent increases in consumption not only in the domestic market but also in neighboring countries such as Kenya, Uganda, Zambia, Malawi, Rwanda, Burundi and DRC (Democratic Republic of the Congo).

Regarding the future demand for loans per sub-sector, the table below shows the total planned amounts of loans for new investment for the six selected sub-sectors: 1) food products, 2) textiles and apparel, 3) leather, 4) chemicals and plastics, 5) metal fabrication, machinery and equipment and 6) furniture and wood.

Table 3-46: Total Planned Amount of Loans for New Investment for the Selected Sub-sectors

	Sub-sector	No. of companies which intend to have new loans	Total of loans for investment in equipment and facilities		Total of loans for working capital		Total amount of loans	
			million TZS	thousand USD	million TZS	thousand USD	million TZS	thousand USD
1	Food products	54	23,329	175,143	13,401	31,370	41,025	206,890
2	Textiles and apparel	5	860	0	1,270	0	2,960	0
3	Leather	6	11,126	335	326	100	17,626	435
4	Chemicals and plastics	6	1,125	15,200	135	0	4,760	19,000
5	Metal fabrication, machinery and equipment	12	1,793	355	715	0	2,858	2,355
6	Furniture and wood	5	1,880	7	730	8	2,915	15

Source: SME survey (effective number of responses: 88)

As shown above, while the total planned amount of loans for the food products sub-sector is the largest both in TZS and USD due to the large number of companies, it should be noted that the two sub-sectors of leather and chemicals and plastics have a large total planned amount of loans even though there are only six companies in the two sub-sectors respectively.

Furthermore, the table below shows representative examples of machines and equipment to be purchased as new investment and the general price ranges for the six sub-sectors.

Table 3-47: Representative Examples of Machines and Equipment to be Purchased and The Price Ranges per Sub-sector

	Sub-sector	No. of companies concerned	Representative examples of machines/equipment to be purchased	Price range (million TZS)
1	Food products	62		
	Rice/Maize	14	- Milling - Packaging - Harvester - Silo	30-200 15-200 50-70 700-900
	Coffee/Tea	6	- Coffee processing	30-500
	Nuts (Cashew, peanuts)	3	- Peanut butter processing	150-500
	Edible oil	9	- Oil Expeller - Refinery	30-100 80-150
	Daily products	4	- Freezers, Cold rooms - Tanks - Boilers	2-120 40-50 60-70
	Meat/Chicken	5	- Trucks - Freezers, Cold chains	40-260 120-150
	Marine products	2	- Freezers - Trolleys	NA
	Beverage (including water)	14	- Packaging and labeling - Filling - Trucks	100-200 70-300 60-350
	Others	5	- Dry ice making - Spice packaging	250 100
2	Textiles and apparel	6	- Sewing - Embroidery	1-5 20-100
3	Leather	6	- Boilers - Injection molding	250- 500-
4	Chemicals and plastics	9	- Filling - Packaging	20-170 70-900
5	Metal fabrication, machinery and equipment	14	- Lathes - Milling - Cutting - Shearing - CNC	20-150 40-120 30-60 30-70 100-150
6	Furniture and wood	6	- Wood processing machines - Metal working machines	8-220 10-450

Source: SME survey (effective number of responses: 103)
Note: Each machinery and equipment includes various types, models and second-hand machinery and equipment.

As shown above, the three sub-sectors of food products, leather, and chemicals and plastics have a demand for machines and equipment in a relatively high price range.

Considering the results above, the sub-sectors of food products, leather, and chemicals and plastics could be the potential target sub-sectors for the TSL Project due to their strong demand for investment in machines and equipment.

Regarding the potential PFI, there will be an increasing need for leasing companies like EFTA, especially for SME which are not able to prepare collateral and borrow from commercial banks. Lease utilization is currently not common in Tanzania due to a lack of information on the scheme and it seems that this has a high potential to meet the needs of future investment loans for those without collateral but with stable financial strength and well-prepared business investment plans.

(2) Potential target SME (number of employees and asset sizes)

Regarding the potential target SME in terms of the number of employees and asset sizes, as mentioned above, most financial institutions classify their clients in terms of the amount of sales (turnover) and indicate the amount to calculate a maximum loanable amount.

Examining the correlation between the variable of number of employees and the selected variables such as annual total sales, gross profits, total asset values, sales growth rates, profit growth rates, preparation status of business plans, for the existence or nonexistence of current loans, etc., no variables show any significant correlation except for the correlation between the variable of number of employees and the variables of sales, profit and asset values. These are related to that which is shown in “Table 3-20: Distribution of Annual Total Sales by the Number of Employees” and “Table 3-21: Distribution of Gross Profit by the Number of Employees”.

In addition, the following table shows the average values of sales and the profit and asset values for the companies with a business plan and the companies without a business plan.

Table 3-48: Average sales, profit and asset values for the companies, with/without a business plan

Unit: million TZS

	Average annual total sales in FY2016	**Average gross profit in FY2016**	**Average total asset values**
With business plan	4,208	425	2,882
Without business plan	880	185	1,258

Source: Prepared by the preparatory survey team based on the results of the SME survey

As shown above, the companies which have prepared a business plan seem to have higher amounts of sales, profit and asset values compared to the companies which have not prepared a plan.

Separately from the results of the SME survey above, based on the interviews with the companies surveyed, companies are generally classified into four types according to their characteristics. Table 3-49 shows the characteristics and the reasons why the TSL Project is able to be useful/is likely to be less useful to the four types of companies.

Table 3-49: General Classification of SME covered by the SME Survey

Category	Characteristics	Reasons why TSL is able to be useful	Reasons why TSL is likely to be less useful
Type I	- High number of medium-sized, DSM-based, and Indian Tanzanian-run companies - Secured with collateral (land and buildings), having experiences in loans in the past three years or currently borrowing from commercial banks - Having a plan for new business investment in the next three years and considering new borrowing - Prepared written business plans and financial statements audited	- Trusted by commercial banks and having a high likelihood of crediting if companies apply for a new loan - Relatively acceptable to the current loan interest rate - Relatively big investment in size, which may have more impact on economy	- Sufficient financial access has been already achieved. - Having an interest in equipment investment to increase their productivity, but not certain whether they will make full use of the equipment and are able to increase their productivity. - Some companies aim for labor-saving with increased mechanization, which will result in a decrease of employment if production scale is not expended.
Type II	- High number of medium- and small-sized, and DSM- and regional-based companies, including family-run companies with relatively large number of employees - Secured with collateral (land and buildings) and having a plan for new business investment, but withheld borrowing due to a mismatch of their affordable interest rate as well as preferred repayment period and those offered by commercial banks - Prepared written business plans and financial statements audited	- Likely to be most suitable as companies to be targeted under the TSL Project, which can directly respond to their needs for more concessional loans - High possibility of growing to medium-sized companies from small-sized	- The companies which have been currently borrowing are not interested in additional borrowing from commercial banks with interest rates lower than the current applied rates even if they have a plan for new business investment.
Type III	- High number of small-sized, and DSM- and regional-based companies - No experience in borrowing money from commercial banks due to no collateral although having a plan for new business investment in the next three years - Depends on managing directors in terms of the preparation of written business plans and financial statements audited. Well managed companies have a specific business investment plan in addition to those above.	- For those with stable financial strength, the current loan interest rate will be relatively acceptable. - Able to borrow money from commercial banks with credit guarantee scheme, collateralization of equipment to be invested, and lease utilization - Potentials for which the capacity is to be strengthened by business development services including the KAIZEN project.	- Having difficulty in borrowing money from commercial banks due to no collateral - For those without stable financial strength as well as written business plans and financial statements, difficult to borrow
Type IV	- High number of small- and micro-sized, DSM- and regional-based, and female executive-run companies - Combines a workplace and a residence, resulting in difficulty to obtain operation licenses - No prepared written business plans nor financial statements audited	- Having the largest number of companies which belong to this category in Tanzania [Note]	- Having difficulty in borrowing money from commercial banks due to no collateral - Difficult to borrow with the current loan interest rate - Difficult to handle under the TSL Project due to a small amount being required for a single loan

Source: Prepared by the preparatory survey team

Note: The number of companies under this category (Type IV) was set to the minimum for the SME survey since it was considered that it would be difficult for the companies in this category to become end-borrowers of the TSL Project.

Furthermore, the four types of SME classified in the table above can be further categorized as shown in Table 3-50. In terms of the application of TSL sub-loans, while Type I, Type II and Type III can be the target borrowers of sub-loans, Type II and Type III could be more prioritized as targets in view of the more favorable loan terms and conditions to be applied in TSL as shown in Table 3-51. Figure 3-8 shows an overview of the categorization.

Table 3-50: Categorization of the Four Types of SME

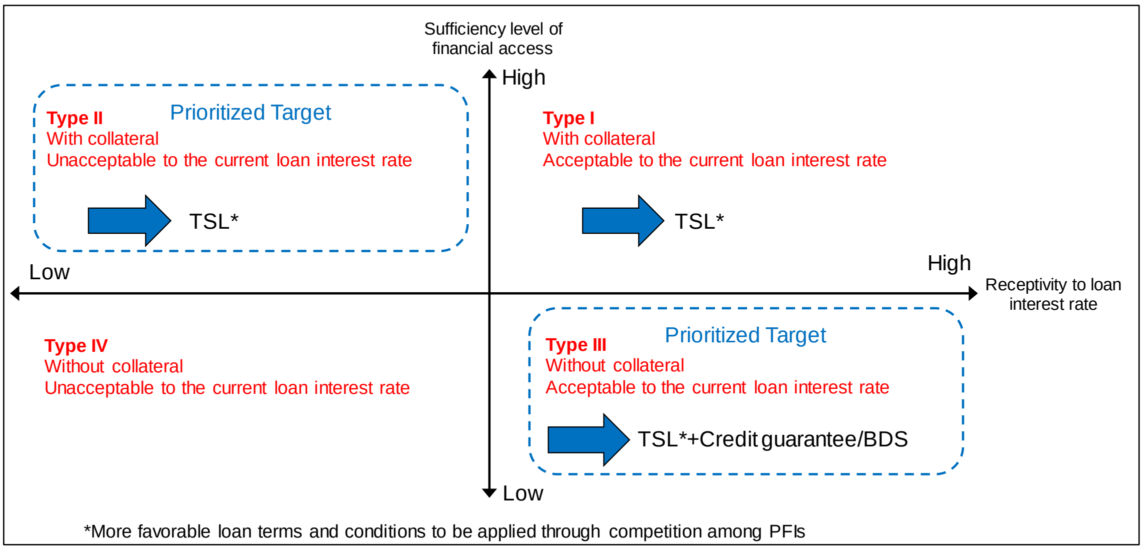
Category	Sufficiency level of financial access	Receptivity to the current loan interest rate
Type I	High	High
Type II	High	Low
Type III	Low	High
Type IV	Low	Low

Source: Prepared by the preparatory survey team

Table 3-51: Priority for Application of TSL Sub-loans

Category	Priority for application
Type I	Targeted with less priority
Type II	Prioritized as target of borrowers of sub-loans
Type III	Prioritized as target of borrowers of sub-loans
Type IV	Not targeted

Source: Prepared by the preparatory survey team



Source: Prepared by the preparatory survey team

Figure 3-8: Categorization of SME to be Targeted as End-borrowers of TSL Sub-loans

(3) Effective demand for investment loans in the next three years

Based on the results of the SME survey, as mentioned above, 112 companies out of the 118 companies surveyed had an intention to make new investment in the next three years. Also, 102 out of the 112 companies had an intention to borrow money from financial institutions for their new investment. There seems to be a high demand in new investment and for borrowing among SME. It should be noted that companies' plans for new borrowing includes use of working capital.

At the same time, as shown in "Table 3-39: Comparison between the Currently-Applied Terms and the Preferred Terms for Interest Rates and Repayment Periods," it should be noted that there is a gap between the terms and conditions applied for the current loans and those preferred for new loans. While this may indicate that lower demand could be expected if the currently applied ranges of interest rate and repayment period are applied to the TSL sub-loans, the actual reduction in demand for loans may not be as large as suggested in the interview survey.

(4) Affordable terms and conditions of investment loans

The following table shows the total of the estimated amount of loans (for investment use, working capital use and total amount) per interest rate to be set, calculated based on the maximum affordable interest rate at which the companies surveyed (77 companies) are expected to borrow for their new loans.

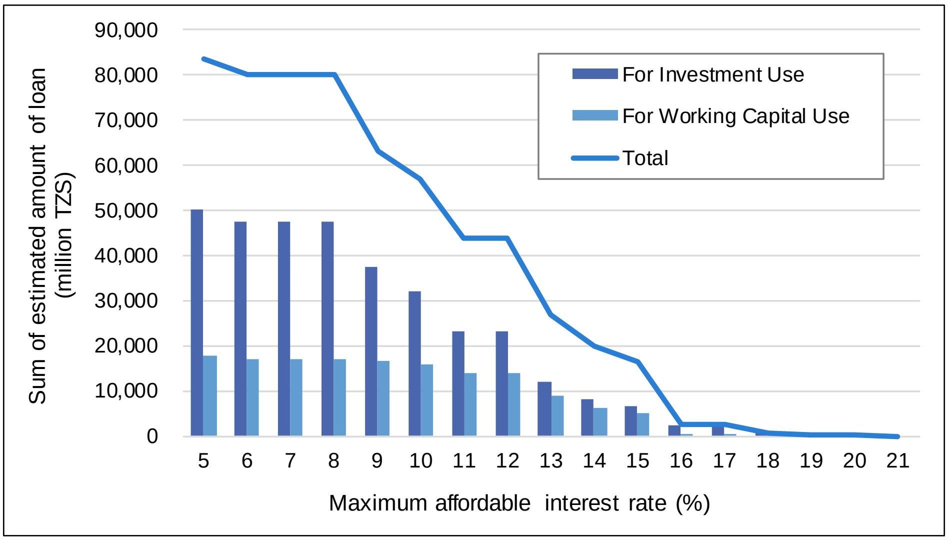
Table 3-52: Calculation of Estimated Total Loan Amount per Interest Rate to be Set (TZS)

	Interest rate to be set	**(1) Estimated total loan amount for investment in equipment and facility (million TZS)**	**(2) Estimated total loan amount for working capital (million TZS)**	**(1) + (2)**	**Estimated loan amount in total (million TZS)**
1	5%	50,378	17,777	68,155	83,609
2	6%	47,383	17,202	64,585	80,039
3	7%	47,383	17,202	64,585	80,039
4	8%	47,383	17,202	64,585	80,039
5	9%	37,334	16,502	53,836	63,096
6	**10%**	**32,015**	**15,838**	**47,853**	**57,113**
7	11%	23,215	13,771	36,986	43,851
8	12%	23,215	13,771	36,986	43,851
9	13%	11,815	8,911	20,726	26,751
10	14%	7,961	6,201	14,162	19,887
11	**15%**	**6,556**	**4,901**	**11,457**	**16,432**
12	16%	2,333	220	2,553	2,568
13	17%	2,333	220	2,553	2,568
14	18%	740	20	760	775
15	19%	40	20	60	75
16	20%	40	20	60	75
17	21%	0	0	0	0

Source: Prepared by the preparatory survey team based on the results of the SME survey
Note 1: The number of companies responded to this questions was 77 in total.
Note 2: The estimated total amount of loan includes the purchase amount of land and buildings.
Note 3: The amounts in the table above show the total (cumulative amount) loan amount given by the companies surveyed at the respective interests rates.

As shown above, if the interest rate were set at 10%, an amount of 57,113 million TZS (24.2 million USD) in total (for investment in equipment and facilities, working capital and land) would be estimated to be borrowed by the 72 companies surveyed. This would be 16,432 million TZS (6.8 million USD) and 75 million TZS (0.03 million USD) in case of the interest rate being 15% and 20% respectively. In case of the amount for investment use only, it is estimated that 6,556 million TZS (2.8 million USD) would be borrowed if the interest rate were set at 15%. It should be noted that the estimated total loan amount would decrease to a large degree if the interest rate were set at 16% or above. In view of these responses from the companies, an annual rate that does not exceed 15% could be regarded as the affordable interest rate to be set for end-borrowers under the existing economic conditions.

The following figure shows the total estimated amount of loan (for investment use, working capital use and total) per interest rate to be set, calculated based on the maximum affordable interest rate. As seen from the figure below, the loan demand tends decrease at the interest rates of 8% to 10% p.a. However, as already explained and shown in Table 3-37, the actual decrease in loan demand may not be as large as indicated in the interview survey.



Source: Prepared by the preparatory survey team based on the results of the SME survey

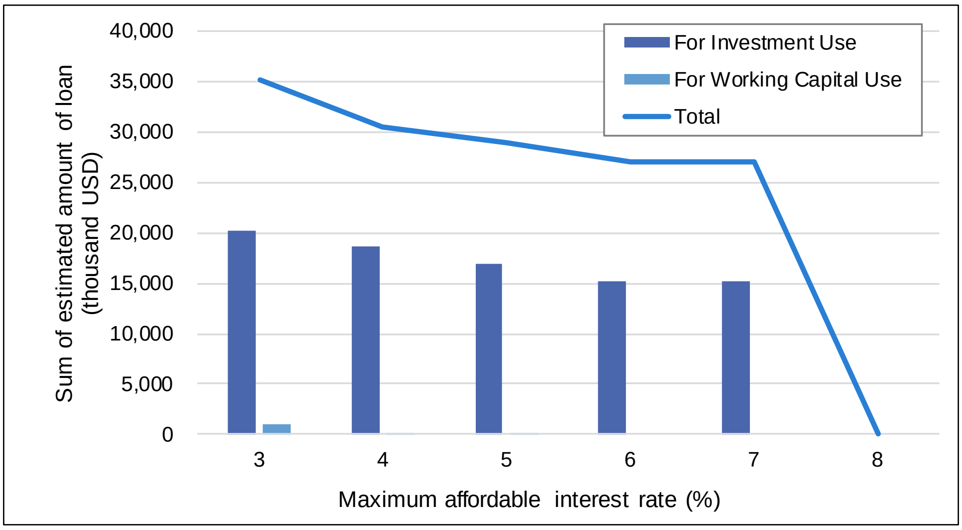
Figure 3-9: Total Estimated Amount of Loan per Interest Rate to be Set (TZS)

The following table and figure show the total estimated amount of loan per interest rate to be set calculated based on the maximum affordable interest rate at which the companies surveyed (12 companies) are expected to borrow for their new loans, in USD.

Table 3-53: Calculation of Estimated Total Loan Amount per Interest Rate to be Set (USD)

	Interest rate to be set	(1) Estimated total loan amount for investment in equipment and facilities (thousand USD)	(2) Estimated total loan amount for working capital (thousand USD)	(1) + (2)	Estimated loan amount in total (thousand USD)
1	2%	20,166	1,050	21,216	35,106
2	3%	18,616	100	18,716	30,516
3	4%	16,941	100	17,041	28,841
4	5%	15,200	0	15,200	27,000
5	6%	15,200	0	15,200	27,000
6	7%	0	0	0	0

Source: Prepared by the preparatory survey team based on the results of the SME survey
Note 1: The estimated total amount of loan include an amount of purchase of land and buildings.
Note 2: The amounts in the table above show the total amount of loans given by 12 companies.



Source: Prepared by the preparatory survey team based on the results of the SME survey

Figure 3-10: Total Estimated Amount of Loan per Interest Rate to be Set (USD)

The following table shows the total estimated amount of loan (for investment use, working capital use and total amount) per repayment period to be set calculated based on the preferred repayment period at which the companies surveyed (88 companies) are expected to borrow for their new loan.

Table 3-54: Calculation of Estimated Total Loan Amount per Repayment Period to be Set (TZS)

	Repayment period to be set	**(1) Estimated total loan amount for investment in equipment and facility (million TZS)**	**(2) Estimated total loan amount for working capital (million TZS)**	**(1) + (2)**	**Estimated loan amount in total (million TZS)**
1	Over 10 years	4,102	2,575	5,842	8,137
2	5-10 years	37,174	10,053	50,541	**60,686**
3	3-5 years	8,317	4,384	6,990	13,221
4	1-3 years	345	745	33	1,105
5	Less than 1 year	0	0	0	0

Source: Prepared by the preparatory survey team based on the results of the SME survey
Note: The estimated total amount of loan includes an amount for the purchase of land and buildings.

As shown above, if the repayment period were set at between 5 and 10 years, the maximum total amount of 60,686 million TZS (about 45.9 million USD) could be expected to be borrowed by the 84 companies surveyed.

(5) Necessary measures to increase the access by SME to finance

While the majority of companies surveyed possessed land and buildings, some companies did not. There were a few cases where companies had borrowed from commercial banks with the collateral of their machinery and equipment, but basically commercial banks do not lend money to companies which do not possess a title deed to land or buildings. There are two types of title deed in Tanzania; one that is issued by the Ministry of Lands, Housing and Human Settlements Development and another that is issued by District Councils. The title deeds issued by District Councils are not transferable and are therefore not able to be used as collateral for loans by banks. According to interviews with companies surveyed, there was a case where a company was not able to borrow money from commercial banks since the title deed for their land had been issued by the District Council.

In addition, there were only two cases of lease utilization and one case where the credit guarantee system of the Private Agricultural Sector Support Trust (PASS) was used among the companies surveyed. The fact that the guarantee scheme is not known seems to simply be due to a lack of information. Considering this, it is necessary to disseminate such information on leases and credit guarantee systems to companies and to allow them to familiarize themselves with the systems in order to increase their access to financing.

(6) Types of Technical Assistance and measures to be provided to SME

Based on the results of the SME survey, as referred to in "3.2.4.3 Needs for Technical Assistance," 91 out of the 118 companies surveyed have a need for technical assistance in terms of financing and bank borrowing. The advisory and consulting services in the areas of investment planning and evaluation, financial management and tax management are especially in high demand among the companies surveyed.

In addition, 104 out of the 118 companies surveyed have a need for technical assistance in terms of management. The advisory and consulting services in the areas of technical advice on production technology and production management, workers' training and marketing support are especially in high demand among the companies surveyed.

3.3 Possibilities of Enhancement of Business Relations between Tanzanian SME and Japanese Companies through Utilization of TSL

3.3.1 Possible Three Cases of Business Relations between Tanzanian and Japanese Companies

TSL to be funded by Japanese ODA loan, is designed to support medium- and long-term investment of SME in Tanzania. In order to obtain a general profile of potential SME end-borrowers and analyze information on their needs in mobilizing medium- and long-term investment funds, the preparatory survey team conducted the SME survey and presented the results as in the previous sub-chapter 3.2. In addition to the SME survey, the preparatory survey team carried out interview surveys with both Tanzanian and Japanese companies in order to find ways to possibly enhance business relations among them through utilization of TSL. Interview surveys were organized from September to October 2018 with: (a) 11 Japanese companies that had been doing businesses in Tanzania (a food processing company, an importer of used spare parts for cars that also runs a car repair shop, a construction company, etc.); (b) 9 Tanzanian companies that had been dealing with Japanese products (an importer and exporter of used cars, sale agents of construction machinery/agricultural machinery/sewing machine, etc.); (c) 3 Tanzanian companies that had received investment from Japanese companies (a construction company, sales of Liquefied Petroleum (LP) gas, etc.), and (d) one Japanese company that had been exporting their products to Tanzania (exporter of agricultural machinery). It was intended to examine how TSL could promote sustainable business collaborations between Tanzania SME and Japanese companies, learn their expectations for changes in Tanzanian companies through such collaborations, and analyze demands for investment funds potentially sourced from TSL.[27] Based on the interview survey, the preparatory survey team classified possibilities of collaboration into the following three cases:

[27] Although the expected amount for sales and the expected number of equipment and facilities to be sold are not necessarily accurate but could be, more often than not, exaggerated due to the nature of this type of interview survey, the preparatory survey team considers that these figures could still indicate their future expectations and directions of their businesses.

Case 1: Tanzanian companies' provision of high-quality services and products to Japanese companies (short- and medium-term effects)

Case 2: Tanzanian companies' purchase and utilization of products and services provided by Japanese companies (not necessarily products manufactured and/or services originated by Japanese companies) (medium- and long-term effects)

Case 3: Tanzanian companies' purchase and utilization of high-quality products manufactured by Japanese companies (short- and medium-term effects)

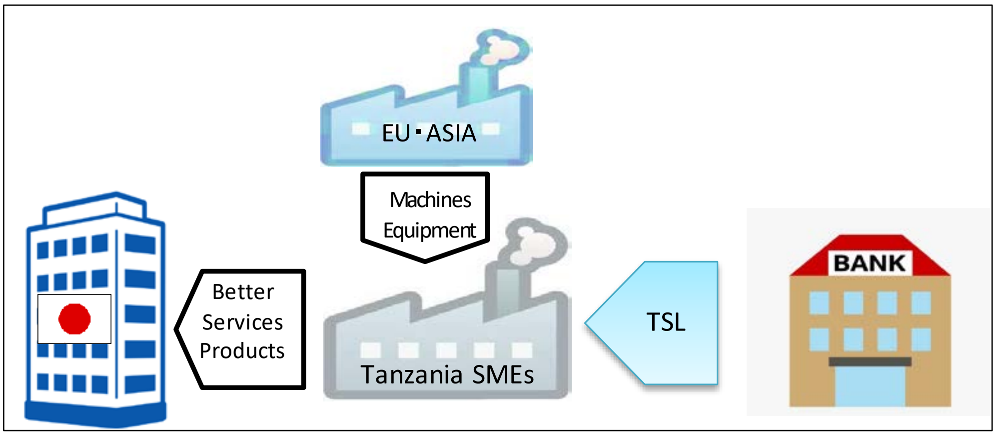
As described above, different time horizons are foreseen in terms of the effects from the TSL Project, depending on the case in question. Short-and medium-term effects will emanate from Case 1 because it may require some time to improve quality of services and products through interactions with Japanese companies. Effects in Case 2 are expected to be realized in a longer term since a few Japanese companies do such transactions with Tanzanian SME. As for effects in Case 3, relatively short-term effects will be expected.

(1) Case 1: Tanzanian companies' provision of high-quality services and products to Japanese companies

It is possible for TSL to finance long-term capital to Tanzania's excellent SME, which will cooperate with Japanese companies conducting business in Tanzania and neighboring countries. It is expected that the quality of products and services of Tanzanian companies will be improved by using better equipment and facilities that are purchased with TSL funding, to meet high demanding Japanese business standards for quality. A good example is construction-related companies that operate as subcontractors of Japanese-affiliated companies engaged in civil engineering works and construction. The interview survey results that construction companies often use old construction machines, and if any machines break down, they risk a delay in terms of the completion period of construction works. In Tanzania, construction-related enterprises have the demand to own facilities on their own because fees for rental machinery are expensive and the quality is substandard. Also, if subcontractors do high-quality work within the deadline of the construction period by using higher quality machinery and equipment, Japanese companies that subcontract the work could also benefit. The target construction machinery comprises such equipment as excavators, bulldozers, rollers and others. Depending on the type of machinery, the unit price could be as high as 250 thousand USD, and a company usually requires more than one unit of construction machineries, the estimated investment amount per company will range from 500 thousand USD to one million USD under this scenario.

Another example is direct or indirect exports of agricultural products (such as coffee, tobacco, sesame and sisal) by Tanzanian companies. If Tanzanian companies increase harvest volume and improve production efficiency by introducing new agricultural machinery, both Tanzanian and Japanese companies handling the agricultural products could also benefit from business transactions.

These effects may take some time to materialize and their effectiveness to be realized after having purchased the machine.

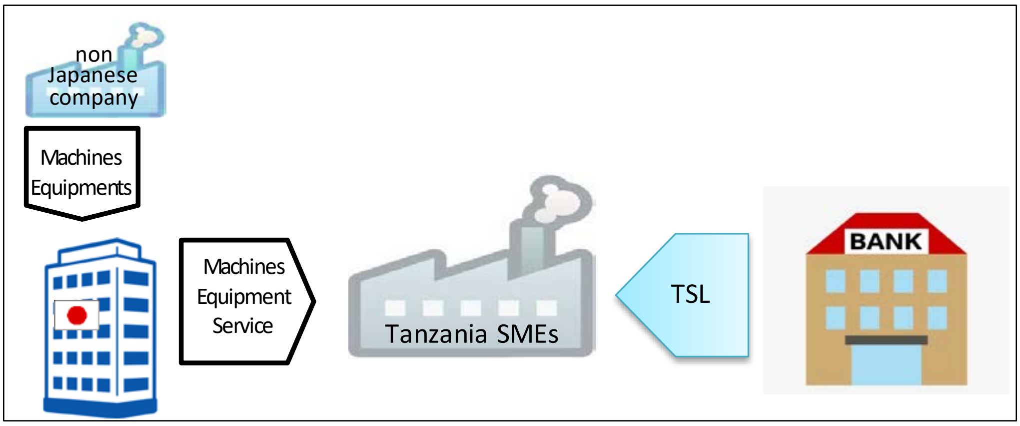


Source: Prepared by the preparatory survey team

Figure 3-11: Case 1

(2) Case 2: Tanzanian companies' purchase and utilization of products and services provided by Japanese company (not necessarily products manufactured and/or services originated by Japanese companies)

It is expected that the business between Tanzanian SME and Japanese companies will be carried out smoothly if Tanzania SME are financed by TSL to purchase machines/equipment from Japanese companies under affordable terms and conditions (i.e., not necessarily products manufactured and/or services originated by Japanese companies). The result of the SME survey seems to indicate high demand for machinery or equipment related to food processing or packaging. These products made in Japan are expensive under the present circumstances, so Japanese companies may procure and sell third country products such as those from China, India, and others. The interview survey with a Japanese company showed that in the past, the company tried to sell a food-processing facility for the equivalent of 270,000 USD to a Tanzanian company, but the contract was not concluded because the Tanzanian company was not able to get financing to purchase the facility. In addition, another Japanese company purchased equipment (tanks, piping, motors, and sunflower-oil extracting machines) from China, assembled the sets in Tanzania, and sold the sets to local SME on installment. One set was about 30,000 USD although this business was not very successful due to the problem of getting repayment from customers. If the Japanese company can reduce the business risk by urging Tanzania SME to use loans under the TSL Project instead of extending their own credit, this business could be a viable one and the practice applicable to other businesses as well.



Source: Prepared by the preparatory survey team

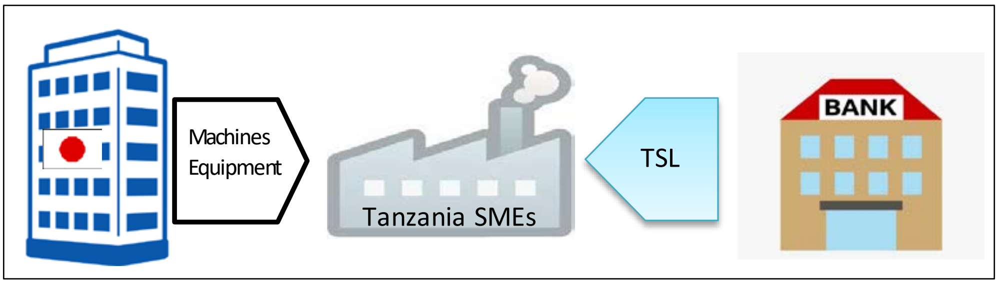
Figure 3-12: Case 2

The SME survey found that many firms have needs and requests for updating and/or augmenting additional production facilities. If Japanese companies actively explore needs and demands of Tanzanian companies, they could contribute to promoting transactions with Tanzanian SME by using TSL. If SME purchase 3 to 4 facilities, assuming one facility costs 500 thousand USD, a total amount of 2 million USD must be financed.

Since only a few Japanese companies do such transactions with Tanzanian SME, it may take some time for such business relations to become significant. Therefore, these are considered medium- and long-term effects.

(3) Case 3: Tanzanian companies' purchase and utilization of high-quality products manufactured by Japanese companies

Tanzanian companies will find it easier to purchase machinery and equipment manufactured by Japanese companies if TSL financing is available under affordable terms and conditions. Among many Japanese brand products, agricultural machinery and transport machinery are well accepted by many Tanzanians. Tanzanian small- and medium-sized business owners have preconceptions that Japanese products are generally high-quality items, but with high price tags attached. For this reason, raising the attractiveness of Japanese brand products will require efforts such as strengthening sales networks and enhancing after-sales services.



Source: Prepared by the preparatory survey team

Figure 3-13: Case 3

The table below shows Japan's major exports to Tanzania. The import amount from Japan is relatively smaller than the total import amount of each item in Tanzania, indicating a possibility to expand imports of high-quality products from Japan if sales efforts are made.

Table 3-55: Japan's Exports to Tanzania (Major Items)

Unit: thousand USD

HS Code	Product label	Japan's exports to Tanzania			Tanzania's Imports from the world
		2015	2016	2017	2017
8429	Self-propelled bulldozers, angle-dozers, graders, levelers, scrapers, mechanical shovels, excavators,	2,584	326	2,776	52,604
8430	Moving, grading, levelling, scraping, excavating, tamping, compacting, extracting or boring ...	972	316	640	15,656
8431	Parts suitable for use solely or principally with the machinery of heading 8425 to 8430, n.e.s.	25	491	85	55,186
8433	Harvesting or threshing machinery, incl. straw or fodder balers; grass or hay mowers; machines ...	191	336	184	3,666
8455	Metal-rolling mills and rolls therefor; parts of metal-rolling mills	200	138	661	7,086
8467	Tools for working in the hand, pneumatic, hydraulic or with self-contained electric or non-electric ...	142	244	450	5,119

HS Code	Product label	Japan's exports to Tanzania			Tanzania's Imports from the world
		2015	2016	2017	2017
8474	Machinery for sorting, screening, separating, washing, crushing, grinding, mixing or kneading **...**	100	271	96	51,158
8483	Transmission shafts, incl. camshafts and crankshafts, and cranks; bearing housings and plain	38	110	1,339	14,187

Source: ITC Trade Map

The interviews with the companies for the SME survey reveal that Japanese brand products manufactured in China and Southeast Asia (e.g. Indonesia, Malaysia, Thailand, etc.) by Japanese companies are imported by Tanzanian companies (e.g. agricultural machinery). There are also used trucks and construction machines imported to Tanzania via the Middle East and other countries. Therefore, the volumes of Japanese brand products purchased in Tanzania are likely to be greater than above statistical figures.

Sales of Japanese agricultural machinery are most likely to increase in Tanzania in the future. Japanese companies are concentrating on promoting sales through local dealers. In addition, the leasing of Japanese agricultural machines has already begun. If a leasing company in Tanzania becomes one of the Participating Financial Institutions (PFI) under TSL, the amount of repayment can be kept lower than the current level as the interest rate decreases, and the leasing demand from local companies can be increased.

Agricultural machinery dealers cite the possibility of increasing the current sales volume (150 to 200 units) by 10% to 25% if the Shilling-denominated borrowing rate is 3% to 5% lower than current levels. Sales of machines with an average unit price of 30,000 USD will increase by 15 units to 50 units and by the additional amount of 450 thousand USD to 1.5 million USD per year.

Also, some companies already lease the second-hand cars and trucks made in Japan. Three units of Japanese trucks (equivalent to approximately 100,000 USD) are sold monthly by a Japanese truck dealer using leasing arrangements, so if the loan conditions such as interest rates get more attractive, the sales of this company alone are expected to amount to approximately 1 million USD annually (3,000 USD x 3 units x 12 months), and the supply of Japanese-made parts necessary for maintenance will also increase accordingly. Meanwhile, if TSL increases the number of sales of new Japanese trucks with the average price of 70,000 USD, by about 10% of 300 new cars per year, the sales amount will be 2.1 million USD (estimated from the interview survey results). In addition, the number of imported second-hand passenger cars is estimated to be around 5,000 units a year. Assuming that passenger cars purchased by users such as rent-a-car, and tourism companies, will increase by about 4% (i.e., 200 units=5,000 units x 4%) using TSL, increased demand is expected to be approximately 1 million USD (5,000 USD x 200 units).

The sales of construction machines such as bulldozers and excavators are expected to increase by about 5 units per year due to the availability of more accessible loans or leases, representing about 500,000 USD (the average price of new machine is about 100,000 USD). According to the interview survey, the demand for second-hand machines is more than that for new machines and there is an extra demand of 10 units to 20 units annually (the average price of second-hand machine is about 3,000 USD).

In addition, demand for rice milling machines and metal-processing machines manufactured by Japanese companies, which in many cases are purchased directly (imported) by buyers rather than through dealers can be used by leasing. According to the SME survey, the purchase of agricultural processing machinery and metal-processing machinery is expected to increase by about 500,000 USD (=50,000 USD x 10 units). However, an obstacle to purchasing Japanese products is that some metal-processing enterprises, consider purchasing Japanese second-hand Numeric Control machines, but have difficulties finding information on used machine tools in English on the Internet, so even price information cannot be obtained.

Currently, the transition of broadcasting systems from analog to digital standards has begun in Tanzania's broadcasting industry, therefore updating to digitized compatible equipment is much in demand. As digitization is progressing step by step in each broadcasting company, demand is building for Japanese products with a high price but also high-quality. According to the interview survey, each TV station requires 10 to 20 units of cameras and other tools, so the total investment will be high. Also, the cost of a TV relay car (i.e., an outside broadcast van) is basically high, although it depends on specifications. Since not only the head office but also the branch offices require TV relay cars, more chances to introduce Japanese-made TV relay cars (including secondhand ones) will appear. According to the president of Tanzania Broadcasting Corporation, although the Japanese-made TV relay car is more expensive than Chinese-made one, it has high durability, so the life cycle product cost is not high. The local broadcasting station estimates costs of about 300,000 USD to 500,000 USD per new TV relay car, so even three units will cost around 1 million USD to 1.5 million USD. All Tanzania broadcasting stations have potential demands for the TV relay cars, worth 3 to 5 million USD in total. Assuming 30% of the total demand uses TSL, financing for Japanese relay cars will be 1 million USD to 1.5 million USD.

If Japanese machines and equipment are available in the market, it seems that more SME are willing to purchase them with TSL as soon as the loan facilities become available, resulting in what is expected to be a short-term effect.

3.3.2 Possible Ripple Effects brought by TSL

Regarding TSL impact, the direct purpose of the TSL is to improve SME access to finance, especially access to long-term loans for capital investment. The SME survey that the preparatory survey team conducted, also indicates that access to finance is the most serious obstacle to Tanzanian companies (see Table 3-14). TSL eliminating this obstacle factor raises expectations that the companies will grow. As a result, employment or trade situations will improve with more domestic sales or exportation. In addition to the finance, access to the latest appropriate technology, government policy and regulation are also mentioned as serious issues which, unless addressed, will interfere with obtaining sufficient impact by TSL. For example, realizing the expected effect of TSL may require Tanzania government to improve the business environment (for example, by temporarily reduction tax rates).

However, due to the limited scale of the TSL Project, it is not possible to improve the financial access of all SME. The economic impact could result from TSL supporting growth-oriented companies and others, and placing them on the growth trajectory toward the next stage. It may also produce a ripple effect on other companies if these growth-oriented companies stimulate the economy. On the other hand, if TSL refinances existing loans or update an old machine with a low-performance machine, the impact on Tanzania's economy will be limited.

In other words, this ripple effect can be expected if growth-oriented companies and others use TSL to introduce production facilities and machines with higher performance than before, thereby improving productivity and creating better products and services. TSL will enable growth-oriented companies to improve their competitiveness in East Africa. In addition, Japanese companies can contribute to Tanzanian companies with a willingness to grow by supplying high-performance machinery and equipment.

The following three effects are expected.

(1) Development of a small-sized company

First, it is possible for companies to develop dramatically by acquiring new technologies from abroad including Japan. Many companies use obsolete facilities and cannot meet the high level of customers' requirements in terms of quality and performance. If the local suppliers purchase low-cost production machines due to the shortage of their own funds, it often happens that the suppliers cannot keep to production schedules and delivery dates due to breakdowns or missing spare parts. Overcoming competition with imported goods and suppliers in neighboring countries requires supplying good products or services within the set period. If this situation of using a low-performance machine continues, the government cannot expect the planned expansion of the manufacturing.

On the other hand, TSL improves productivity and quality of products and services of companies that purchase high-performance machine/equipment. The machinery can improve durability to achieve planned production. Introducing new machines can improve the fields of agriculture and metal processing in the short term, in terms of productivity and product and service quality. For example, Uganda recognized added value to rice by introducing a Japanese stone extrusion machine which neighboring Tanzania can utilize as well.

Even if it is possible to produce good products in large quantities, selling them accordingly is necessary. Therefore, it requires the support for marketing ability commensurate with production capacity. In addition, production control management for efficiently using the machine/equipment is necessary to reduce the cost of products and services by eliminating defective products and wastes.

(2) Attracting foreign investment

The next expected effect of TSL is that a company growing to become medium-sized with a good management foundation eventually attracts investments from overseas including Japan. At present, the number of medium-sized companies is not increasing fast enough in Tanzania, and very few companies are considered good partners for overseas investors, including Japanese companies. An overseas investor is attracted by a company that has its own technology and products, and maintains relatively high market share in the domestic market. One case is of a Japanese manufacturer looking for a partner in Tanzania, who did not realize that the most eligible company with its own brand products and certain market share did not have a good management structure. On the contrary, the Japanese energy company that found the Tanzanian company equipped with unique technology, has already invested over 100 million yen (about 926,000USD) (see the column “Example of Joint Projects between Tanzanian and Japanese Enterprises” below).

Since it is assumed that besides its financial soundness the company must set up a management foundation to be attractive to a foreign company, a certain number of years (at least two or three years) and the external support are required for those companies with insufficiently skilled human resources.

For matching with overseas companies, it is desirable to appoint the institution/ personnel with networks from an international perspective and to do it on an ongoing basis to cope with the rapidly changing business world.

Example of Joint Projects between Tanzanian and Japanese Enterprises

As a specific example of joint projects between Tanzania and Japan, although not being manufacturing sectors, there is a joint venture company which has been doing business in retail sales of LP gas controlled by a smart meter system in Dar es Salaam. A Japanese company dealing with wholesale and retail of LP gas in Japan invested in a Tanzanian company which runs retail sales of LP gas with a smart meter system developed by the company itself. The two companies established a joint venture company in Tanzania in 2018 to expand the business; the joint venture company currently sells LP gas with the smart meters to more than 1,000 customers in Dar es Salaam. The Japanese company has been providing knowhow on importing and wholesaling of LP gas to the joint venture company.

With the smart meter system, customers are able to buy LP gas with a unit of 1,000 TZS and amount used are recorded in the smart meters. It is estimated that there are a large number of households who still use charcoal for their cooking in Dar es Salaam so that the potential for future customers are huge. Gas is convenient for daily use and even cheap compared to charcoal since the price of charcoal is recently increasing against the recent environmental consideration.

While the smart meter devices used for this system are currently made in China and imported 100 percent from there, the joint venture company is planning to import their components from China and assemble the meter in Tanzania in the future, which means that the company would operate as part of manufacturing business as well in the future.

(3) Increasing exports

Finally, those companies investing in the production facilities through the use of TSL are expected to increase exports to overseas including Japan by expanding production volume and improving the qualities of products.

At present, a few traditional export products such as gold, coffee and tea are the main products gaining foreign currencies. Others are mostly agricultural products producing very limited value added. For example, Tanzania has exported about 20,000 tons annually of sesame as the raw material of oil extraction in Japan but if the Tanzanian company implements an oil extraction facility that matches the market conditions in Japan, the company can export the sesame oil to Japan as well as to other countries.

In other words, by implementing capital investment that increases the value added to the product, exports to neighboring countries or even to countries other than in Africa including Japan may increase. It is likely to increase the export by processing agricultural products already exported in the form of raw materials or by changing the packaging of agro-products such as cashew nuts. If there is already an export destination, it is assumed that export of a higher-value product could be realized at a relatively early stage. If there is no export destination, or if a company has to search for a new market, it may need assistance such as sharing export destination market information, introducing the export partner and providing the export finance.

3.4 Gender Mainstreaming Issues

Aside from the SME survey above, a field survey was conducted from the viewpoint of gender mainstreaming. This sub-chapter highlights the results of the field survey based on the interview with principals in women-owned enterprises.

The interview was conducted based on narrative interviews. This includes the company's brief profile and history, as well as narrative interviews of their experiences in the course of business operations in terms of gender. Also, their loan experiences and the challenges they acknowledge in utilizing bank loans are shown in sub-chapter 3.4 (5) below.

Since the statistical facts on the number of employees or other numbers concerning a business could only show a limited dimension of gender issues, the interviews were conducted largely as narratives make it easier to answer the questions, directly based on the interviewee's own experiences, in a face-to-face session rather than by written questionnaire

The following is the business categories of women owned-businesses interviewed during the field survey.

Table 3-56: Business Categories of the Interviewees

Category	Total number	Business products	Number of the companies
Food production	11	Oil (coconut, sunflower, Moringa)	3
		Bakery	3
		Grains, Flours, Rice-milling	3
		Water	1
		Other	1
Manufacturing	4	Dressmaking	2
		Furniture	1
		Uniforms, Embroidery, branding	1
Education	3	Nursery school, primary school	3
Construction	2	Construction	2
Import	1	Paper products	1
Services	1	Security service	1
		TOTAL	22

Source: Prepared by the preparatory survey team
Note 1: Many of the companies have more than 1 type of business beyond the categorization, though this table only shows the number of their largest or main business)
Note 2: The interviewee includes non-manufacturing companies

Table 3-57: Size of Employment

	Number of Employees	Number of Companies
1	1-4	1
2	5-29	13
3	30-49	4
4	50-99	0
5	100 and over Note 1	2
	TOTAL Note 2	20

Source: Prepared by the preparatory survey team
Note 1: The Security Service company had 650 security guards
Note 2: The total number of companied interviewed was 22. Remaining 2 companies out of 22 did not answer the exact number of employees.

(1) Gender issues in business environments concerning SME

Throughout the field survey, narrative interviews were conducted with a total of 22 women business persons, mostly owners of SME, in order to find out the challenges and constraints on their businesses when focusing on gender.

Of all the interviewees contacted throughout the field survey, none mentioned the existence of any kind of institutional bottleneck or discrimination in terms of policies or financial options, legal rights, and procedures related to gender. Within business operations, these women business owners have no recognition of gender inequality.

However, as shown in (2) below, there are significant gaps in business ownerships between women and men. The majority of micro-business owners are women, though they tend to have difficulties growing their businesses. The network organizations and umbrella organizations, such as Tanzania Women Chamber of Commerce (TWCC), Tanzania Private Sector Foundation (TPSF), Voice of Women Entrepreneurs Tanzania (VoWET), Tanzania Food Producers Association (TAFOPA), Tanzania Growth Trust (TGT), and Financial Sector Deepening Trust (FSDT), point out a significant lack of women-business-owner access to information, business support, and finance, and it is crucial to address such challenges to achieve women's economic empowerment.

Although the interviewees responded that there was no such discrimination in any legal or institutional environment (such as registration, licensing, or even land ownership), they also mentioned that there were significant challenges for women business owners to growing their businesses. And most of the interviewees think that social norms hinder women-owned business's operation or growth. This indicates obstacles and challenges outside the financial service provisions or business procedures to be addressed, in order to achieve gender mainstreaming in SME finance. To enable potential clients who have been struggling to receive commercial bank loans and other services, it is important to recognize the gender issues that lie outside the services and to address and respond to those challenges to achieve gender mainstreaming and gender equality.

(2) Statistical background of gender and SME

The statistics shows that 73.4% (1.2million) of women-owned businesses have 1 employee and 25.9% (444,000) of women-owned businesses have 2 to 4 employees, which makes that total of 99% of women-owned businesses are micro or small enterprises. The share of women-owned enterprises among companies with more than 5 employees was 14%.[28] Also, data collected by ILO shows 83% of women entrepreneurs surveyed were sole proprietors, 12% were in partnership and 5% were limited liability companies.[29] This shows that the majority of women owned businesses are at micro level.

In addition, the following Table 3-58 shows gender gaps between the management and the workers in the companies with more than five employees.

[28] National MSME Baseline Survey Report (MIT, 2012), requoted "Women's Entrepreneurship Development in Tanzania: Insights and recommendations" (ILO, 2014)
[29] Ibid.

Table 3-58: Gender Gaps of Management and Workers of Companies with More Than 5 Employees

Company size	(1) Percent of firms with female participation in ownership	(2) Percent of firms with majority female ownership	(3) Percent of firms with a female top manager	(4) Proportion of permanent full-time workers that are female (%)	(5) Proportion of permanent full-time production workers that are female (%) Note	(6) Proportion of permanent full-time non-production workers that are female (%)*
Average	24.7	9.9	14.0	44.0	19.1	38.2
Small (5-19)	23.5	9.5	13.2	46.0	21.2	39.9
Medium (20-99)	28.6	12.7	18.3	39.6	12.8	37.6
Large (100+)	29.3	1.3	4.2	17.8	16.4	30.8

Source: Enterprise Surveys: TANZANIA 2013, World Bank/IFC
Note: Manufacturing sector only

The percentage of firms with female participation in ownership in Tanzania is 24.7% [column (1) of the table above] around 6.5% lower than the average of Sub-Saharan African countries. Also, the percentage of firms with majority female ownership tends to be very low at all levels; 9.5% for Small (5-19) companies, 12.7% for Medium (20-99), and 1.3% for Large (over 100) companies [column (2) of the table above].

Furthermore, in the manufacturing sector, the statistics show that there are only 19.1% of permanent full-time production workers who are female, suggesting lower representation of women in the employment of skilled workers [column (5) of the table above].

General financial inclusion also displays gender gaps respecting mobile-money usage at 13.2% (difference between male at 63.2% and female at 50%) and banks at 9% (difference between male at 19.4% and female at 10.4%), showing structural and behavioral factors such as lack of incentives (banks), lack of accessibility, social norms, and a financial-literacy gap.[30]

(3) Gender situation of SME based on the SME survey and gender interview

The following table shows the gender related actual situation based on the SME survey.

Table 3-59: Gender Gaps of SME

No.	Gender-related Actual Situation	Ratio
1	Companies with MORE women representation in management	8.8%
2	Companies with EQUAL number of gender in management	12.4%
3	Companies with NO women in management	26.5%
4	Total percentage of women in management	29.7%
5	Companies with women managing director (top manager)	10.2%
6	Total women workers (including management and employees)	39.7%

Source: SME survey: out of 113 companies with valid responses

The percentage of the companies with a majority of women in ownership is 8.8%, relatively close to the average of companies in general in Tanzania (9.9%) according to Table 3-58 [column (2)]. Although 73.5% of the companies have at least one woman in management, only up to 10.2% of the companies have a woman as top manager, lower than the average 14% shown in Table 3-58

[30] "Bridging the gender gap: Research and Strategies to Improve Financial Wellbeing for Women in Tanzania" (FSDT/BUSARA Center for Behavioral Economics)

[column (3)]. The SME survey reveals a significant gender gap in company ownerships (women 10.2%, men 89.8%) and participation of women in management. The number suggests that although there are basically no institutional bottlenecks or discrimination in terms of policies or financial options. as mentioned in 3.3 (1), the survey results show the existence of gender inequality or certain challenges in operating businesses, also mentioned in the narrative interviews of women business persons.

(4) Legal and financial situation of gender mainstreaming and its impact on SME

National Land Policy (1995), the Land Act (1999, 2004), and the Village Land Act (1999) laid the foundation for land reform in Tanzania, which contains safeguards for women's land rights.[31] However, according to the interviews, although women hold legal rights to land, it is in fact culturally challenging for women to hold land as the property tends to be considered as that of the household.

Throughout the narrative interviews, the land issue was a major challenge that most of the women business owners had experienced or of which they were well aware. Those who had land ownership could request commercial bank loans utilizing their properties as collateral; others could not apply for commercial bank loans as they did not possess properties to use as collateral or those they had were family-owned property and they could not get their male family's (mostly husband's) permission to do so.

In terms of property and inheritance rights, the government ensures women's entitlement to the rights for land purchase and allocation. In regard to inheritance, Tanzania is guided by three systems, namely customary law (traditional law), Islamic law, and the Succession Act. The government has established precedents for enacting statutes that supersede customary and Islamic Law. However, most of the interviewees mentioned that there is little awareness among women of their rights, and customary law is still followed in many cases. Even though women know about their rights, the head of the family is likely to prevent using them. Although the government has a commitment to supporting women in general, the main challenge is the limited awareness and capacity of women to take advantage of these provisions. It is important to create more awareness, not only among women but also in society, of the importance of providing women with equal access to their rights and to facilities and services.[32]

Gender equality is well-mentioned in most of the law and policies concerning SME in Tanzania. FYDP 2 (2016/17-2020/21) refers to the achievement of Women Economic Empowerment by interventions to ensure gender balance to unleash women's potential for contributing to the envisaged social economic transformation.[33] MITI is developing a Gender Mainstreaming Program to identify and react to gender-related issues.[34] Concerning financial inclusion, National Financial Inclusion Framework 2018-2022 addresses financial gap and challenges for women and establishes initiatives to tackle the bottlenecks.[35] Also, the National Strategy for Gender Development addresses initiatives in women's economic empowerment.[36] Although legal frameworks concerning gender are relatively strong in Tanzania, there are major issues outside the institutional environment for women to operate their businesses equal to men.

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[31] "Women's Land Rights Guide for Tanzania", Landesa (2014)
[32] "Women's Entrepreneurship Development in Tanzania" ILO (2014)
[33] "National Five Year Development Plan 2016/17-2020/21", Ministry of Finance and Planning
[34] "Strategic Plan", Ministry of Industry, Trade and Investments 2016/17-2020/21"
[35] "National Financial Inclusion Framework 2018-2022"
[36] "National Strategy for Gender Development" Ministry of Community Development Gender and Children

(5) Loan experiences and challenges

The following shows the loan experiences of the interviewed women from women-owned companies.

Table 3-60: Major Loan Experiences of the Companies

Financial Institutions Used for Loans

Category	Financial Services Providers	No. of loans
Banks	CRDB	3
	Akiba Bank	3
	Access Bank	1
	DTB (Diamond Trust Bank) Tanzania	1
	Equity Bank	1
	FNB Bank	1
	KCB Bank Tanzania	1
	NBC Bank	1
	DCB (Dar es Salaam Community Bank)	2
MFI	MFI	1
	Africa Microfinance Ltd.	1
Governmental	Presidential Trust Fund	1
Trust	PASS	1
	Total	18

Annual Interest Rates

Interest Rates	No. of loans
11%*	1
17.5%	1
19%	1
20%	1
21%	2
22%	5
24%	1
32%	1
Total	13

Note: *Presidential Trust Fund

Loan Amount

Loan amount (million TZS)	No. of loans
1~50	9
51~100	2
101~200	1
201~	3

Purpose of Loans

Investment	7
Working Capital	7

Source: Prepared by the preparatory survey team

Out of 22 companies, 13 (59%) had loan experience from financial institutions. The total numbers of loans were 18 (Banks 14, MFIs 2, Governmental financial instruments 1, Trust 1).[37] Apart from certain companies with large-size loan experiences, most of the companies are struggling to get sufficient loan amounts to meet their needs and eventually receive smaller-size loans. The major reason for this is a lack of collateral or the required collateral being beyond their capacity (i.e., 125% of the loan amount required as collateral values).

Some of the companies avoid getting loans for buildings or securing lands, as the investment itself does not directly generate profit, making them higher risk. Several companies pointed out that in order to win a business contract with the government, sufficient working capital is indispensable, so they prefer to get loans for working capital rather than investment[38]. Also, even though some of the companies had no experience with bank loans, most of them had experience utilizing Savings and Credit Cooperatives (SACCOs) or other kinds of financial options under the name of their family.

[37] The number does not necessary include all the loan experiences of each company.
[38] Interview with a security service company and a manufacturing (branding, embroidery) company

Here are some of the features of the comments on their decisions making concerning loans for their businesses. Also these features influence business operation in general.

Table 3-61: Features of Interviewees' Comments Concerning Loans and Business Operations

Category	Features of the comments
Collateral and loan conditions	• Requirements are very high. They normally require 125% value of the amount of loans, or certain amount (such as more than 50 million TZS) required to be kept in the audited account. • Repayment of the loan is normally too short and it is difficult to generate profit out of machines invested within a few years. • Some banks require at least 4 years of audited financial statements. • In some cases, the bank required the collateral of the value of twice as high as the loan amount plus partnership with other company. • Most of the lands are not properly audited.
Interest Rates	• Interest rates for commercial bank loans are relatively very high. (Around 20%-22%)
Information	• Many women don't have enough and proper knowledge of financial options and bank loans, taxes, business procedures, etc. and there are information gaps that hinder women's business growth.
Social Norms	• Business is still a male-dominated world and sometimes there is a need to dispatch a male manager in order to achieve results in business negotiations. • There is frequent sexual harassment by loan officers or at other business meetings. • Corruption is sometimes required in order to get loans. • Most of the women need their husband's permission to use their property as collateral.

Source: Prepared by the preparatory survey team

However, based on the interviews, almost all the companies are willing to acquire bank loans if the conditions are reasonable for their loan needs. The following Table 3-62 shows the investment plans of the companies.

Table 3-62: Investment Plans of the Companies

Purpose of Future Investment

Purchase of land	3
Purchase or expansion of building	9
purchase of production equipment	11
Purchase of office equipment	5
Purchase of vehicle	9

Amount of Investment

Amount of Investment (million TZS)	No. of Companies
~100	1
101~300	3
301~1,000	4
1,001~	1

Source: Gender Interview

The timing of the investment depends on individual businesses. Some are already negotiating with the banks or purchasing land and planning to get loans for buildings and machinery. Almost all of the rest of the interviewees are strongly wishing to use financial options immediately, once they find a suitable service.

The followings are some of the requirements mentioned during the interview:

- Interest rate of 10%-12% (annual) and longer repayment period (i.e. 5-6 years)
- Loans that take the machine purchased by the loan as approved collateral
- Loans without collateral or a combination of guarantee and collateral
- Loans based on business agreement with clients instead of collateral
- Loans approved upon careful monitoring of clients' business operation and profit instead of collateral

(6) Major constraints on women business owners

The following are possible challenges and obstacles the researchers asked of women business persons to find out whether they have experienced these or not. The responses varied, though in terms of legal and institutional frameworks, there is practically no discrimination or any disadvantage for women.

Thus, this reveals that those who have experienced A) to E) in the following Table 3-63, have had some kind of issues other than regulations or legal/bureaucratic environment, such as misunderstanding of legal issues, tax issues, procedures, and requirements.

Table 3-63: Issues experienced other than Regulations or Legal/Bureaucratic Environment

A) Business procedure - Experienced difficulty in business registration - Experienced difficulty in acquiring licensing or licensing procedures - Experienced difficulty in locating suitable business premises
B) Financing - Experienced difficulty in acquiring necessary financing including loans
C) Legal issues - Experienced difficulty in holding title deeds of land required as the collateral - Experienced difficulty in other laws and regulations
D) Business operation - Experienced difficulty in access to market or relevant procurement - Experienced difficulty in accessing suitable technology
E) Business Development Support - Less access to relevant business services - Less access to relevant business information - Less access to business or management skills training
F) Customarily laws or cultural environment - Corruption or harassment

In addition, among many of the women business owners there are misunderstandings about such items as business procedure, tax system or registration, and requirements for loans. It may happen mostly because of the lack of an information channel or opportunity to reach correct information.[39]. However, some of the interviewee mentioned that there exists a problem of women's generally negative attitude toward approaching information or networks in order to get necessary access to their business support.[40]

All the interviewees mentioned that there exists corruption or harassment in operating businesses, as well as social norms that are hindering women from, for example, owning property.

Therefore, the interview indicates that there are significant needs regarding women's access to appropriate and necessary information, knowledge, and technical support in business operations. For cultural reasons, men tend to socialize more easily and can acquire necessary information or help for their businesses, while this is somehow not easy for some women who might need a husband's permission to do so, or who simply do not know of financial or technical-support options.

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[39] Several interviewees said some women business owners misunderstand about tax procedures and they don't even try to know about it because they think it is something which is not beneficial.

[40] It is mentioned that some women not even try to attend seminars or join the networks to get information due to lack of knowledge, etc.

They require not only technical training such as packaging, but also training on businesses, and getting support such as mentoring. In order to get the loans necessary for their businesses, they need to prepare a Business Plan, which makes capacity building for the SME necessary.[41]

Some of the women business owners interviewed have engaged very actively in women's business training advocacy, and networking programs, and some are representing women business owners associations, such as Entrepreneurs' Organization (EO)[42] and Voice of Women Entrepreneurs Tanzania (VoWET). All of the interviewees belong to at least one such business association, including Tanzania Women Chamber of Commerce (TWCC), Tanzania Growth Trust (TGT), and Tanzania Food Producers Association (TAFOPA). Such organizations generally offer business-training service, networking, advocacy, and business-matching services. TGT also offers loan services.

(7) Needs for gender sensitive financial services

All of the organizations interviewed mentioned some kind of need for gender-sensitive (especially targeting women) financial services due to current gender situations in business operations. Considering the fact that many of the women business owners do not recognize themselves as a "woman" business person, but simply as a business person, business is a competition and most of the "women business owners" are dealing with their day-to-day challenges as a business person. However, if the competition was based on the equal conditions, generally more men would be found than women. This suggests that if the newly established loan scheme does not have any specific measure on gender consideration, the majority of the potential end-borrowers would likely be men rather than women. In case gender balance of the clients is to be taken into consideration in the loan scheme, rather than providing special gender consideration such as special interest rates or loan conditions for women clients, it may be better to have a special window for women in order to achieve a certain ratio of women clients for at least the first several years, combined with technical cooperation.[43]

PFI should deepen their understandings of the challenges that most women business persons face, and provide appropriate BDS. Realizing this would require encouraging PFI to recognize the importance and the existence of a large number of potential good clients. Women have relatively low financial access and independence, and a range of banking options must be available for the woman who needs access to finance.

3.5 Bottlenecks Facing SME in the areas of Environmental and Social Considerations (Findings from the Sampling Survey)

The preparatory survey team conducted a sampling survey with fifteen enterprises in Dar es Salaam during April and May 2018 to identify the difficulties and challenges they were faced with in terms of compliance with such domestic laws as the Environmental Management Act and relevant Regulations.[44] The survey team also had interviews with NEMC and OSHA, the regulatory organizations for environmental management and occupational health and safety, to learn their views, and to double-check if the enterprises' statements reflected the ground reality

[41] Interview with VoWET, TAFOPA, FSDT, TGT
[42] https://www.eonetwork.org/tanzania
[43] Interview to FSDT (4 May 2018), interview with TGT (7 May 2019), interview with TPSF (3 May 2018), interview with VoWET (8 May 2018)
[44] The survey applied a questionnaire-based face-to-face interview. SME were longlisted from the OSHA registration list, and those who agreed for interview were shortlisted. When selecting them, their sectors were taken into consideration for the collection of various views from a wide variety of different sectors, and some of the enterprises interviewed were the same as the SME survey targets. The opinions collected in the survey therefore do not reflect general view of majority of SME or statistically represent them.

and were coherent with them.

(1) Shortage of proper information and awareness

The Environmental Management Act is the key legal framework which promotes protection and conservation of the environment, and it describes project proponents' duties and responsibilities. However, enterprises are not fully aware of their environmental and social responsibility. On top of that, it is not easy to maintain a good local network in which they are able to identify experienced and reliable consultants for the development of environmental auditing reports which are of high quality in environmental inspection work.

<Anticipated and potential risks in the Project>
Without a sound awareness of environmental and social management, compliance with laws and regulations may not be ensured. If enterprises do not implement the mitigation measures and environmental monitoring plan as they state in the EIS, it may cause harm to the environment.

(2) Government procedures are time-consuming

To obtain certificates from the government takes time, as stipulated in the laws. Moreover, it takes more than the officially allocated period if the quality of reports does not reach the required level. Some enterprises complain how time-consuming it is to work with governmental organizations. SME lose incentive or are not convinced that they should go through all the governmental procedures with the payment of fees and charges while they do not have sound awareness of environmental and social management. Thus they remain in the informal sector.

<Anticipated and potential risks in the Project>
Under circumstances where compliance with the law is a pre-requisite for finance, the Project may find that there are less eligible SME if more time is taken than on the planned schedule.

(3) Government procedures are money-consuming

Enterprises suffer a financial burden to stay compliant with the law, which keeps them tied up in financial duties. The government fees and charges they have to pay are also incurred in their operations. Seven enterprises stated that they were burdened financially since they have to pay various different government organizations on various occasions. For environmental management, they are required to pay NEMC for inspection and review of EIA / EIS, for registration, annual inspections and auditing, and monitoring. If they emit pollutants, generate wastes, noise and vibration, they must pay for the permit. Some enterprises interviewed stated that there was no environmental education given to the community so that they did not understand why they had to conduct EIA. They also must pay OSHA for workplace registration and fees for occupational health and safety.

<Anticipated and potential risks in the Project>
SME must secure a considerable amount of their budget for fringe costs, among which is expenses for environmental and social management. This may hamper the smooth implementation of their businesses in spite of project finance.

(4) There is no present environmental support for public services and city infrastructure

Ten out of fifteen enterprises stated that they had contracts with private firms for sewage / solid waste collection in addition to the municipal service for which they were obliged to pay, since they found the services extended by firms contracted by the municipality to be unreliable. This resulted in a financial burden. Five stated that the drainage system in Dar es Salaam is unable to accommodate / manage a large amount of precipitation during the rainy season.

<Anticipated and potential risks in the Project>

SME may have to spend certain amount of money to cope with maintenance of the surrounding environment. They may also lose business opportunities if the poor level of infrastructure and public services hinders their development.

Chapter 4 SME Finance

4.1 Financial Sector in Tanzania

4.1.1 Banking Institutions

Overview

The banking sector comprises of commercial banks, development financial institutions, financial institutions[45], microfinance institutions and community banks. Commercial banks continued to dominate the sector, numbering 39 banks and holding 94.3% of the total assets with 71.2% of the assets financed by deposits in March 2018. This was not much different from September 2017.

Table 4-1: Composition of Banking Sector Assets

Type of Institutions	Sep-17		Mar-18	
	No. of Institutions	Compositions of Banking Sector Assets	No. of Institutions	Compositions of Banking Sector Assets
Commercial Banks	39	94.00%	39	94.30%
Development Financial Institutions	2	3.00%	2	3.00%
Financial Institutions	3	2.00%	3	1.90%
Microfinance Institutions	5	0.60%	5	0.60%
Community Banks	9	0.30%	5	0.30%
Total	59 Note	Total Assets 28,920.3 billion TZS	55 Note	Total Assets 29,894.7 billion TZS

Source: Bank of Tanzania, "Tanzania Financial Stability Report", March 2018
Note: including one classified into "Other financial institutions"

BOT has published statistical data on the total assets and total deposits of banks and financial institutions as of 31st December 2017. The number of institutions was 54 in total. Financial institutions covered by the statistical data are not exactly same as those on the list in the table above, but the general trends of banks and financial institutions can be seen therein.

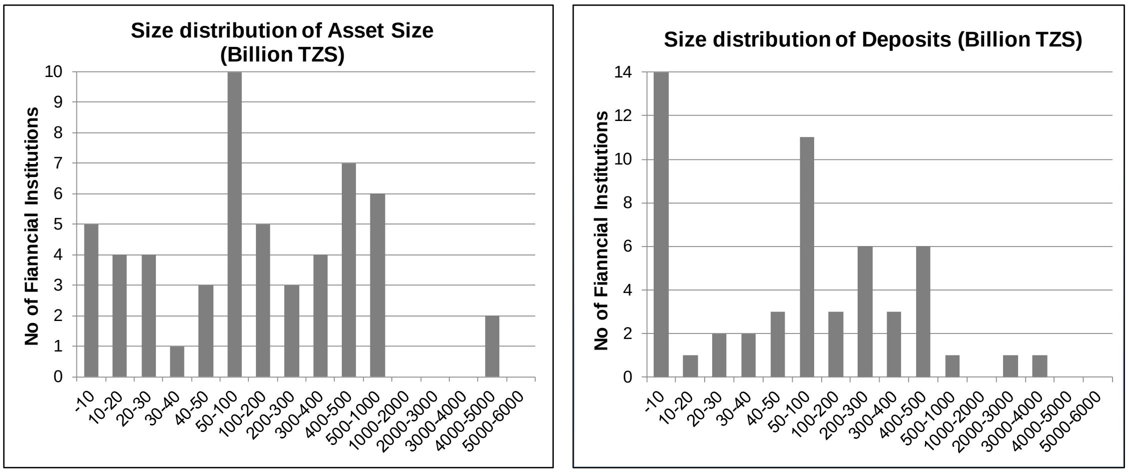


Figure 4-1: Size Distributions of Assets and Deposits

[45] All 3 financial institutions are leasing companies.

Total asset sizes range widely from 2.1 billion TZS to 5,806.1 billion TZS with the average and the median values being 552.6 billion TZS and 192.8 billion TZS, respectively. The total deposit sizes range from 0 TZS to 4,288.8 billion TZS with the average and the median values being 374.1 billion TZS and 134.0 billion TZS, respectively. The exclusion of microfinance institutions from the above calculation does not much affect the general results of the statistics.

Table 4-2: Number of Financial Institutions in terms of Asset and Deposit Size

Range (Billion TZS)	No of institutions in terms of total asset size	No of institutions in terms of total deposit size
1,000 and above	8	3
300 – less than 1,000	14	15
100 – less than 300	15	14
less than 100	17	22
Total	54	54

Source: Directorate of Banking Supervision of BOT, Annual Report 2017

Branch Network

The overall branch network of banking institutions increased by 13% from 2015 to 2017. Regionally, Dar es Salaam had 277 branches (34% share) and other regions had the remaining 544 branches (66% share). This is a 2% increase in share for the other regions.

Table 4-3: Distribution of Banking Institutions' Branch Network

Region	Number of Branches (share in %)						
	2015		2016		2017		15->17 var.
Dar es Salaam	263	36%	273	34%	277	34%	5%
Arusha	51	7%	57	7%	56	7%	10%
Mwanza	49	7%	58	7%	57	7%	16%
Mbeya	41	6%	39	5%	39	5%	-5%
Moshi	33	5%	37	5%	39	5%	18%
Others	291	40%	346	43%	353	43%	21%
Total	**728**	**100%**	**810**	**100%**	**821**	**100%**	**13%**

Source: Directorate of Banking Supervision of BOT, Annual Report 2017

Size of Major Items

In comparison with total assets, loans consisted 51%, deposits 71% and capital 16% as of December 2017. While loans decreased by 2%, total assets, deposits and capital showed a growth of between 6 to 9% over the amounts of the previous year.

Table 4-4: Size of Major Items

As of December 2017

Items	Total Assets	Loans	Deposits	Capital
Volume (Billion TZS)	29,804	15,160	21,282	4,650
Share against Total Assets	100%	51%	71%	16%
Growth against prev. yr.	7%	-2%	6%	9%

Source: Directorate of Banking Supervision of BOT, Annual Report 2017

Market Share

The four largest banks (CRDB, NMB, NBC and Standard Chartered) dominate the market with almost 50% share in assets, loans, deposits and capital. If this is enlarged to include the top ten banks, the market share jumps up to almost 70% in all 4 categories.

Table 4-5: Market Share

As of December 2017

Market Share	Assets	Loans	Deposits	Capital
Four largest banks	50%	47%	52%	44%
Next six largest banks	21%	23%	21%	24%
Others	29%	30%	27%	32%

Source: Directorate of Banking Supervision of BOT, Annual Report 2017

Sector-wise Lending

As of March 2018, lending to the agriculture sector by the banking sector was still the highest at 21.5% but other sectors had increased their share from March 2017. The trade sector came in second, jumping to 17.5% from 10.3% within a year. The tourism sector showed a steady growth to 17.3% while the manufacturing sector remained at 9.4%.

Table 4-6: Trend of Banking Sector to Individual Sector Lending

Unit: Percent

Sector	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Agriculture	29.2	25.9	19.2	20.1	21.5
Trade	10.3	15.6	17.4	18.4	17.5
Tourism	14.5	15.8	5.5	16.7	17.3
Building & construction	11.8	14.3	18.5	14.7	15.3
Real Estate	13.9	10.3	11.9	13.3	14.9
Transport and communication	14.7	15.6	14.9	14.9	13.7
Hotels and Restaurants	14.6	14.9	14.8	11.4	12.7
Manufacturing	11.8	9.0	9.0	11.9	9.4
Personal (Private)	6.3	7.3	7.1	6.6	5.3

Source: BOT Financial Stability Report March 2018

Maturity Gap of Selected Financial Institutions (FI)

As shown in Table 4-7, 68% of the loans and advances have a tenor of over 1 year but they are funded by short term deposits of up to 12 months including non-interest bearing deposits (98%). This funding structure makes FI vulnerable to liquidity risk and risks associated with changes in interest rates.

Table 4-7: Maturity Gap of Selected FI (end of 2017)

Loans and Advances (Gross)	Billion TZS	% of (A)
Up to 12 months	2,240	32.2%
1 - 5 years	4,473	64.2%
over 5 years	254	3.6%
non-interest bearing	0	0.0%
Total Loan and Advances (A)	**6,967**	**100.0%**

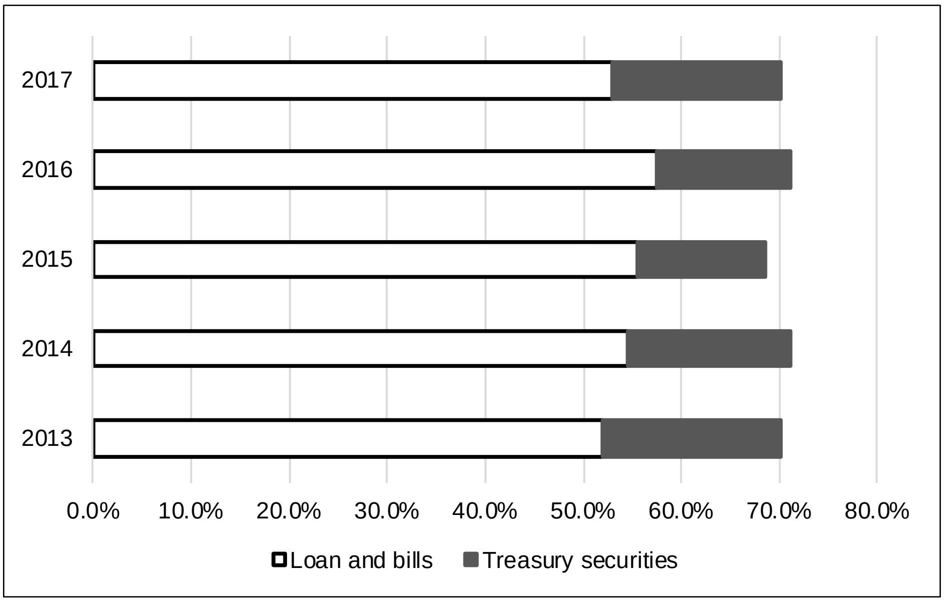
Deposits from Customers	Billion TZS	% of (B)
Up to 12 months	5,374	55.4%
1 - 5years	205	2.1%
over 5 years	0	0.0%
non-interest bearing	4,126	42.5%
Total Deposits (B)	**9,705**	**100.0%**

Note: Selected banks are CRDB, NMB, Exim, Maendeleo, TIB.

Source: The survey team, Annual Report of selected banks.

Share of Loan and Treasury

From 2013 to 2016, banks increased their share of loan against total assets but due to the increase in the NPL ratio, they reduced their share of loans and instead invested in safer treasury securities in 2017.



Source: Bank of Tanzania

Figure 4-2: Share of Loan and Treasury

4.1.2 Development Financial Institutions (DFIs)

Overview

The Government of Tanzania has two DFI i.e. TIB Development Bank (TIB) and Tanzania Agricultural Development Bank (TADB) for the purpose of achieving various development policies. Although Tanzania Mortgage Refinance Corporation (TMRC) is a private company held by banks, it was established to manage the World Bank's Housing Finance Project and therefore can be considered as a quasi-DFI. Table 4-8 shows a summary of the role and financial conditions of DFI.

Table 4-8: Comparison of DFI

Billion TZS, As of Dec. 2017

DFIs	Established	Financing Sector	Total Assets	Net Income	NPL
TIB	1970	Industry	762	(10)	34%
TADB	2015	Agriculture	172	2	4%
TMRC	2011	Housing	102	0.8	0%[46]

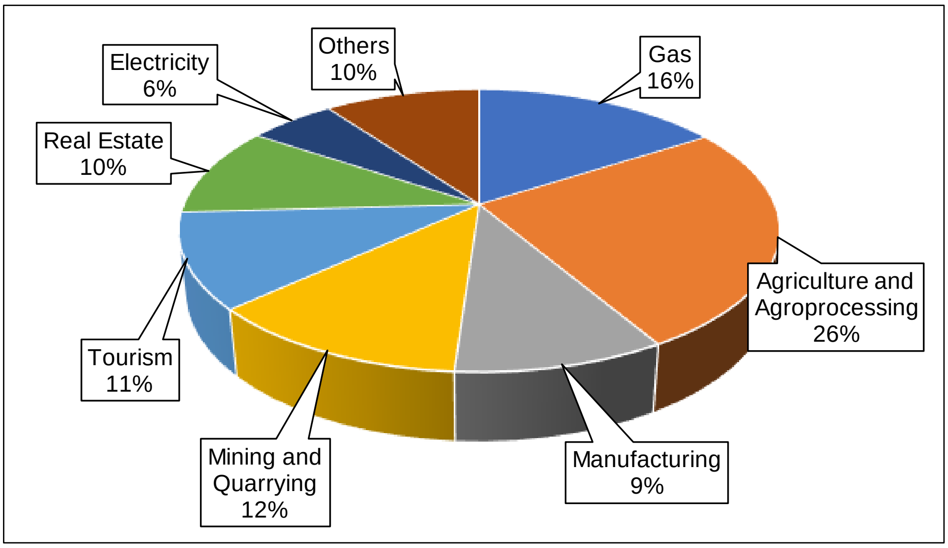
Source: The survey team

TIB

TIB has a mandate to finance development and achieve the industrialization of the country. It is financing various sectors as shown in Figure 4-3 through industrial financing, infrastructure financing, service sector financing and SME financing. SME lending ranges from 50 million TZS to 1,200 million TZS and may include startup firms. It also has a fund management section which

[46] Based on hearing from TMRC. The reasons for NPL ratio being 0% are 1) borrowers are banks, 2) loans are secured by housing loans which are good assets.

ensures disbursement according to the terms and conditions and monitors on-going projects. Some of the funds managed by TIB are the Tanzania Energy Development And Access Expansion Project (TEDAP) supported by the World Bank and the Agricultural Window Fund by the Ministry of Finance and Planning.



Source: TIB Development Bank Annual Report 2017

Figure 4-3: TIB Sector-wise Loan

TADB

TADB has a mission to support and promote the transformation of small-hold farmers to commercialized modern farming and agri-business by providing short-, medium- and long-term finance to farmers. It lends to the agricultural sector at a concessional rate shown in Table 4-9. It provides both working capital and capital investment with an average tenor of 5 to10 years. It is learned that the business model is unique wherein cash is not given to farmers but paid to the suppliers who provide tractors and fertilizers. After harvest, the repayment of principal and interest will be deducted from the sales proceeds and the remaining balance will be paid to the farmers. AfDB has provided 97 million USD equivalent TZS to TADB through the government of Tanzania.

Table 4-9: Loan Amount and Lending Rate of TADB

Borrower	Loan Amount (TZS)	Lending Rate (Fixed, Declining basis)
Small Farmer	~5 million	8~12%
Emerging Farmer	~100 million	
Middle Farmer	~500 million	12~16%
Large Farmer	Over 500 million	

Source: The survey team

TMRC

TMRC borrows World Bank funds through BOT at a fixed rate of 10% (this interest rate is under review to be reduced) and lends to PFI, as mentioned in Table 4-10, at 11.5%. PFI will lend to the end-borrowers at the lending rate decided by each PFI considering the market situation and a tenor of the loan which ranges from 15 years to 25 years. The maximum amount of lending by PFI is limited to 500 million TZS as the purpose of the lending is limited to the purchase of housing by individuals. Excepting 4 PFI (marked by *), the remaining PFI are also shareholders of TMRC. Since disbursement from the World Bank will end in June 2019, TMRC successfully issued 12 billion TZS 5 years corporate bonds in May 2018 under its 120 billion TZS bond issuance program.

Table 4-10: List of PFI (Mortgage Lenders)

No.	PFI (Mortgage Lenders)	Shares Held (%)
1	CRDB Bank Plc.	13%
2	NMB	10%
3	NBC	5%
4	Bank of Africa	5%
5	Azania Bank Ltd.	11%
6	Exim Bank	7%
7	African Banking Corporation	5%
8	DCB Commercial Bank Plc	6%
9	I & M Bank	3%
10	Commercial Bank of Africa*	-
11	KCB Bank*	-
12	FNB*	-
13	Barclays Bank*	-
14	People's Bank of Zanzibar	3%

Source: The survey team

4.2 Monetary Policy and the Effect on the Interest Rate Markets

4.2.1 BOT Monetary Policy[47]

Monetary Policy Objectives

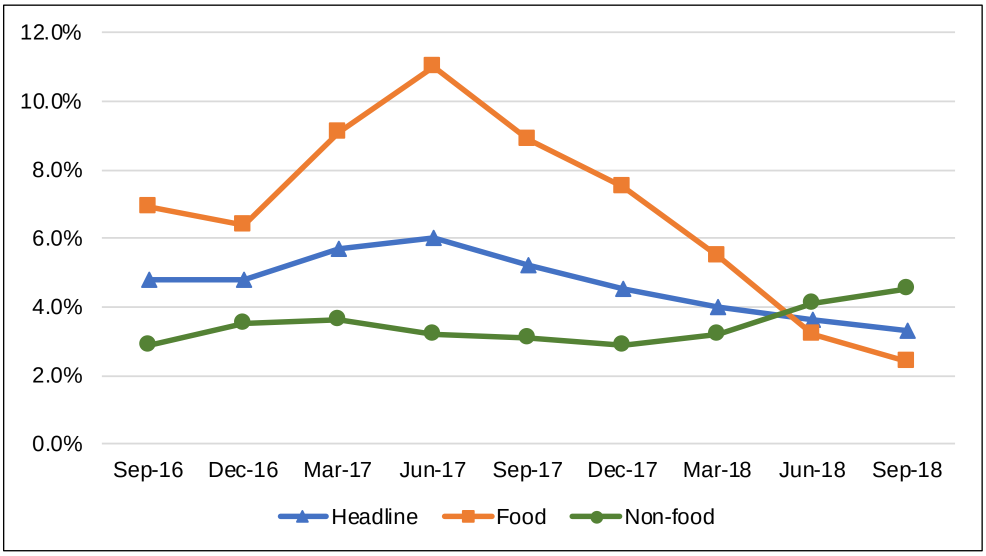
Monetary policy continued to support the broader macroeconomic objectives of the Government of achieving a high level of economic growth and low and stable inflation. BOT aimed at achieving the following monetary policy targets in 2018/19:

1) annual growth of average reserve money not exceeding 11.5%
2) annual growth of broad money supply (M3) not exceeding 12.2%
3) annual growth of private sector credit of not more than 10.2%; and
4) maintaining gross official reserves at levels adequate to cover at least 4.0 months of projected imports of goods and services, excluding FDI related imports.

Inflation

Twelve-month headline inflation in September 2018 remained low and stable at 3.3% down from 6.0% in June 2016. The decrease was on account of food inflation which fell to 2.4% from 11.0% in June 2017 due to increases in production.

[47] Monetary Policy Statement 2018/19, June 2018, Bank of Tanzania

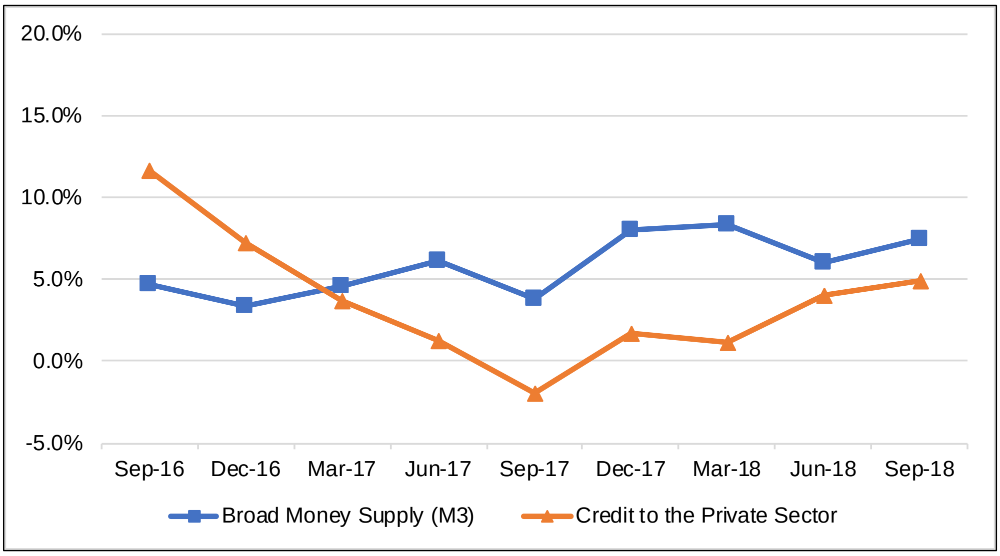


Source: BOT, Quarterly Economic Bulletin, Sept.2018 and Jun.2017

Figure 4-4: Annual Headline, Food and Non-food Inflation

Broad Money Supply (M3) and Credit to the Private Sector

The liquidity condition during September 2016 to September 2017 remained relatively tight largely due to the substantial decline in net foreign inflows and the transfer of deposits to BOT from public institutions. The tight liquidity situation was reflected in the slowdown of credit to the private sector from 11.7% to -2.0% but the increase in broad money supply (M3) helped credit to private sector to recover to 4.9% in September 2018.



Source: BOT, Quarterly Economic Bulletin, Sept.2018

Figure 4-5: Annual Growth of M3 and Credit to Private Sector

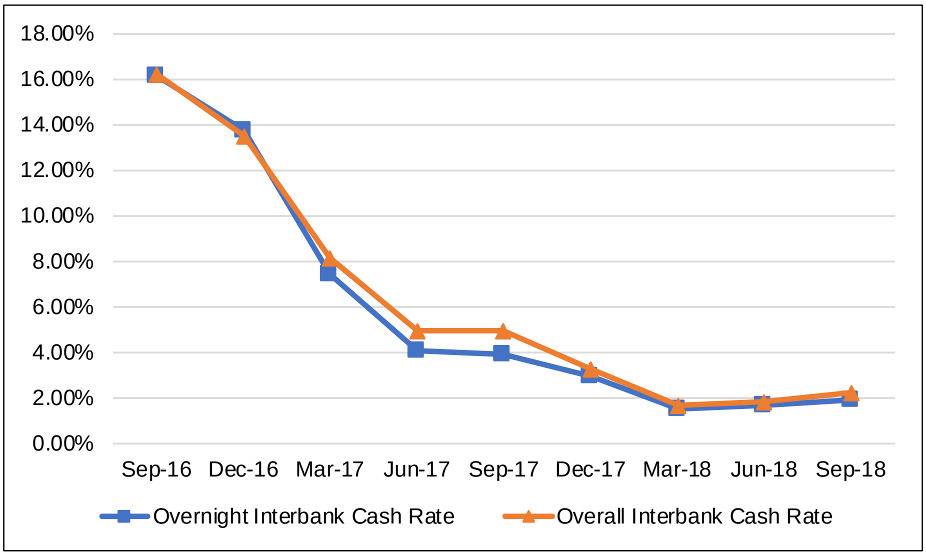
Measures by BOT

To ease the tight liquidity, BOT reduced the discount rate from 16% to 12% in March 2017 and further to 9% in August 2017. BOT also reduced the statutory minimum reserve (SMR) on private sector deposits from 10% to 8% in April 2017 to broaden the lending base of commercial banks.

4.2.2 Effect on the Interest Rate Markets

Interbank Cash Rate

Along with the increase in credit to the private sector, the interbank cash rate, both overnight and overall, sharply decreased to 1.93% and 2.26% respectively in September 2018 from 16.15% and 16.22% in Sept. 2016.

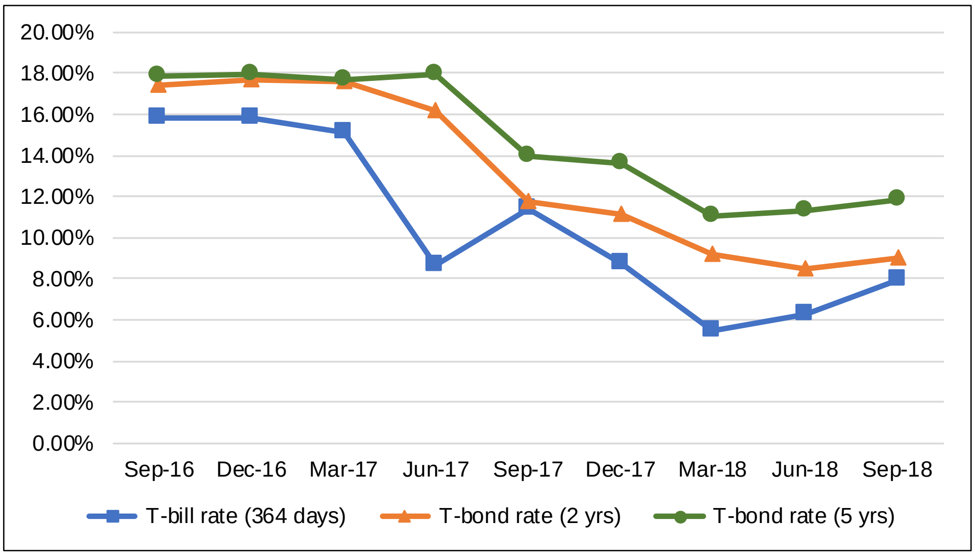


Source: BOT, Quarterly Economic Bulletin, Sept.2018 and Jun.2017

Figure 4-6: Interbank Cash Rate

Treasury bill/bond Rate

Figure 4-7 shows that both the treasury bill rate and the treasury bond rate decreased from 16-18% in Sept. 2016 to 8-12% in Sept. 2018. The shorter T-bill (364 days) rate has shown a more volatile movement than T-bonds (2 years and 5 years) and the yield curve has steepened.



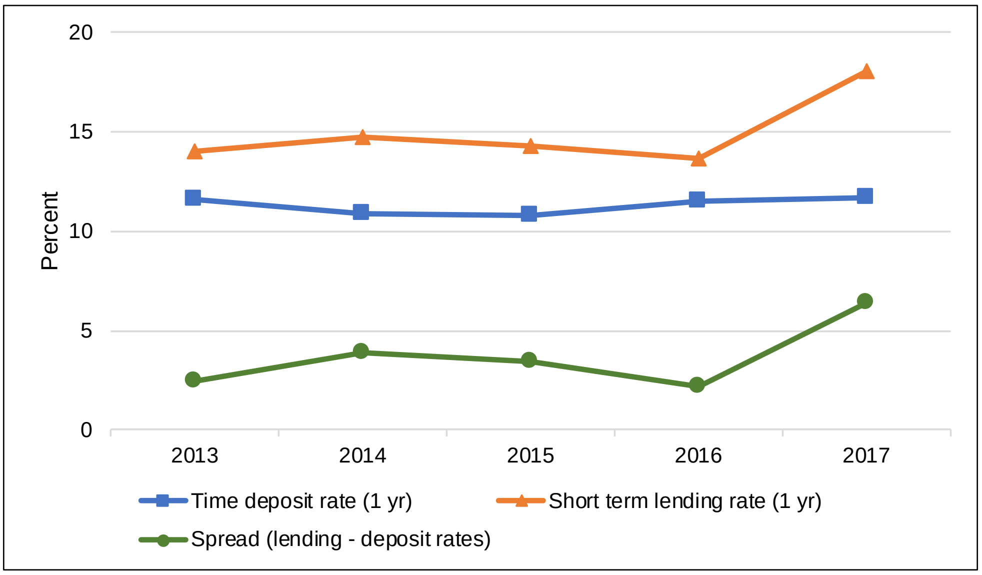
Source: BOT, Quarterly Economic Bulletin, Sept.2018 and Jun.2017

Figure 4-7: Treasury bill/bond rate

4.3 Spread Structure and Foreign Currency Risk

4.3.1 Spread Structure

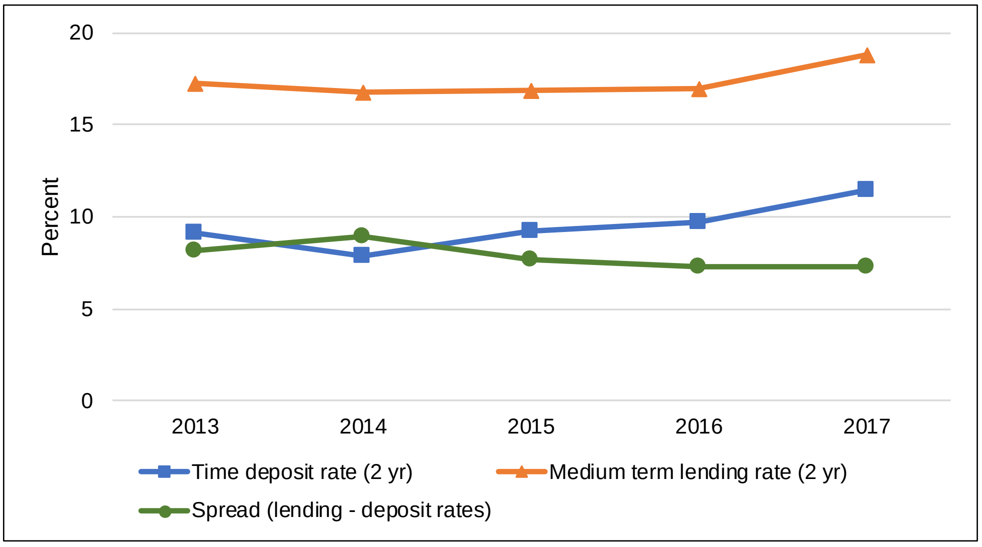
In the 1 year short term market, deposit rates were stable at around 11% while lending rates shot up from 14% to 18% in 2017 widening the spread from 3% to 6%.



Source: BOT

Figure 4-8: Lending rate, Deposits rate and Spread (1 year)

In the 2 years medium term market, the deposits rate increased from 9% to 11% and lending rates also increased proportionately from 17% to 19%. This movement slightly decreased the spread. While the spread for 2 years was steady throughout the 5 years period, the spread for 1 year rose sharply in 2017 due to the increase in the lending rate. In the 2 years medium term market, a constant spread of 7% to 8% was observed.



Source: BOT

Figure 4-9: Lending rate, Deposits rate and Spread (2 years)

Credit Reference Bureau

A credit reference system was introduced by BOT in 2012 and licenses were given to 2 private credit reference bureaux in 2013. Banks have the obligation to report their customer credit information to the credit reference databank maintained by BOT and credit reference bureaux will disseminate the information on borrowers to lenders with the aim of reducing information asymmetry and thereby reducing the default risk.

As of 31st December 2016, 50 banking institutions had submitted data to the databank out of a total of 62 (81%). The number of borrowers and loans submitted to the databank reached 1.27 million and 4.66 million, respectively. While this is a move forward, some banking institutions are not yet able to submit full data due to a lack of appropriate skills and technology. In addition, the quality of data is still not sufficient enough to reduce the default risk. For example, lack of unique identifiers, inaccurate birth dates, irregular or non-updating of credit information, incorrect and incomplete business registrations have been observed. Some of these weaknesses arose from non-compliance with the Know Your Customer (KYC) procedures and a lack of critical review and monitoring of data extraction and validation by banks before submission to the databank. Currently, the update of information is done on a monthly basis but if this timing can be shortened to a daily basis, banks could make their credit decisions more quickly.

Table 4-11: Banks and Financial Institutions Submitting Data to the Credit Reference Databank as of 31st December 2016

Category	Number of Existing Institutions	Number of Institutions Submitting Data	Percentage
Commercial Banks	38	36	95
Community Banks	12	8	67
Financial Institutions	3	3	100
Microfinance Banks	4	2	50
Development Finance Institutions	2	1	50
Finance Lease Companies	3	0	0
Total and overall submission Rate	**62**	**50**	**81**

Source: BOT, Directorate of Banking Supervision Annual Report 2016, 20th Edition.

4.3.2 Foreign Currency Risk

(1) Overview

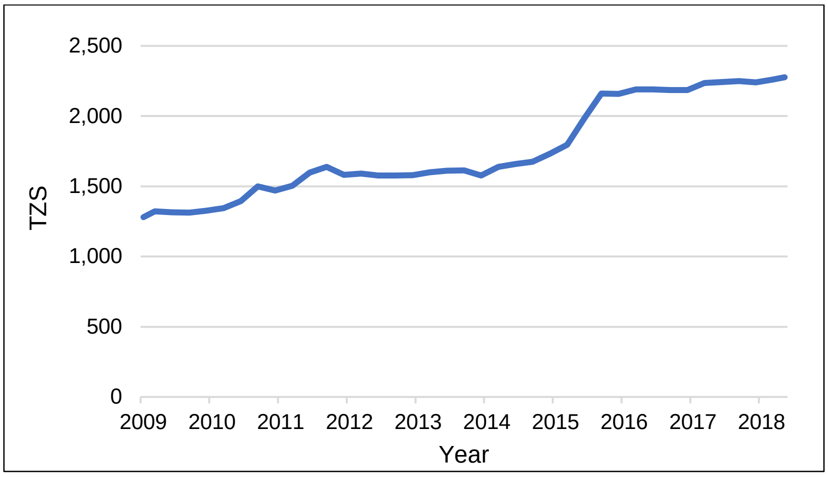
The JPY loan provided by JICA will be converted into TZS by the Executing Agency for on-lending to PFI. Therefore, the Executing Agency will need to factor in the foreign currency risk premium (JPY/TZS) into the lending rate to PFI. The survey team has logically calculated the foreign currency fluctuation of TZS/USD and TZS/JPY on an annual basis so that the results of TZS/JPY can be used to calculate the pricing of lending from the Executing Agency to PFI.

(2) Weighted Average Life of Loan

The JPY loan has a tenor of 40 years with 10 years grace. After the grace period, the principal of the loan will be repaid in annual equal installments. Under this condition, the weighted average life of the JPY loan is calculated to become 26 years.

(3) TZS/USD Fluctuation

By using statistics for the Interbank Foreign Exchange Market (IFEM) rate for TZS/USD which are available on the BOT web-site for January 2009 to May 2018, the TZS/USD fluctuation is calculated at 8.3% p.a. Figure 4-10 shows the historical movement.

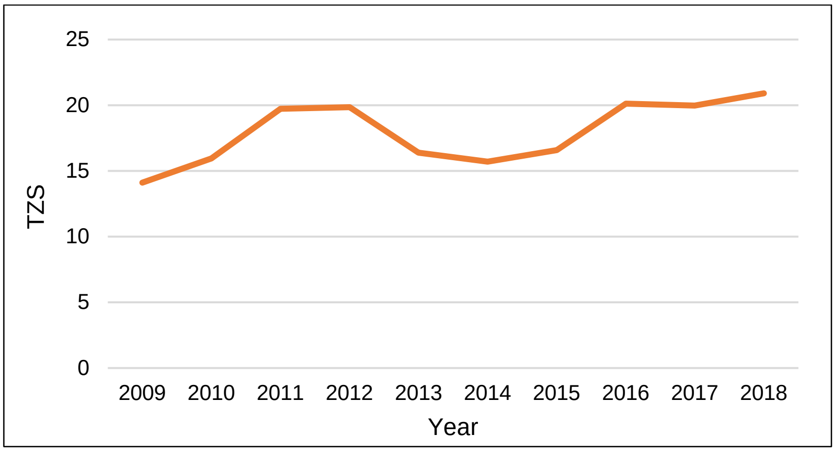


Source: Bank of Tanzania

Figure 4-10: Foreign Exchange Rate (TZS/USD)

(4) TZS/JPY Fluctuation

When adding the JPY/USD fluctuation to the TZS/USD fluctuation, the survey team gets a TZS/JPY fluctuation which is calculated at 5.2% p.a. Figure 4-11 shows the historical movement.



Source: Bank of Tanzania, IMF

Figure 4-11: Foreign Exchange Rate (TZS/JPY)

4.4 Financial Regulations

Financial Soundness Indicators

Performance of the banking sector remained satisfactory as summarized in Table 4-12. All minimum requirements set by BOT were cleared on a sector basis. Capital requirement remains high but profitability (ROA, ROE) has decreased, mainly due to higher impairment costs.

Table 4-12: Financial Soundness Indicators

Ratios	Minimum requirement	Dec-16	Dec-17
Capital adequacy			
Core capital to TRWA[Note]	10%	17.0%	18.4%
Total capital to TRWA[Note]	12%	19.0%	20.4%
Liquidity			
Liquid assets to demand liabilities	20%	35.8%	40.2%
Total loans to customer deposits		86.0%	81.1%
Profitability			
Net interest margin to total income		52.8%	51.9%
Return on assets (ROA)		2.0%	1.1%
Return of equity (ROE)		9.2%	4.6%

Source: BOT, Directorate of Banking Supervision Annual Report 2017
Note: TRWA: Total Risk Weighted Assets

Risk Assessment

BOT continued to supervise banking institutions using the Risk Based Supervision Approach which is a global approach supported by the Basel Committee on Banking Supervision. The approach conducts risk assessment of banking institutions and assigns risk ratings using a scale of four levels, namely minimal, moderate, significant and high. The result for the year ended in December 2017 when BOT conducted on-site examinations at 26 out of 58 banking institutions can be summarized as in Table 4-13.

Table 4-13: Result of BOT Examination

Risk Level	Minimal	Moderate	Significant	High
Percentage of banks	5%	33%	49%	13%

Source: BOT, Directorate of Banking Supervision Annual Report 2017

Some of the achievements from this approach include:

1) Banks and financial institutions have been able to manage risks at an enterprise-wide level.
2) Banks and financial institutions have been able to analyze internal and external factors affecting their risk profiles depending on their individual circumstances. In the sector-wide and general economic environment, they are better able to manage the risks that they are exposed to.
3) BOT has streamlined supervisory tools and resources to better discharge its supervisory responsibility and has managed to focus resources on the most risky banks and financial institutions.

Challenges include:

1) capacity challenges in terms of skills and other resources for banks and financial institutions in the re-alignment of their systems and the management of risks towards Risk Based Supervision Methodology.
2) capacity challenges for BOT in better administration of the implementation of risk based supervision and the conduct of supervisory roles through Risk Based Supervision Methodology.

The recent attention of BOT has been mostly on credit, liquidity and operational risks. BOT has observed that:

1) credit risk has slightly subsided and continues to decline given efforts made by individual banks to manage credit risk effectively.
2) liquidity has improved recently.
3) banks have introduced systems to manage operational risk as they expand and implement new products.

Regulations

BOT requires banks to receive collateral worth over 125% of the loan amount. But Regulation 7 of the *Banks and Financial Institutions (Credit Concentration and Other Exposure Limits) Regulations 2014* recognizes Government guarantees and guarantees from first class international banks or financial institutions, which are also exempted from Single Borrower Limit. This means that guarantees by BOT, PASS, SIDO, USAID, etc. can be utilized as a facility to supplement collateral. Many commercial banks use their short-term deposits (less than 1 year) to fund their medium-and long-term loans (more than 1 year) which poses a liquidity risk and an interest rate risk to the banks. The survey team understands that there is no restriction on the maturity gap mismatch for funding medium-and long-term loans with short term deposits.

Closures and Mergers

All undercapitalized banks (one commercial bank, one DFI, seven community banks) were directed to come up with plans to restore their capital levels by December 2017. In Jan. 2018, BOT announced the closure of five banks and a six-month watch of three banks. In May 2018, the merger of Twiga Bancorp with Tanzania Postal Bank (TPB) became official. BOT Deputy Governor Dr. Kibesse told reporters that the aim of the merger was to retain a few strong banks which are highly competent in the provision of financial services. This would lead to lower operational cost and lending rates.[48] This move was a step forward for the banking sector where non-profitable banks will have to exit the market, thus maintaining the soundness of the banking industry.

4.5 NPL Issue

4.5.1 High NPL Ratio

According to BOT regulations, NPL ratio (Non-performing Loans to Gross Loans) is required to be not higher than 5%. In April 2018, the NPL ratio of the banking sector decreased to 11.3% from a peak of 12.5% in September 2017. Building and Construction, Trade, Transport and Communication, Hotels and Restaurants had the largest share of loans that were non-performing while Agriculture also remained elevated. Banks responded by diversifying their portfolio in favour of government securities, which are perceived to be less risky, and tightened credit conditions as a measure to contain risky borrowers.[49] With the application of IFRS 9 from January 2018, it is expected that the total impairment charge will rise as the IFRS 9 impairment model requires provisioning based on a “expected credit loss” model.

[48] Daily News article titled “Tanzania: State Pursues Few but Strong Banks Strategy” dated May 17, 2018
[49] BOT, Tanzania Financial Stability Report September 2017

Table 4-14: Ratio of Non-Performing Loans to Assets for Selected top 9 Banks

Unit: %

Banks	Sep-16	Mar-17	Sep-17
Bank M Tanzania	1.5	3.1	6.4
BBT	7.4	6.1	5.4
CRDB	7.0	9.0	8.6
DTB	1.5	2.3	2.2
Exim Bank	6.5	5.1	7.1
NBC	5.1	4.0	5.7
NMB	1.7	2.5	5.2
Stanbic Bank	3.2	2.2	1.7
Standard Chartered	4.6	4.1	3.8

Source: BOT, Tanzania Financial Stability Report, September 2017.

4.5.2 Measures to Contain NPL

BOT issued a circular titled "Measures to Increase Credit to Private Sector and Contain Non-Performing Loans" (No. FA. 178/461/01/02 dated 19 February 2018) to provide guidance to banks and financial institutions on how to tackle the NPL issue. For this purpose, BOT has recommended that banks and financial institutions establish a strategy for reducing NPL and at the same time, introduced certain regulatory measures and reliefs, which are both described below.[50]

Recommended strategies:

1) Reduce NPL ratio to no more than 5% by setting strategic objectives with time limits
2) Set up a permanent recovery function with predefined roles and responsibilities
3) Separation of duties in the credit department
4) Involve top management for high risk cases and some recovery decisions
5) Outsourcing of collection specialist, management reporting, regulatory reporting to BOT
6) Establishment of options and key performance indicators
7) Establish NPL policies including Arrears Management Policy, Debt Recovery Policy, NPL Classification and Provisioning Policy, etc.
8) Reassess credit processes

Regulatory measures and reliefs:

BOT has waived certain provisions of the Banking and Financial Institutions (Management of Risk Assets) Regulations 2014 until 31 December 2020.

1. Restructuring NPL

BOT has permitted banks to restructure NPL up to 4 times (previously, it was 2 times). This measure can be applied to borrowers who have a good track record of repayment and whose businesses have been affected by external factors.

2. Capitalization of interest and charges

Any matured or expired performing overdraft facility may be extended, renewed or rolled over without interest and charges being paid. Some of the conditions for applying this measure are: overdraft facilities have been converted into term loans and the borrower has begun repayment, NPL are due to financial difficulties of a temporary nature and the borrower will be able to repay on the revised terms, capitalization of interest and charges is the only available option. This option will be exercised to the same customer only once.

[50] Source: Clyde & Co. Brief Note March 2018

3. Upgrading of credit classification
Banks may now upgrade term loans to a better classification category once the borrower has paid two consecutive loan instalments (previously, banks could only upgrade term loans once four consecutive instalments had been paid).

4. Early Write-off permitted
With the withdrawal of the BOT circular “Charge Off Credit Accommodation” (No. FA.56/470/01/VOLI/50 dated 10 April 2015), banks can write off their loans if they have not been paid back in a year or in 4 consecutive quarters. (previously, the above circular allowed write off only at 12 consecutive quarters)

4.6 Simulation Result of PFI Accreditation

Considering the accreditation criteria of two-step loan projects introduced by other countries such as Vietnam, Malaysia and Myanmar, the survey team has tentatively established the following criteria for the Project. The emphasis is on “Financial Soundness”, which account for 55 points, but the criteria also include “Governance and Management” (15 points) and “Significance of Participation in TSL” (30 points) to cover a variety of elements. Global rating agency Moody’s also evaluates the items included in “Financial Soundness” when they are rating financial institutions. As TSL is a loan scheme, it is essential that the loans to SME are duly repaid on the repayment date and thus more than half of the points are allotted to “Financial Soundness”. In “Governance and Management”, the survey team has included a criterion that more than 20% of the Board Members are women which is an indication that JICA TSL gives consideration to gender mainstreaming. In “Significance in Participation in TSL”, the survey team has included criteria related to SME finance including the lending rate to SME, which should be encouraged to go below 15% p.a.

Table 4-15: Accreditation Criteria of PFI

Accreditation Criteria	Criteria	Definition	Point	Range			
Financial Soundness			**55**				
Capital Adequacy Ratio	CAR (Tier1)	Core capital/TRWA	15	<10%	10%=< <12%	12%=< <14%	14%<=
				0	10	12	15
Asset Quality	NPL	Non-performing loans to total gross loans	15	=<5%	5< <10%	10%=< <15%	15%=<
				15	10	5	0
Profitability	ROE	Net profit/Total equity	12	<5%	5%=< <8%	8%=< <12%	12%<=
				0	5	8	12
Liquidity Ratio	Liquidity Ratio	Total Financial Assets/Total Financial Liabilities	10	<100%	100%=< <120%	120%<=	
				0	5	10	
Transparency	Disclosure of Audited report	More disclosure is required for banks than B/S, PL	3	No	Yes (simple)	Yes (detail)	
				0	1	3	
Governance and Management			**15**				
Governance	Board of Directors	1/3 of Board Members are non-executive	4	0	<1/3	1/3 =<	
				0	2	4	
	Gender of BOD	20% of Board Members are women	3	<20%	20%=<		
				0	3		
	Board of Auditors	Board of Auditors is separated from a management board	3	No	Yes		
				0	3		
Risk Management	Independent CC	Asset Liability Management Committee (ALCO) was established.	5	No	Will be established in one year	Has been established	
				0	3	5	
Significance of participation in TSL			**30**				
Focus on SME	SME share	Loan Balance to SME/Total Loan Balance	8	=<5%	5%< <10%	10%=<	
				0	5	8	
Growth of Loans to SME	Growth rate	Annual Growth Rate	5	=<5%	5%< <10%	10%=<	
				0	3	5	
Loans to Mfg sector	Share	Loan Balance to Mfg Sector/Total Loan Balance	5	=<5%	5%< <10%	10%=<	
				0	3	5	
MLT Loan/ MLT Funding	Ratio	MLT Loan & Advance to Customers/ Medium and Long Term Financial Liabilities	7	200%=<	100%< <200%	=<100%	
				0	5	7	
Prime lending rate	interest rate (p.a.)	base rate for lending to customers	5	=<15%	15%< <18%	18%=<	
				5	3	0	

Source: Prepared by the preparatory survey team

Next, the survey team applied the accreditation criteria to possible PFI such as commercial banks and leasing companies. The survey team visited 8 commercial banks, 3 DFI (including TMRC) and 3 leasing companies. Some commercial banks such as First National Bank (FNB) and Standard Chartered Bank disclose only consolidated financial statements, which makes it difficult to gather figures from their Tanzania subsidiaries. Small leasing companies such as Alios Finance and Achelis Tanganyika also disclose only consolidated figures or do not disclose at all. Akiba Commercial Bank has incurred a high NPL ratio of 25% in 2017.

The simulation result of PFI accreditation is shown in Table 4-16 below. The result shows that Lease E, a leasing company which is still small in asset size but specializes in SME finance in the agriculture/agro-processing and manufacturing sector, has earned 75 points for 2016 and 72 points for 2017. Large banks such as Big Bank B and Big Bank A respectively scored 73 points and 61 points for 2016 and 71 points and 51 points for 2017. DFI F did not perform well mainly due to its high NPL ratio and losses incurred from provisioning and the write-off of bad debts. A cut-off line needs to be determined but at least a minimum of 50 points should be earned to qualify as PFI.

Table 4-16: Simulation Result of PFI Accreditation

Unit: Billion TZS

Accreditation Criteria		Point	Big Bank A		Big Bank B		Medium Bank C		Community Bank D		Lease E		DFI F	
			2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Financial Soundness		**55**	**33**	**28**	**50**	**45**	**40**	**38**	**43**	**46**	**38**	**35**	**23**	**23**
Capital Adequacy Ratio	CAR (Tier 1)	15	12	15	15	15	15	15	15	15	15	12	10	10
Asset Quality	NPL	15	5	5	15	10	5	5	15	15	15	15	0	0
Profitability	ROE	12	8	0	12	12	12	5	5	8	0	0	0	0
Liquidity	Liquidity Ratio	10	5	5	5	5	5	10	5	5	5	5	10	10
Transparency	Disclosure of Audited report	3	3	3	3	3	3	3	3	3	3	3	3	3
Governance and Management		**15**	**15**	**15**	**15**	**15**	**12**	**12**	**15**	**15**	**12**	**12**	**12**	**12**
Governance	BOD (non-executive)	4	4	4	4	4	4	4	4	4	4	4	4	4
	BOD (gender)	3	3	3	3	3	0	0	3	3	0	0	0	0
	BOA	3	3	3	3	3	3	3	3	3	3	3	3	3
Risk Management	ALCO	5	5	5	5	5	5	5	5	5	5	5	5	5
Significance of Participation in TSL		**30**	**13**	**8**	**8**	**11**	**18**	**13**	**13**	**13**	**25**	**25**	**6**	**6**
Focus on SME	SME share	8	8	8	5	5	8	8	8	8	8	8	0	0
Growth of Loans to SME	Growth rate	5	5	0	3	3	5	0	5	5	5	5	0	0
Loans to Mfg sector	Share	5	0	0	0	3	5	5	0	0	5	5	3	3
MLT Loan / MLT Funding	Ratio	7	0	0	0	0	0	0	0	0	7	7	0	0
Prime lending rate	interest rate (p.a.)	5	0	0	0	0	0	0	0	0	0	0	3	3
Total Score		**100**	**61**	**51**	**73**	**71**	**70**	**63**	**71**	**74**	**75**	**72**	**41**	**41**

Source: Prepared by the preparatory survey team

4.7 Landscape of SME Finance

4.7.1 Banking Sector

Overview

As seen in Table 4-17, NMB has the most bank accounts with MSME owners at more than three times the number of CRDB. It also has many accounts in the rural areas. NBC showed strength in Zanzibar and Exim Bank has almost 80% of its accounts in other urban areas.

Table 4-17: MSME owners with bank accounts by area

Unit: No. of accounts

Financial Institutions	Total	DSM	Other urban areas	Rural areas	Zanzibar
NMB	143,286	22,712	77,945	39,262	3,367
CRDB	46,427	11,885	21,921	12,621	0
NBC	43,884	12,408	20,235	4,763	6,478
ACB	8,575	6,770	1,804	0	0
Exim Bank	7,969	1,154	6,245	570	0
Postbank	6,734	2,657	1,758	267	2,052

Source: Micro Small & Medium Enterprises in Tanzania, December 2012, FSDT

SME Definition

Banks do not define SME by number of employees or capital investments of equipment but use either annual turnover or loan amount as summarized in Table 4-18. Annual turnover required by banks is usually in the range of 4 to 7 times the loan amount.

Table 4-18: SME Definition by banks

Unit: Million TZS

Items	Annual Turnover	Loan amount	
	SME	Small SME*Note	Large SME*Note
Big Bank A		=< 300	300< =<2,000
Big Bank B	150< =<10,000	50< =<1,500	
Big Bank C	=<7,500	=<1,000	
Medium Bank C	=<3,000	100< =<500	
Medium Bank E		6<= <200	200< =<500

Source: The survey team

Note: Some banks divide SME by size setting different loan amount.

Lending Portfolio

As seen in Table 4-19, Big Bank A, Big Bank B and Medium Bank C are major SME lenders ranging from 100 to 400 billion TZS. SME loans consist of 7% to 13% of the total loans for Big Bank A, Big Bank B and Medium Bank C whereas Community Bank D has the higher percentage of 31%. DFI F has a percentage of 3%. Medium Bank C comes from a corporate banking background and has started SME lending in recent years. The number of SME customers ranges from 5,000 (Big Bank A) to 10,000 (Big Bank B). Community Bank D is a community bank established in 2013 by various church institutions. It aims to provide banking services to emerging Tanzanian businesses at affordable price to enable them to access financial services. It is listed on the Dar es Salaam Stock Exchange. Although its lending to the trade and commerce sector consists of around 40% of total loans, it has recently tied up with Agricom, a supplier of tractors and agricultural equipment and some changes may be seen in the future.

Table 4-19: SME loans by selected banks

Unit: Billion TZS

Items	Big Bank A		Big Bank B		Medium Bank C		Community Bank D		DFI F	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
SME loan balance	439	382	187	200	93	90	8	11	22	17
SME loan to gross loan	12%	12%	6.7%	7.2%	14.4%	13.0%	34.6%	31.4%	3.4%	3.1%
NPL ratio of SME loan	10%	11%	2.1%	4.0%	6.9%	4.4%	10.8%	14.2%	44.3%	46.4%

Source: JICA Questionnaire, Annual Reports of each bank

Credit Appraisal

Commercial banks generally do not extend loans to startup companies. At least 3 years operation is required to apply for a loan. It is said that since many SME do not prepare financial statements or since these can be easily forged, banks rely on bank statements to check the cashflow and estimate the turnover. It is very difficult to estimate the cashflow for more than 3 years since SME lending is based on short term cash projections. In this case, the tenor of SME lending tends to be a maximum 3 years. Usually, land is requested as collateral as this is the most secure, but chattels such as cars and equipment are also treated as collateral on a case to case basis. Collateral is valued at a fair value and sold through a bidding procedure held by the courts.

4.7.2 Leasing Sector

Overview

There are only 4 leasing companies engaged in business in Tanzania. Their clientele ranges from corporates to SME. Lease A and Lease B mainly borrow in USD because they import tractors and excavators from abroad. Lease D is cash rich and does not borrow at all from banks. These companies may not become the main targets of JICA TSL Project as the currency to be used for lending under the TSL Project will be in TZS. In contrast, Lease E borrows in TZS as it deals with domestic dealers of combine harvesters and equipment and leases them to agriculture, agri-processing and manufacturing SME. There is no BOT restriction on leasing companies becoming PFI but leasing companies are much smaller than commercial banks making them vulnerable to the external environment. It may be necessary to ask for a guarantee by an international organization e.g. USAID for On-Lending Loans (OLL) for leasing companies.

Table 4-20: Comparison of leasing companies

Company Name	Type (F/O)*	Client	Sector	End Rate	Max Tenor	Cost of Fund
Lease A	F & O	SME (70%)	transportation	25% (TZS)	4 years	6% (USD) 18% (TZS)
Lease B	O	corporates	construction	10% (US$)	5 years	8% (USD)
Lease E	F	SME	agriculture	30% (TZS)	3 years	16% (TZS)
Lease D	F & O	corporates	car users	18% (TZS)	5 years	no borrowing

Source: The survey team
Note: * F = Financial lease, O = Operational lease

Usage

As seen in Table 4-21, only 3% of MSME owners have either used or are currently using leasing. They understand that they need collateral to borrow from banks, but leasing is a new concept to them and more education and leasing success stories will be needed to improve financial literacy.

Table 4-21: MSME owners' usage of hire purchase and leasing

Type	Currently use	Previously used	Never used
Hire purchase	1.7%	3.3%	95.0%
Leasing	0.9%	2.2%	96.9%

Source: Micro Small & Medium Enterprises in Tanzania, December 2012, FSDT

4.7.3 Credit Guarantee Schemes (Excluding SIDO)

Regulation 7 of the *Banks and Financial Institutions (Credit Concentration and Other Exposure Limits) Regulations 2014* recognizes Government guarantees and guarantees from first class international banks[51] or financial institutions, which are also exempted from Single Borrower Limit.

PASS (Private Agricultural Sector Support Trust)

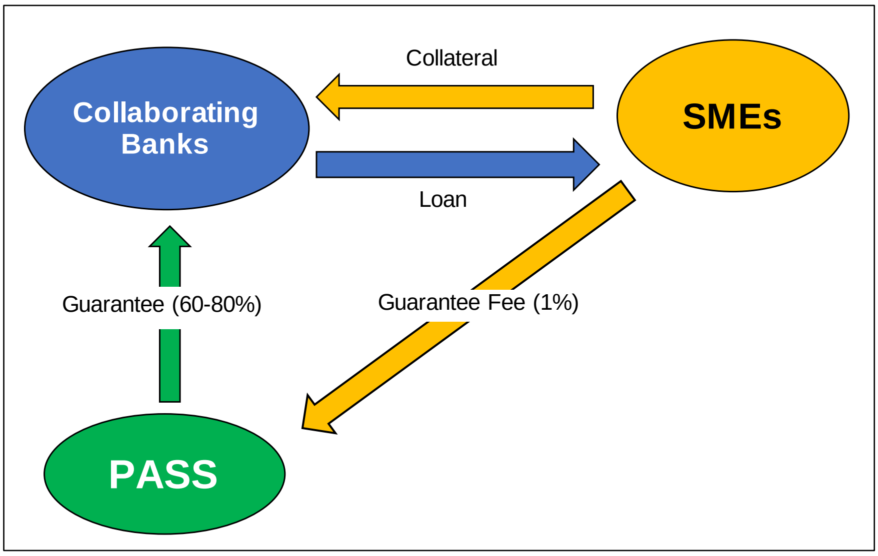
PASS was established as a project in 2000 in order to stimulate investment and growth in the private sector commercial agriculture and related sectors through access to finance. It is funded by Danish International Development Assistance ((DANIDA) (the total disbursement amount is 32 million USD) and Sweden.

[51] The Banking and Financial Institutions Act 2006 defines it as "an international bank that has a minimum long-term rating by internationally recognized rating agency of "A" or above".

For eligible individuals and companies, PASS will provide partial credit guarantee (normally 60% and for women entrepreneurs, 80% of the loan amount) to collaborating banks to cover inadequate collateral. Currently, there are 15 collaborating banks, which have signed Memorandum of Understandings with PASS including CRDB, NMB, Exim Bank, TIB, KCB Bank, Bank of Africa, African Banking Corp., Akiba Commercial Bank and so on. The borrower will pay a guarantee fee of 1% p.a. to PASS.

The special feature of the PASS guarantee is that PASS makes a deposit to the collaborating banks, which provides security and liquidity to the banks (cash-based guarantee). Banks are comfortable that their claims will be honored in case of a default by the borrower. In return, PASS earns deposit interest from the banks.

The total outstanding loan guaranteed by PASS is 184 billion TZS and the total outstanding guarantee by PASS is 85 billion TZS. NPL ratio is under 5%.



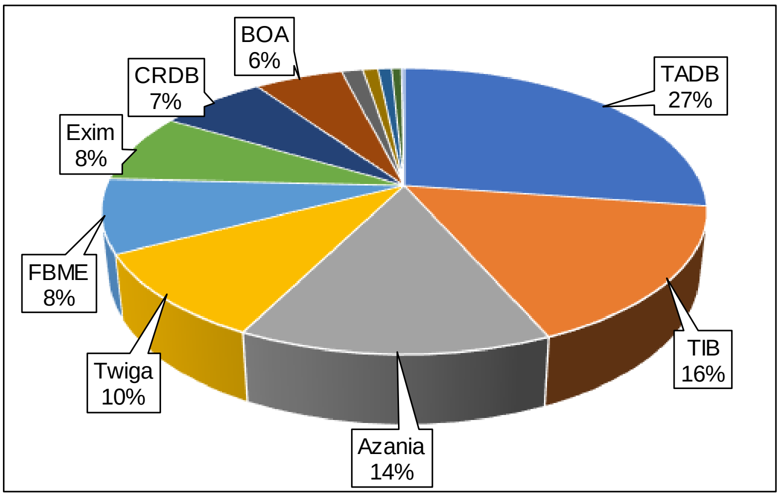
Source: The survey team

Figure 4-12: PASS Credit Guarantee Scheme

BOT-Small and Medium Enterprises Credit Guarantee Scheme (SME - CGS)

SME-CGS was established in 2005 to promote SME by facilitating access to finance through credit guarantees. It guarantees up to 50% of loans to borrowers engaged in formal businesses. The loan must be from 5 million TZS up to 500 million TZS with tenor of 1 to 5 years. The guarantee fee is 1% p.a. on the outstanding guaranteed loan amount. The total capital amount as of 31st December 2017 was 17 billion TZS while the cumulative guaranteed amount was 5 billion TZS and the outstanding guaranteed amount 1 billion TZS. The NPL ratio is 4.9%.

PFI	Guarantees	
	Mio. TZS	%
TADB	1,405	27%
TIB	824	16%
Azania	727	14%
Twiga	510	10%
FBME	429	8%
Exim	402	8%
CRDB	350	7%
BOA	289	6%
Equity	70	1%
NBC	49	1%
Union	45	1%
StanChat	32	1%
TPB	9	0%
Total	**5,141**	**100%**



Source: BOT

Figure 4-13: PFI Distribution of SME-CGS

4.8 Access to gender sensitive financial services and technical services

(1) Some of Major Financial and Technical Services targeting Women-owned SME

The followings are major activities and services (whether it is financial or technical) offered by various stakeholders. Although many of the locally operating banks have SME loan window, there are limited numbers of gender sensitive financial schemes. However, along with the financial service, various stakeholders are providing technical services for women business persons. The following table shows some of the major financial and technical services that are targeting mainly women owned SME (the following table excludes Microfinance or SACCOs, VICOBAs, etc. that are targeting micro enterprises):

Table 4-22: Some of Major Financial and Technical Services that are targeting mainly Women-owned SME

Organization	Financial Services	Technical Services	Development Partners
Banks			
CRDB	**WAFI** (Women Access to Finance Initiatives) Loan specifically for women entrepreneurs where by business women with insufficient collateral are backed up with guarantees if their security are not sufficient enough to cover the requested loan amount. (over 340 customers with total loan portfolio around 12.6 billion TZS, as of 31 March 2018)	Including training to enable them to access to exposure visit outside the country.	DANIDA
Exim Bank	**Women Entrepreneurs Finance Program** 5million USD credit line for women entrepreneurs allowing clients to use contracts with reputable companies as collateral. 1 million USD on-lending to Sero Lease and Finance Ltd. (micro leasing) to leverage credit history. (2007)	IFC provided training (application process, business planning and management)	IFC/CIDA
	Tumaini account A saving product for consumers as well as business loans for women entrepreneurs. (Saving account)		

Organization	Financial Services	Technical Services	Development Partners
Equity Bank	**Fanikisha loan** A group loan scheme for women (micro business)		
Tanzania Women's Bank (TWB)	Established in 2008 with 98% shares held by the Government, aiming to empower women economically by providing business banking and loans. (BoT has approved the merger of TWB and Tanzania Postal Bank (TPB) as of 3 August 2018 to improve management and the continuous provision of service for its clients was assured)[52]		
Covenant Bank for Women (CBW)	Established in 2011 as commercial bank with strong focus on women owned businesses. (Government revoked its banking license in January 2018 due to undercapitalization))		
Governmental Organizations			
SIDO	Credit Guarantee Scheme (clients are mainly who are SIDO-WED (Women Entrepreneurship Development) beneficiaries)	SIDO-WED, entrepreneurship training.	
Trusts			
Private Agricultural Sector Support (PASS)	Guarantee scheme established to stimulate growth and investment in the agricultural and agribusiness. Guarantees 80% of the requested loan by women owned businesses. (Normally 60%)	Agribusiness Innovation Center (AIC) provides BDS services. Support of loan applications.	DANIDA/SIDA
National Economic Empowerment Council (NEEC)	Provision of credit guarantee under Mwananchi Empowerment Fund (MEF) in collaboration with CRDB, UTT Microfinance Plc and TPB Bank. Since 2008, NEEC has guaranteed total 12.9 billion TZS to 17,638 SME most of them being women.[53]		
Tanzania Growth Trust (TGT)	- MKUBWA (Business incubation project) started in 2009. - Providing revolving fund for women entrepreneurs from April 2017. (currently targeting 298 women). Average loan is around 100,000-500,000 TZS. (Ceiling at 15 million TZS) Aiming at graduation of their clients enabling them to receive bank loans.	- Technical training aiming at formalization of informal micro enterprises. (in collaboration with SIDO) - Holding financial awareness seminars by inviting major banks such as CRDB.	World Bank, Cherie Blair Foundation for Women、Comic Relief

Source: Prepared by the preparatory survey team

52 "Bank of Tanzania approves merger of Postal, Women's banks" The Citizen (online), 2 August 2018 / "Bank of Tanzania approves merger of Postal, Women's banks" The Citizen (online), 3 August 2018

53 "NEEC guarantees 12.9bn/-loans in 10 years with women as beneficiaries" 8 March 2018, IPP Media.com

In addition to above, SACCOs also contribute to SME finance in Tanzania. According to TWCC, SACCOs are registered under Cooperative Law and generally provides loan services at the monthly rate around 3 to 5%. Also, SACCOs play the role of guarantor and it occasionally receives bank loans and re-loan to SME. Normally, SACCOs have formal registration and have proper financial statement and has bank accounts at commercial banks such as CRDB. Majority of SACCOs provide small scale loans, though some SACCOs have stronger financial capacity and provides loans for SME's capital investment. For example, some SACCOs make agreement with manufacturers and lend amount such as 50 million TZS or more based on the agreement. SACCOs loans are based on trust (social relationships) and the procedure is simple than the banks.[54]

(2) Features of the activities by various organizations

The level of interventions of each organization, concerning SME and business environment, particularly for women could be categorized from the practical level up to policy dialogue level. The following table show major categories of intervention by various stakeholders:

Table 4-23: Major Categories of Intervention by Various Stakeholders

1) Technical Trainings - Providing practical business training on specific areas such as food production. (Processing, packaging, etc.)
2) Formalization, linkage to governmental entities, financial institutions - Holding seminars with Business Registrations and Licensing Agency (BRELA), TRA and other governmental organizations, as well as inviting commercial banks to share information on financial services. - Providing technical support beyond specific technical trainings focusing more on business operations. This level of technical supports focuses more on creation of business plan, business strategies, and knowledge on registration, licensing, tax, etc.
3) Mentorship and training for trainers - Training of trainers (TOT) for entrepreneurs - Including mentorships and relevant support for individual business
4) Policy Dialogue - Advocacy and lobbying (TWCC, TAFOPA), including linkage to governmental organizations.

Amongst various organizations and networks, including membership-based associations for women in general or women entrepreneurs, the followings are some of the organizations that are considered active regarding SME development.

a) Tanzania Women Chamber of Commerce (TWCC)

An umbrella organization consists of approximately 5,000 members, 200 companies and 14 associations covering various sectors such as, agriculture, mining, food processing, services, and tourism, etc. TWCC was established in 2005, facilitated by MITI, and it is working with government, international organizations (i.e. United Nations Industrial Development Organization (UNIDO), ILO, United Nations Entity for Gender Equality and the Empowerment of Women (UNWOMEN), etc.) and private sector. The main focus is on economic empowerment of women, business skills training, information sharing, advocacy, and also creates linkages between private companies and financial institutions. TWCC also facilitates business matching by participating in various exhibitions including international exhibitions held in China in 2018.[55]

[54] Interview with TWCC (30 April 2018)
[55] Delegation of 88 members including those from the private sectors attended.

TWCC had recently established its SACCO and has 50members and is preparing loan scheme through this SACCO.[56]

b) Voice of Women Entrepreneurs Tanzania (VoWET)

VoWET was established in 2015 to create a platform for women entrepreneurs with 3 pillars of activities; advocacy, capacity building, and networking. VoWET is a membership organization currently with 60 members with 9 board members and has 5 Projects Departments for each thematic activity. (Annual fee 500,000 TZS) The membership company size varies from large corporates to micro enterprises and VoWET offers capacity building progrms for members and non-members, including linkages with Graca Machel Trust.[57]

In recognition of the need of support and knowledge beyond technical trainings, VoWET has "motivation program" targeting women and youth, which offers coaching to the entrepreneurs as mentors.

Since VoWET was established to enhance linkages with leaderships, it occasionally organizes seminars inviting governmental and public organizations, such as BRELA, TRA, TBS, in order to create linkages with public sectors aiming at formalization, and to deal with challenges.[58]

c) Tanzania Food Processors Association (TAFOPA)

TAFOPA is a membership organization established in 1997 providing food processing and packaging technical trainings, capacity building and seminars in collaboration with UNIDO and SIDO. TAFOPA is targeting growth stage enterprises and its members are mostly women business owners. TAFOPA is currently preparing to establish Industrial Park for food industry.[59]

d) Other organizations providing trainings

Graca Machel Trust is working on supporting business women[60] through Network of African Business Women (NABW) program through collaboration with vast networks in 10 countries.[61] Also, in response to the challenges recognized through NABW, the trust provides Women Creating Wealth (WCW) program[62], which is a 1 year program for women entrepreneurs in Zambia, Tanzania and Malawi.

ILO works on Women's Entrepreneurship Development (WED) in over 25 countries in Africa. The program aims to increase economic opportunities for women entrepreneurs by supporting them in starting, strengthening, and expanding their business. Currently, ILO facilitates various types of business development services targeting women and youth owned businesses including business plan, business improvement training, mentoring, and marketing training. Also, it supports improved access to finance and markets for youth and women-led enterprises, and

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[56] TWCC is also planning to establish an Industrial Park for women as a component of Trademark East Africa (TMEA) https://www.trademarkea.com/. (interview with TWCC, 30 April 2018)

[57] http://gracamacheltrust.org/

[58] Tanzania Growth Trust (TGT) also arranges similar seminars inviting BRELA, TRA, TBA etc., aiming at formalization.

[59] The plan is to complete the Industrial park in 5 years and 2018 is its second year. TAFOPA has been negotiating with UNIDO, WB EADB, IFAD, TADB, TIB and is planning to open the park in 5 districts. (Dar Es Salaam, Mwanza, Arusha, Iringa, and Geita), interview with TAFOPA (2 May 2018)

[60] 5 pillars of work: Sector & Market Development, Enterprise Capacity Development, Information & Knowledge development, Leadership & Governance, Advocacy (http://gracamacheltrust.org/)

[61] Burundi, DRC, Ethiopia, Kenya, Malawi, Mozambique, Tanzania, Uganda, Zambia and Zimbabwe (Craca Machel Trust Website)

[62] Key strategies of WCW are detecting business opportunities and planning for sustainable growth, improving efficiency and quality of their service offering and improving decision making by utilizing multiple sources of information within their business operations and broader environment. WCW is a joint program with UNCTAD.

operates revolving fund for loans through a local micro finance institution.[63] In addition, ILO is implementing capacity building program through Work Improvements in Small Enterprises (WISE) modules. ILO is also contributing to the revision of National Employment Policy, which has a chapter on enterprise development focusing on youth and women.[64]

Also, University of Dar Es Salam (UDES)/Columbia University jointly provide business training for women entrepreneurs.

(3) Women's Economic Empowerment

It is also said that many of the interviewees think that women utilize finance better than men, and repays loan well in time. The general notion is that women has more robust work ethic and are persistent in achieving goals. There is a research which suggests that women owned businesses tends to achieve better performance compared to men owned businesses. However, it is also said that despite the number or women leaders increasing in private sectors, it does not mean they necessarily have more power or influence.[65]

Although the interrelations of economic performances and women's representation could not easily be identified, the field survey revealed that there is a large potential of women-led growth business to become good clients of the loan scheme.

It was pointed out that many of women business owners (especially micro) have insufficient business knowledge or support services. Some of them has wrong knowledge or information concerning business operation, legal procedures, taxes, etc. and this is limiting chances of their formalization so awareness raising is extremely important.

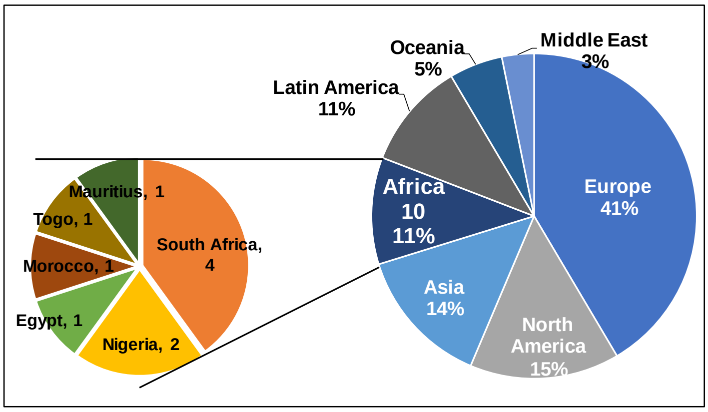
Also, not only technical trainings but trainings for business operation, management, is very important, as well as mindset change of the women.[66] It was also pointed out that the infrastructure of information access should be created, as well as a platform for advocacy.[67]

4.9 Environment, Social and Governance

Corporates now give more consideration to environment, social and governance (ESG) than before and incorporate them into their business strategies, potentially enhancing their future corporate values and enabling their sustainable growth. Institutional investors these days often make decisions for their investments in the international financial market considering not only financial matters but also non-financial aspects. There are platforms worldwide: one of the first was introduced in 2003, which 94 financial institutions in 37 countries have officially adopted as of March 2019. This is the Equator Principles (EPs). Launched in 2006, the Principles for Responsible Investment (PRI) is an international network of investors that promote six key principles for the incorporation of ESG issues into practice.

63 ILO capitalized MFI in Kigoma region with 250,000 USD for a revolving facility for women entrepreneurs.
64 Response to the questionnaire by ILO
65 "Women Matter Africa", McKinsey & Co. (2016)
66 Interview with VoWET (8 May 2018). VoWET is implementing motivation program in order to work in this issue.
67 Interview with VoWET (8 May 2018)

<Equator Principles>



The EPs is a risk management framework for determining, assessing and managing environmental and social risks in projects. It is also intended to provide minimum standards for due diligence and monitoring to make decision-making more responsible and legitimate. The EPs is applied to all industry sectors and to four financial products i) project finance advisory services ii) project finance iii) project-related corporate loans and iv) bridge loans. When a project is proposed for financing, the EPFI categorize it based on the magnitude of its potential environmental and social risks and impacts as part of their internal environmental and social review and due diligence. Such screening is based on the environmental and social categorization process of the International Finance Corporation (IFC).

Source: https://equator-principles.com/ (accessed in March 2019)

From Africa, there are ten FI from six countries which have signed up to the EPs (See the box above), although no Tanzanian FI have done so yet as of March 2019. Although FI in Tanzania are well involved in corporate social responsibility (CSR) activities and often organize events and campaigns such as in education, health, sports and the environment, the concept of ESG is not as familiar as CSR and not many of them have their own ESG policies to apply to their clients.

The following table shows information collected from the annual reports of FI who perform CSR activities and have their own ESG policies. Those who provide funds to SME are also listed in the table, but this does not ensure that they apply their ESG policy to SME finance since lending a smaller-scale amount of money to SME is not always financially viable if they apply ESG.

Table 4-24: CSR and ESG policies of Central Bank, Financial Institutions and Leasing Companies

No	Name of financial institution	CSR policy / activities	ESG	
			ESG policy	Remarks (due diligence, monitoring of clients' compliance, etc.)
1	Bank of Tanzania (BOT)	**Yes**	**Yes**	Ensures that it fulfils its fiduciary responsibilities, and adheres to the best practices and applies principles of sound corporate governance. Also monitors the impact of its operations on the environment, and minimizes these.
2	TIB	**Yes**	**Yes**	Monitors TIB-funded projects to assess their compliance with environment policies
3	TMRC	**Yes**	**Yes**	Ensures that their clients are environmentally and socially legitimate.
4	Akiba Commercial Bank (ACB)	**Yes**	**Yes**	Committed to the prevention of environmental pollution and is in compliance with relevant environmental laws in the operation areas as a minimum standard.

No	Name of financial institution	CSR policy / activities	ESG	
			ESG policy	Remarks (due diligence, monitoring of clients' compliance, etc.)
5	CRDB Bank Plc.	**Yes**	**Yes**	Considers the purpose for which the funds will be used and assesses possible conflicts with their corporate responsibility principles. Also has established a unit designated for the assessment and management of Environmental and Social Risks associated with financed projects.
6	I & M Bank	**Yes**	**Yes**	An environmental and social management system is put in place to ensure due diligence and monitoring of the environmental and social risk is conducted.
7	KCB Bank	**Yes**	**Yes**	Launched its Sustainability Framework in 2013 that centered not only financial and economic but social and environmental sustainability. Adopted SDG in 2017.
8	Diamond Trust Bank (DTB)	**Yes**	**Yes**	- Finances projects only when they are expected to be in compliance with the applicable legislation and regulations, and makes best efforts to ensure that all of them are operated so; - Ensures that their clients understand the policy commitments made by DTB in this area; and - Provides guidelines on how to assess the social and environmental risks during the lending due diligence process to ensure the activities do not negatively impact on the surrounding communities and environment.
10	Exim Bank	**Yes**	N/A	-
11	NMB	**Yes**	N/A	-

Source: 2017 Annual Reports

Note: Annual reports were collected directly in Tanzania or via the websites of each financial institution (accessed in March 2019). The following institutions did not provide their annual reports, or no article on the environment was found there: TADB, Amana Bank, Azania Bank Ltd., DCB Commercial Bank Plc, EFTA, First National Bank of Tanzania (FNB), Maendeleo Bank, and National Bank of Commerce (NBC).

Chapter 5 Donor Assistance and JICA Projects

5.1 Relevant Projects supported by Development Partners

In order to avoid overlapping of the support from other Development Partners (DP) and also to learn lessons gained from the preceding projects, interviews with other DP were conducted. The survey team received the following information from DP and other relevant sources.

Table 5-1: Projects planned to be/being supported by DP (situation as of 2018)

Organization	Project	Implementing Agency	Project Period	Project Cost	Remarks	Implementation Status
WB	Tanzania Financial Inclusion Project[68]	BOT	2019-for 5 years	150 million USD	Financial support to MSME	Preparation work was halted.
WB	Housing Finance Project	BOT/TMRC	2010 - 2019	100 million USD	Development of the housing mortgage finance market	Ongoing
WB	Tanzania Energy Development and Access Program (TEDAP), Tanzania Rural Energy Expansion Project (TREEP)	Rural Energy Agency	TEDAP: 2008-2017 TREEP: 2016-2022	TEDAP: 25 million USD for SPP Credit Line from IDA TREEP: 61 million USD for SPP Credit Line, out of which 32 million USD from IDA[69]	Financial support to SPP	TEDAP Completed TREEP: On-going
USAID	Financial support to SME with use of partial credit guarantees	CRDB, Akiba, etc.	2008-2023	91 million USD (12 guarantees in total)[70]	Private financing through USAID's Development Credit Authority, which uses partial credit guarantees	Ongoing
IFC	Financial supports to SME[71]	CRDB	(LA) Apr 2014	75 million USD	Financing small businesses, particularly those owned by women, as well as to farmers and agribusiness	Ongoing
IFC/Canada	Business Enabling Environment Support (BEES)		5 years up to 2021	7 million USD	Technical assistance	Ongoing
AfDB	Financial support to SME[72]	CRDB	(LA) Nov 2016	120 million USD	Financing infrastructure and SME projects	Ongoing
European Investment Bank	Financial support to SME[73]	Bank of Africa (Tanzania) CRDB、NMB	(LA for Bank of Africa) Mar 2014	7 million EUR. For Bank of Africa 55 million EUR for CRDB	Supporting investment by small companies across a broad range of sectors, such as agriculture, manufacturing, tourism, etc. in TZS, USD and EUR.	Ongoing

Source: Prepared by the preparatory survey team

68 The World Bank, Tanzania Financial Inclusion Project (P161355) Combined Project Information Documents/Integrated Safeguards Datasheet (PID/ISDS) updated 12-May-2018.
69 SPP stands for Small Power Producers,
70 The cumulative amount of disbursement as of 2016.
71 https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/7E00898A1D1C17BA85257CB70068E1B8?OpenDocument
72 https://www.afdb.org/en/news-and-events/afdb-and-crdb-bank-plc-of-tanzania-sign-us-120-million-loan-agreement-to-finance-infrastructure-and-smes-16478/
73 http://www.eib.org/infocentre/press/releases/all/2014/2014-046-new-lending-programme-to-benefit-small-businesses-across-tanzania.htm

(1) Financial Inclusion Project[74]

The project aims to expand responsible access to finance for MSEM and improve the capacity of regulators, financial institutions and enterprises. The operation will have a gender focus to address the specific inclusion and access constraints faced by women in Tanzania. BOT will sign a Project Agreement with International Development Association (IDA) and play the role of implementing agency, which will administer all components, assuming foreign exchange fluctuation risks. The project cost is estimated at 150 million USD (IDA interest rate will be applied, being expected not to exceed 1.5% p.a.). Interviews conducted with personnel concerned at the time of the project preparation in May 2018 revealed a number of points relevant to JICA TSL Project.

The project will consist of the following five components; 1) Lines of Credit for MSME; 2) Capacity Strengthening for MSME, PFI and other financial service providers; 3) Development of Infrastructure for Financial Inclusion; 4) Access to Finance Policies and Prudential and Market Conduct Regulations and Supervision; and 5) Project Management, Outreach and Monitoring and Evaluation. Among these five components, Components 1) and 5) will be closely related to the JICA TSL Project. The amount of the credit line will be about 130 million USD. The loan will be on-lent to accredited PFI, which in turn re-lend to MSME. DFI could be also PFI but leasing companies will not be. The amount of the credit line per PFI is expected to be less than 10% of the total loan amount and the on-lending interest rate from BOT to PFI will be around 10% to 11% p.a.[75] Eligible sectors for MSME will be rather broad, and the definition of "MSME" is expected to follow the one defined in SME Development Policy 2002. The terms and conditions of sub-loans to MSME will be left to the market mechanism without capping the re-lending interest rates of sub-loans by PFI. Sub-loans will be used for both working capital and investment purposes.

As described above, the WB-assisted financial inclusion project has a wider scope in the sense that the project extends support to any type of MSME with working capital and investment capital loans. As of November 2018, the preparation works for the project had not been completed mainly because the executing agency of the project was yet to be determined.[76]

(2) Housing Finance Project

The project aims to facilitate the development of the housing finance market through the provision of medium and long-term liquidity to lenders. BOT plays the role of implementing agency, assuming foreign exchange fluctuation risks, and manages the project through PMU and Tanzania Mortgage Refinance Company (TMRC), which was established to run this project. The project cost is 100 million USD.

The project consists of the following four components; 1) Development of the Mortgage Market; 2) Development of Housing Microfinance; 3) Expansion of the Affordable Housing Supply; and 4) Project Management. From various experiences of implementation of the project, information on the on-lending interest rates from BOT to TMRC and then from TMRC to mortgage lenders was collected.

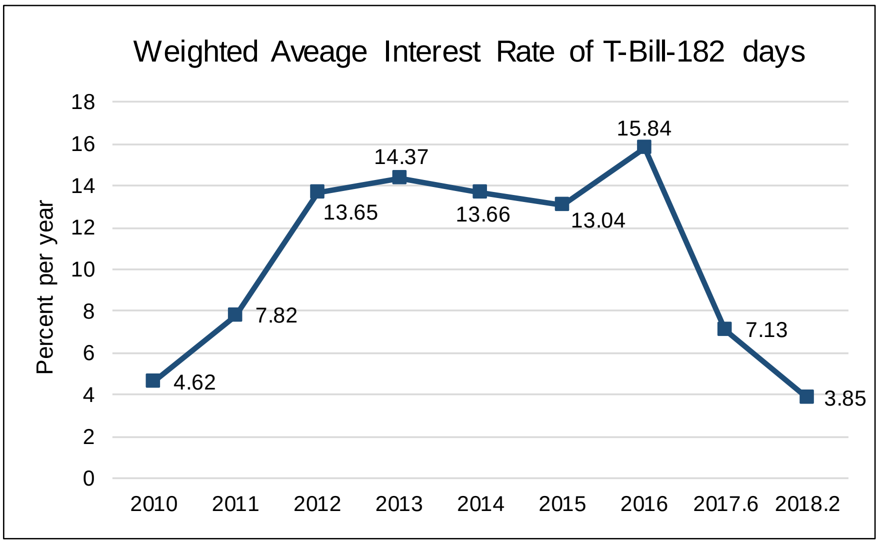
Under the Housing Finance Project, the interest rate of the on-lending loan was planned to be set at the 182-day T-bill rate with the addition of the maturity spread and the credit spread (0.25%)

[74] The preparation work was halted as of May 2019. The information and description in this part are based on the interview conducted at the WB Country Office in Tanzania during the survey period in 2018.

[75] The interest rate structure may follow the formulae: 1.5% for IDA loan interest rate, 6.4% for foreign exchange risk, and 1.5% for management fees at BOT. These will add up to 9.4% p.a.

[76] The survey team understands that the government-owned Tanzania Postal Bank Plc. could be considered as a candidate executing agency of the project but there is concern over the capital adequacy of the bank after the bank receives the loan under the project.

of TMRC.[77] In reference to differences in the maturity spread with the bond market in South Africa, the maturity spread for the one-year loan was expected to increase to 1.50% in the next four years. Accordingly, the final lending rate for the one-year loan from BOT to TMRC was estimated at 9.85% consisting of 8.10% (T-bill rate), 1.50% (maturity spread) and 0.25% (risk spread). Likewise, the final lending rates for the 2-year, 3-year and 5-year loans were estimated at 12.85%, 13.55% and 15.05%, respectively. However, due to volatility of the interest rate of T-bill (Figure 5-1 below), it seems that this formula was not applied as originally planned. According to the financial statements of TMRC, most of the loans from BOT bear an interest rate of 10%, ranging from 8.09% to 10.05% depending on differences in the months and years when loans were withdrawn and the maturity period, despite the changes in the T-bill rates over the same period.



Source: BOT
Note: Weighted Average Interest Rate Structure

Figure 5-1: Trend of the Interest Rates of T-Bill 182 Days

TMRC extends loans to mortgage lenders at an interest rate of 11.5% in most cases, but also ranging from 11.50% to 14.57%. If the mortgage lenders are not shareholders of TMRC, the survey team learned that TMRC adds one percent over the regular interest rate.

The re-lending interest rate of mortgage lenders has been left to the decision of the lenders. According to TMRC, mortgage lenders mobilize financial resources in various ways so it is difficult to set a uniform re-lending rate and control it. Furthermore, it is intended that the market will be allowed to determine lending rates. In terms of the size of sub-loans, the project set a ceiling amount at 500 million TZS per loan. This is because the usual prices for residential houses falls within the amount below this ceiling.

(3) Tanzania Energy Development and Access Program and Tanzania Rural Energy Expansion Program

Both Tanzania Energy Development and Access Program (TEDAP) and Tanzania Rural Energy Expansion Program (TREEP), which is a follow-up program of TEDAP, are not programs that extend financial support to SME but programs that support Small Power Producers (SPP), etc. by following a similar structure as the one used in the TSL scheme. The survey team found that the

[77] Appendix 9.2-Financial Analysis of TMRC, Project Appraisal Document for a Housing Finance Project, February 2010.

implementing structure of TEDAP and TREEP could be a good reference for the institutional arrangements to be adopted under JICA TSL scheme.

The development objectives of TREEP are (a) to increase access to electricity in rural areas; and (b) to increase the supply of renewable energy in rural areas while strengthening sector institutional capacity. The project (referred to as “Program for Results (PfoR)”) is in line with the National Rural Electrification Program (NREP), and has the following three Results Areas.

Results Area 1: Expanding rural access to electricity
Results Area 2: Increasing the supply of renewable electricity in rural areas
Results Area 3: Strengthening the capacity of the sector to deliver NREP

The part which is particularly relevant to the TSL scheme, is related to Results Area 2 where the program would provide funding through a window under the then existing credit line, which was developed under TEDAP for SPP development. According to the Operating Guides for SPP Credit Line prepared by REA in September 2016, the credit line for renewable energy investments provides a refinancing facility for loans to participating commercial banks for eligible renewable energy projects, through TIB, which act as a financial intermediary. The general features of the SPP credit line are described in Annex 5-1. Under the scheme, TIB plays a role in advancing funds for refinancing eligible SPP projects through PFI upon clearance of the Rural Energy Agency (REA), the executing agency of the program. TIB, among other government funds, administers TEDAP/TREEP funds off balance sheet and receives management fees and agency fees from the programs at agreed rates. All risks and rewards arising from the programs are directly channeled to MOFP. Under the scheme, BOT also works as a vetting agency to confirm PFI compliance with the eligibility criteria including prudential regulations, the NPL ratio, adequate risk management policies, appropriate corporate governance practices, and adequate capacity to underwrite and manage credits. It was learned that the disbursement under TEDAP was not as good as expected due to PFI concerns over scheduled payments of electricity bills by Tanzania Electric Supply Company Ltd. (TANESCO).

(4) IFC-assisted Financial support to SME

The project aims to strengthen outreach to SME and further promote agri-commodity exports, to promote financing for women-owned businesses, as well for farmers, and to provide advisory services in the field of trade and warehouse financing to strengthen CRDB operations.

The total loan amounted to 75 million USD and consisted of the following:

1) 40 million USD loan targeting SME, particularly those owned by women. The amount was disbursed in 2014 and 2015. This long-term loan is for a period of seven years with a two-year grace period.
2) 10 million USD trade line made available in 2014.
3) 25 million USD to support the agricultural commodity business (The Global Warehouse Finance Program (GWFP) aims to increase working capital financing available to agricultural producers or traders by leveraging their commodities in storage). The short-term facility was for a one-year period with the option to renew upon demand by CRDB.

CRDB set the terms and conditions of loans to targeted SME. Under this facility, special treatment is given to SME run by women, which are defined as enterprises where 20% of the shares is owned by women or whose Managing Director is a woman. If a certain target is achieved (for example, 5% of disbursed amount is directed to women-led SME), then a portion of the interest payments is refunded (rate-rebate). According to the annual report, CRDB received the rate-rebate from the IFC long-term SME-facility for the support of women-led SME. CRDB has a women banking unit, which specifically handles this type of special program.

According to CRDB, the total SME portfolio as at the end of March 2018 accounted for 380 billion TZS (5,318 customers)[78] with loans to women-led SME at 12 billion TZS (340 women borrowers).

(5) IFC – Business Enabling Environment Support

The Business Enabling Environment Support (BEES) program is a five-year technical assistance program up to 2021 with a project cost of 7 million USD, sourced from a Canadian trust fund. It aims at supporting the Government of Tanzania in the promotion of sustainable and inclusive economic growth through better economic foundations, increased trade and investment and business growth support. The program places a specific focus on SME, and has been designed with two pillars: 1) horizontal reforms aimed at addressing economy-wide market failures impacting the broader enabling environment; and 2) sector-specific vertical reforms aimed at addressing market failures and promoting new investment in priority growth sectors for agribusiness, tourism and light manufacturing.

One of the project components is to collaborate with SIDO. Under the component called "SIDO SME Upgrading", pilot projects will be carried out in Dar es Salaam and Arusha over a period of 18 months from March 2019. Planned activities include technical skills training on quality management and financial skills training (e.g., record keeping, costing and pricing).

(6) African Development Bank

African Development Bank (AfDB) concluded a loan agreement with CRDB Bank in November 2016 to finance infrastructure and SME projects in Tanzania. The loan is for a period of up to 8 years with a two years grace period. The loan aims to support infrastructure development, particularly in the power and transport sectors, which have been a major constraint on Tanzania's economic diversification and growth. At least 25% of the loan proceeds is to be utilized for lending to SME in key economic sectors including agriculture, construction, transport and services. In April 2017, CRDB received the first disbursement of 90 million USD from AfDB.[79]

(7) European Investment Bank

In 2016, CRDB received the first disbursement of a 40.1 million EUR long-term loan facility from European Investment Bank (EIB) equivalent to 97.55 billion TZS, which was part of the total signed facility with the bank of 55 million EUR (available in local currency). The facility is for the period of up to 8 years with a one-year grace period allocated to medium-sized companies (Mid-caps) and SME in the country. EIB has extended the loan to CRDB in the local currency at a fixed rate below the T-bill rate in the light of then high T-bill rate. No conditions were set on conditions of the loans to enterprises.

According to the annual report 2016 of NMB, NMB also received TZS loans from EIB. As at the end of December 2016, NMB had an outstanding balance of 72,712 million TZS, which bore an effective interest rate of 8.53% payable within four to seven years. In addition, as at the end of December 2016, NMB had a borrowing balance from EIB of 7.4 million USD equivalent to 16,133 million TZS. This was an accumulation of various USD loans payable over a period of four to seven years at a fixed rate. The effective rate of the loan during the year was 3.2%. The loans were taken for the purpose of better Assets Liability management.

[78] Loans, advances and overdrafts (net of allowances for probable losses at CRDB at the end of March 2018 amounted to 2,782 billion TZS.
[79] CRDB Annual Report 2017

5.2 Overview of JICA Projects

Two JICA private sector development projects known as “KAIZEN Project” and “Cluster Development Project” are briefly outlined below.

(1) The Project for Strengthening Manufacturing Enterprises through Quality and Productivity Improvement (KAIZEN) Phase 2

“The Project for Strengthening Manufacturing Enterprises through Quality and Productivity Improvement (KAIZEN) in the United Republic of Tanzania” has started in April 2013. The government of Tanzania recognized the achievements of the project and requested the government of Japan to assist implementing its subsequent phase.

- Title: The Project on Strengthening Manufacturing Enterprises through Quality and Productivity Improvement (KAIZEN) Phase 2
- Period of Project: from 1 August, 2017 to 31 July, 2020 (Three (3) Years)
- Project Site: Dar es Salaam, Dodoma, Morogoro, Arusha, Kilimanjaro, Mwanza, Mbeya and Singida

1) Project Purpose

Capacity of MITI/TKU and KAIZEN service providers (SIDO, CBE and Private Consultants) to promote KAIZEN to private enterprises in a sustainable manner is strengthened.

2) Outputs

1. The implementation structure and institution to promote KAIZEN are strengthened.
2. Capacity of SIDO to provide KAIZEN consulting service is strengthened.
3. Pilot KAIZEN activities in collaboration with leading enterprises are implemented, through which skills of KAIZEN trainers are upgraded.
4. Activities toward sustainable KAIZEN promotion are enhanced

3) Achievements (As of June 15, 2018)

- 34 persons completed the training course.
- 24 enterprises received the KAIZEN guidance

The project targeted to train more than 50 Kaizen trainers. 100 enterprises including 70 SME are expected to practice KAIZEN on a continuous basis. Commercial banks such as CRDB and NMB sent their staffs to participate in the training courses organized under the project. The project executed trainings for KAIZEN trainers, and KAIZEN coordinators of participated companies located in Dar es Salaam, Moshi and Arusha. The project extended the scope of regions to Mbeya and Moshi.

(2) Advisor for Industrial Cluster Development

The cluster development is one of SIDO’s projects to facilitate SME access to technology, infrastructure and technical services. The main focus is to strengthen existing cluster initiatives, establish new ones especially for the induced clusters. The organization will have the program of promoting use of science, technology and innovation by engaging and strengthening the linkage of cluster and academia and Local Government Authorities (LGAs). SIDO has introduced cluster approach as local level industrial policies to LGAs and supported local existing clusters with aids of donor’s assistances including JICA and SIDA. JICA cluster development cooperation is described as follows.

- Title: Advisor for Industrial Cluster Development
- Period of Project (JICA technical assistance period): From July 2017 to June 2019

- Project Site: Mbeya, Mwanza, Singida, Kagera, Kilimanjaro

1) Project Purpose
   To assist SIDO to implement the industrial cluster project

2) Outputs
   1. Implementation system for industrial cluster development is strengthened at SIDO
   2. Development and support plans for priority pilot clusters are prepared and implemented.
   3. SIDO’s capacity to assist industrial cluster development is improved.
   4. Advice is provided to SIDO in the areas related to industrial cluster development.

3) Products or materials produced as the result of cooperation
   1. Industrial Cluster Development Strategy
   2. Base line survey reports of 5 regions
   3. Booklet of Cluster Development stories and banners
   4. Pre- F/S analytical report for development of land owned by SIDO
   5. Pre-F/S guideline for development of land owned by SIDO

Chapter 6 Environmental and Social Issues

This chapter deals with environmental and social issues related to SME finance.

6.1 Environmental and Social Baseline of the Project

Tanzania is located in Eastern Africa between longitudes 29° and 41° East, and latitudes 1° and12° South. Its mainland has frontiers with Kenya and Uganda to the north, Rwanda, Burundi and Democratic Republic of Congo to the west, Zambia and Malawi to the south-west, and Mozambique to the south. The Indian Ocean lies to the East. Tanzania Zanzibar is in the Indian Ocean approximately 30 km away from Tanzania Mainland. The total area of the country is 947,300 km^2 (Tanzania Mainland: 883,300 km^2, Zanzibar 2,500 km^2, and inland water 61,500 km^2). The national language is Kiswahili, and English is widely used as the official language. There are 24 mountains which have summits over 2,500 m, among which the highest, Kilimanjaro (5,895 m). There are sixteen National Parks and 32 Game Reserves in the country.

According to the Tanzania National Bureau of Statistics, the population of Tanzania has increased more than four times from 12.3 million in 1967 to 50.1 million in 2016. Most of the people are of Bantu origin, representing 95%, with some 126 tribes, none of which exceeds 10% of the population. Groups of Nilotic or related origin include the nomadic Maasai and the Luo, both of which are found in greater numbers in neighboring Kenya. Others are of Asian, Arab and Afro-Arab as well as European origin. The biggest African group is the Sukuma: others include Masaai, Haya, Gogo, Nyamwezi and Chagga. There are people of mixed blood in the coastal area known as Swahilis as well as Asian, Arabs and European minorities. Christianity and Islam accommodate most of the population, while traditional beliefs and indigenous religions are also seen. The average annual intercensal growth rate according to the 2012 Population and Housing Census is 2.7. Over 10% of the entire population is found in Dar es Salaam Region, 5,465,420, followed by Mwanza Region (3,122,992) and Kagera Region (2,789,577) as of 2016. Life expectancy at birth was 61.80 years old for both male and female, and literacy rate was 71.80 in the 2012 Population and Housing Census.

6.2 Policies, Legal and Institutional Framework for the Project

6.2.1 Policy Framework

There are numerous of policies that address or refer to key environmental issues in Tanzania. Those which are relevant to the Project include the following:

(1) Environmental Management

National Environmental Policy 1997
The objective of the policy is to ensure sustainability, security and equitable use of resources. It identifies six major problems that require urgent action, among which is <u>environmental pollution</u>. Based upon the fact that pollution affects human health and lowers the productivity of the environment, the policy emphasizes and promotes the application of the *polluter-pays principle*[80] which is to be adopted and implemented as a deterrent measure along with the practices already introduced in Tanzania.[81]

National Sustainable Industrial Development Policy 1996-2020
The policy provides a framework of broad guidelines for the country's industrialization process

[80] In principle, it is the responsibility of those who pollute to repair and bear the costs of pollution caused and rehabilitation, where appropriate.
[81] Deposit-refund schemes are already practiced in the country primarily to encourage the return of beverage containers.

for 25 years. To ensure promotion of environmentally friendly and ecologically sustainable industrial development, the policy aims to:

- Carry out sensitization of environmental awareness;
- Strengthen the legal regime and related institutional capacity;
- Out in place an incentive mechanism for investments that promotes environmental conservation;
- Enforce Environmental Impact Assessment (EIA) and appropriate mitigation measures for all projects at pre-implementation stage; and
- Promote application of an integrated preventive environmental strategy to industrial processes, products and services.

Tanzania Development Vision 2025
The overall aim of the Tanzania Development Vision 2025 is to transfer the country from a least developing to a middle-income country. It is envisioned that this transformation will turn the economy into a strong, competitive economy that will provide improved socio-economic opportunities, public sector performance and environmental management. This vision is based on the principle of sustainable development. It is also envisaged that fast growth will be pursued while effectively reversing current adverse trends in the loss and degradation of environmental resources (such as forests, fisheries, fresh water, climate, soils, and biodiversity) and in the accumulation of hazardous substances.

(2) Land Issues

National Land Policy 1995
The overall aim of the policy is to promote and ensure a secure land tenure system; to encourage the optimal use of land resources; and to facilitate the ecological balance of the environment.

The policy emphasizes integrated planning and improved management of urban centers and the designation of urban and land uses based on environmental impact considerations.

(3) Occupational Health and Safety

National Occupational Health and Safety Policy 2010
The main objectives are to reduce the number of work-related accidents and diseases in Tanzania, which requires the adoption and implementation of a culture to prevent Occupational Health and Safety (OHS) hazards by the government, employers and employees. The policy aims to accomplish: i) appropriate institutional arrangements for efficient and effective OHS services delivery; ii) a clear and comprehensive legal and regulatory framework; iii) a reliable system for the collection, recording, notification and reporting and dissemination of OHS information; iv) adequate funding arrangements to fund OHS activities; v) effective utilization and development of existing research capacity; vi) improvement of occupational health and safety skills and resources in the public and private sector; vii) enhancement of education and training on occupational health and safety at all levels; viii) mainstreaming of cross-cutting and cross-sectoral issues.

6.2.2 Legal Framework

(1) Environmental Management

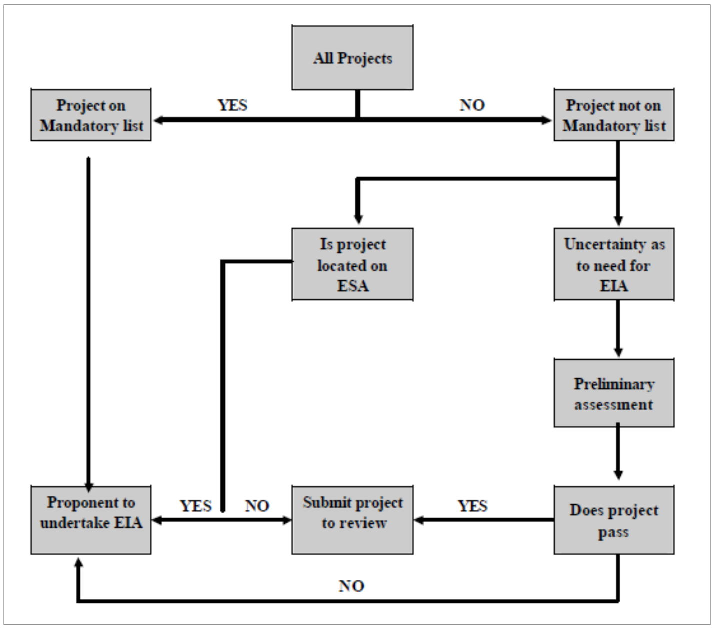
Environmental Management Act, 2004 is the principle legislation governing environmental management in Tanzania that provides a legal and institutional framework for sustainable management of the environment.[82] The law outlines principles for environmental management,

[82] The enforcement of this act repealed the National Environmental Management Act of 1983.

environmental impact and risk assessment, prevention and control of pollution, waste management, environmental quality standards, public participation, compliance with and enforcement of the National Environmental Policy 1997.[83]

The Act requires that a project proponent or developer undertakes an EIA according to their project types[84] at his/her own cost prior to commencement or financing of the project. Projects on List A (Type A Projects) are likely to have significant adverse environmental impacts and require a mandatory EIA to determine the scale, extent and significance of the impacts, to identify appropriate mitigation measures and compile an environmental impact statement (EIS). Projects on List B (Type B Projects) are likely to have some significant adverse environmental impacts but the magnitude of the impacts is not well-known. A preliminary environmental assessment shall be conducted to decide whether the project can proceed without a full EIA. SME can fall into either of two categories of the project; i.e., Type A or Type B, determined by the degree of the adverse impacts caused by specifications of their projects or activities.

The Environmental Impact Assessment and Audit Regulations, 2005 provides the screening process and EIA implementation process as shown in the figures below. The National Environment Management Council (NEMC) shall, upon examination of a project brief, require the project proponent to carry out an EIA study and prepare an EIS. The EIA should be submitted to the NEMC, which shall be reviewed through its Technical Review Committee. A site visit shall also be made by the NEMC during the review process for inspection and verification at the proponent's cost. The Act prohibits any development being initiated without an EIA Certificate.

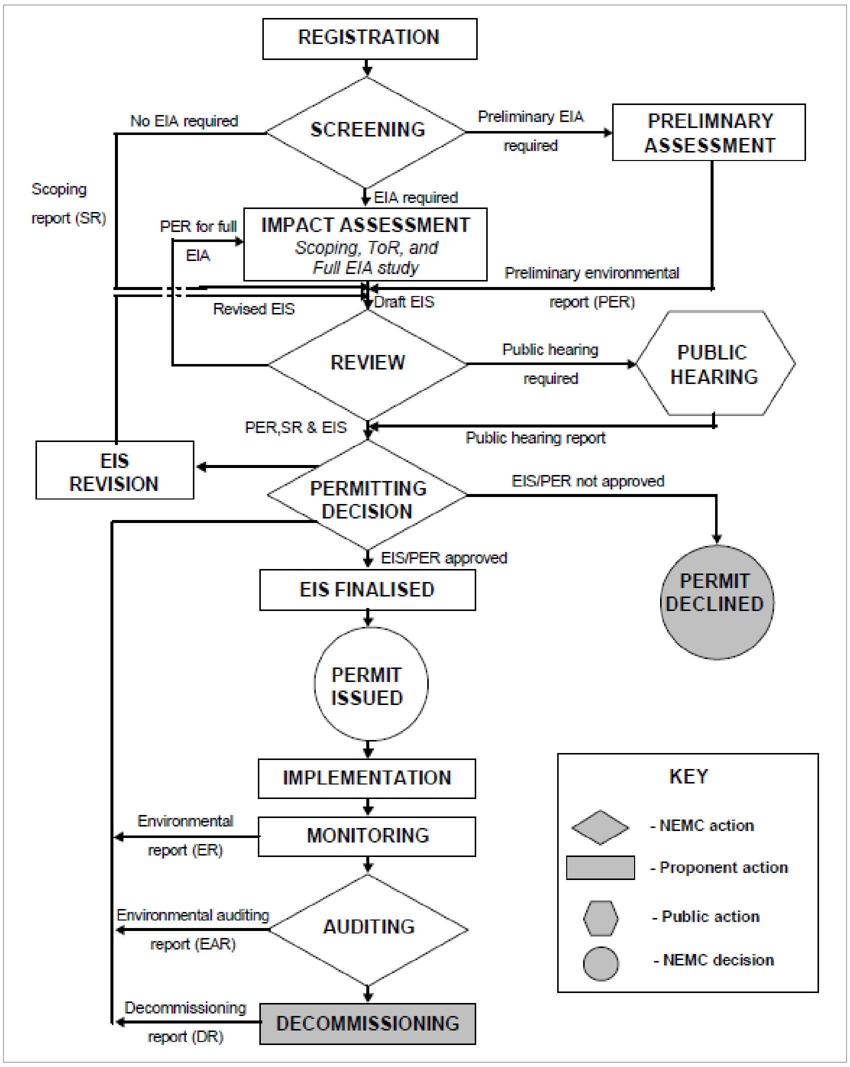


Source: Mwalyosi, R., Hughes, R. and Howlett, D.J.B. 1999. Introduction Course on EIA in Tanzania: Resource Handbook. International Institute for Environment and Development and Institute for Resource Assessment.

Figure 6-1: Screening Process

[83] For an effective implementation of the policy objectives, the Act has identified and outlined specific roles, responsibilities and functions of various key players and provides a comprehensive administrative and institutional arrangements for i) the National Advisory Committee; ii) the Minister Responsible for Environment; iii) the Director of Environment; iv) NEMC; v) Sector Ministries; vi) Regional Secretariat; vii) Local Government Authorities (City, Municipal, District and Town Councils).

[84] The types of projects requiring EIA are broadly as listed in the Third Schedule of the Act including processing and manufacturing industries. Specific types of projects requiring and not requiring EIA are described in the First Schedule of the Environmental Impact Assessment and Audit Regulations 2005, with List A: projects requiring EIA (mandatory list) and List B: small-scale activities and enterprises that require registration (may or may not require EIA).



Source: Mwalyosi, R., Hughes, R. and Howlett, D.J.B. 1999. Introduction Course on EIA in Tanzania: Resource Handbook. International Institute for Environment and Development and Institute for Resource Assessment.

Figure 6-2: EIA Procedure

Project proponents and enterprises are required to pay fees and charges for each and every procedure in the above Figure 6-2 as stipulated in the **Environmental Management (Fee and Charges) (Amendment) Regulations, 2016** and as shown in Table 6-1 and Table 6-2 below.

Table 6-1: Fees and Charges for EIA

Unit: TZS

	Description	Amount
1	Application of EIA	50,000
2	Submission of Project Brief	150,000
3	Certificate of EIA	500,000
4	Transfer of Certificate	300,000
5	Surrender of Certificate	300,000
6	Variation of Certificates	150,000

Source: Environmental Management (Fee and Charges) (Amendment) Regulations, 2016

Table 6-2: Fees for Charges for Review of EIA and Audit

Category		Type A projects: Mandatory List*			Type B projects: non-mandatory list and Type A small-scale projects
		Extractive industries A	Large-scale extractive industries B	Other type A projects	
1	Environmental Impact Statement	0.1% of total project cost to a minimum of TZS 20m with no upper capping.	0.1% of total project cost to a minimum of TZS 25m with no upper capping.	0.1% of total project cost to a minimum of TZS 10m with no upper capping.	0.1% of total project cost to a minimum of TZS 5m with no upper capping.
2	Environmental Audit	0.1% of total project cost to a minimum of TZS 20m with no upper capping.	0.1% of total project cost to a minimum of TZS 25m with no upper capping.	0.1% of total project cost to a minimum of TZS 10m with no upper capping.	0.1% of total project cost to a minimum of TZS 5m with no upper capping.
3	Preliminary Environment Assessment	-	-	-	0.1% of total project cost to a minimum of TZS 4m with no upper capping.
4	Upgrading EMP	0.1% of total project cost to a minimum of TZS 5m with no upper capping.	0.1% of total project cost to a minimum of TZS 5m with no upper capping.	0.1% of total project cost to a minimum of TZS 5m with no upper capping.	0.1% of total project cost to a minimum of TZS 2m with no upper capping.

Source: Environmental Management (Fee and Charges) (Amendment) Regulations, 2016

During the operation period, annual charges for environmental compliance monitoring and audit shall also be collected. The amount charged to the project proponents or enterprises vary from sector to sector, and from facilities to facilities. For instance, small-scale agro-processing industries are charged 300,000 TZS per year, small-scale breweries and distillers are charged 750,000 TZS. All soap and detergent plants are obliged to pay 750,000 TZS per year regardless of their scale, and are all tire manufacturers pay 1,500,000 TZS.

The Environmental Management Act No. 20 Cap 191 provides directives on environmental standards. It is the National Environmental Standards Committee of the Tanzania Bureau of Standards (TBS) that develops, reviews and submits to the Minister proposals for environmental standards and criteria in relation to air quality; control of noise and vibration pollution; sub sonic vibrations; soil quality; control of noxious smells; light pollution, electromagnetic waves and microwaves; and any other environmental standards.[85]

If the projects or activities emit or discharge pollutants, they are obliged to obtain permits with the costs mentioned in the above regulations in Table 6-3.

[85] The Environmental Management (Air Quality Standards) Regulations, 2007 compel compliance with minimum air quality standards. No person shall emit or release any hazardous substance, chemical, gas or mixture containing gaseous and hazardous substances into the air except those permitted. A person whose activities do not comply with the standards shall apply for registration in relation to such main air polluting activity. The Environmental Management (Water Quality Standards) Regulations, 2007, provide minimum standards of water quality and set mechanisms for the protection of water sources and groundwater. It prohibits the discharging of hazardous substances, chemicals and materials or oil into water bodies and outlines procedures that must be followed in the sampling and assessing of water. The Environmental Management (Soil Quality Standards) Regulations, 2007 set out minimum standards for soil quality and identify contaminants of heavy and other metals including liquids, such as oils. It compels all developers to ensure they do not emit any substances that may contaminate the soil beyond levels that are provided for in the laws.

Table 6-3: Fees for Environmental Quality Standards

Unit: TZS

	Rates		Amount
A	**Main Polluting Activities (Air, Water and Soil)**		
1	Registration and review of compliance plan		1,000,000
2	Permit for emissions and discharges	(i) within permissible limit values	0
		(ii) below 25% above allowable standards	5,000,000
		(iii) between 25% and 50% above allowable standards	7,500,000
		(iv) greater than 50% above allowable standards	10,000,000
3	Annual fee for permit		1,000,000
4	Transfer of permit		500,000
B	**Other Polluting Activities**		
1	Application fee		50,000
2	Waste oil and scrap wastes permit	New permit	300,000
		Renew	300,000
3	Flaring per unit		10,000,000
4	Incinerations	Hazardous	2,000,000
		Non-hazardous	1,200,000

Source: Environmental Management (Fee and Charges) (Amendment) Regulations, 2016

For generating hazardous, non-hazardous and solid wastes, there is also the obligation to pay fees for permits as in Table 6-4 and Table 6-5. Noise and vibration are not an exception in the obtaining of permits from the NEMC. There is the obligation to pay fees for permits as in Table 6-6.

Table 6-4: Hazardous / Non-hazardous Waste Permits

Unit: TZS

		Metal & metal bearing wastes	**Organic metal and inorganic waste**	**Inorganic metal and organic waste**	**Inorganic or organic waste**
Hazardous Wastes					
1	Application fee	50,000	50,000	50,000	50,000
2	Collection	10,000,000	8,500,000	7,225,000	6,141,250
3	Transportation	5,000,000	4,250,000	3,612,500	3,070,625
4	Exportation	1.000,000	8,500,000	7,225,000	6,141,250
5	Storage	5,000,000	4,250,000	3,612,500	3,070,625
6	Disposal	5,000,000	4,250,000	3,612,500	3,070,625
Non-hazardous Wastes					
1	Application fee	50,000	50,000	50,000	50,000
2	Collection	8,000,000	6,800,000	5,780,000	4,913,000
3	Transportation	4,000,000	3,400,000	2,890,000	2,456,500
4	Exportation	8,000,000	6,800,000	5,780,000	4,913,000
5	Storage	4,000,000	3,400,000	2,890,000	2,456,500
6	Disposal	4,000,000	3,400,000	2,890,000	2,456,500

Source: Environmental Management (Fee and Charges) (Amendment) Regulations, 2016

Table 6-5: Solid Waste Permits

Unit: TZS

	Description	Amount
1	Application for license	50,000
2	Collection	200,000
3	Transportation	200,000
4	Disposal	200,000
5	Transfer station	200,000

Source: Environmental Management (Fee and Charges) (Amendment) Regulations, 2016

Table 6-6: Noise and Vibration permits

Unit: TZS

	Description	Day	Night
Noise			
1	Application fee	50,000	
2	Excessive noise levels for factories or workshops	5,000,000	
3	Excessive noise levels for impact or impulsive noise	3,000,000	
4	Excessive noise levels for places or establishments of entertainment	10,000,000	
5	Excessive noise levels for mines and quarries	5,000,000	
6	Excessive noise levels for areas of worship	100,000	
7	Excessive noise levels for vehicles	500,000	
8	Excessive noise levels for general environment	2,000,000	2,000,000
9	Excessive noise levels for construction sites	2,000,000	4,000,000
10	Excessive noise levels for public announcement systems or devices	2,000,000	4,000,000
Vibration			
1	Excessive whole body vibration	2,000,000	4,000,000
2	Excessive hand arm vibration	2,000,000	4,000,000
3	Excessive ground vibration at sensitive sites	2,000,000	4,000,000
4	Excessive subsonic vibration / air over	2,000,000	4,000,000

Source: Environmental Management (Fee and Charges) (Amendment) Regulations, 2016

(2) Land Issues

Land Act No.4, 1999 provides fundamental principles for occupying and using land in Tanzania. Among these is the principle that any land use complies with the principles of sustainable development. Out of the three land categories in Tanzania, the Act governs “general land” which is managed by the Commissioner.[86] It states that the right of occupancy includes land which is occupied by persons under customary law. All “village land” inside the boundaries of registered villages, where the Village Councils and Village Assemblies have the power to manage, are regulated in the **Village Land Act No. 5 of 1999**. This governs village land and all matters related to land tenure under the Village Councils. The Village Council manages all village lands in accordance with the principles of a trustee, with the villagers being the beneficiaries. The Village Council is required to maintain such principles as sustainable development and the relationship between land use, other natural resources and the environment in and contiguous to the village. **Local Government Act (District Authorities), 1982** and **Local Government Act (Urban Authorities), 1982** provide the local government authorities with powers to make by-laws for regulating pollution issues, acquire land or right over the use of any land, issue land titles, prohibit, restrict or regulate construction, alteration, alignment and elevation of all buildings and other structures.

[86] Along with general land and village land, there is another category, *reserved land* that constitutes 28% of all land area in Tanzania. This is wildlife conservation areas, national parks, forestry reserves, etc., regulated by such laws as the Wildlife Conservation Act, National Parks Ordinance, Marine Parks and Reserves Act, etc.

According to the Tanzania Investment Centre,[87] investors can obtain land from general land or from village land. Land ownership comes by means of obtaining the Right of Occupancy for citizens and for non-citizens, investors may occupy land for investment purposes through a government Granted Right of Occupancy, through Derivative Right granted by Tanzania Investment Centre or a sub-lease through a Granted Right of Occupancy. Right of occupancy and Derivative Right may be granted up to 99 years and are renewable.

(3) Occupational Health and Safety

The Occupational Health and Safety Act, 2003 makes provisions for the safety, health and welfare of people at work. It provides for the protection of people against hazards to health and safety arising from their work environment, such as the supply of clean and safe sanitary conveniences, washing facilities and first aid facilities. All occupiers, owners of workplaces and premises including factories are obliged to register with the Registrar before commencing operations.

Table 6-7: Workplace Registration Fees

Unit: TZS

No.	Category (Total Liability)	Micro (Up to 5M)	Small (Between 5M and 200M)	Medium (Between 200M and 800M)	Large (Above 800M)
1	Agriculture, Forestry and Fishing	50,000	150,000	300,000	450,000
2	Mining and Quarrying	200,000	600,000	1,200,000	1,800,000
3	Manufacturing	80,000	240,000	480,000	720,000
4	Energy and Petroleum	100,000	300,000	600,000	1,800,000
5	Water Supply, sewerage, waste management	100,000	300,000	600,000	900,000
6	Construction projects (Buildings, Roads, Water supply, Electrical, Mechanical etc.)	150,000	300,000	600,000	900,000
7	Wholesale and retail trade	50,000	150,000	300,000	450,000
8	Transportation and Storage	100,000	300,000	600,000	900,000
9	Accommodation and Food Services	100,000	300,000	600,000	900,000
10	Information and Communication	100,000	300,000	600,000	900,000
11	Financial and Insurance Activities	150,000	450,000	900,000	1,350,000
12	Real Estate activities	150,000	450,000	900,000	1,350,000
13	Professional, scientific and technical activities	100,000	300,000	600,000	900,000
14	Administrative and support activities	100,000	300,000	600,000	900,000
15	Public administration and Parastatal Organizations	100,000	300,000	600,000	900,000
16	Education	100,000	300,000	600,000	900,000
17	Human Health and Social work activities	50,000	150,000	300,000	450,000
18	Arts, entertainment and recreation	50,000	150,000	300,000	450,000
19	Other Services activities	50,000	150,000	300,000	450,000
20	Activities of extraterritorial organization and bodies	50,000	150,000	300,000	450,000

Source: http://www.osha.go.tz/uploads/publications/en1496323303-FEES%20RULE.pdf (accessed in May 2018)

The Act stipulates that working places where hazardous chemicals, hazardous processes or hazardous equipment are handled or involved must provide their workers with special safety measures. Personal protective gear should be worn at all time by workers.

[87] http://www.tic.co.tz/(accessed in May 2018)

6.2.3 Institutional Framework

(1) Environmental Management

An institutional set-up for environmental management has been established at national, regional, district, and village levels as follows. The Vice President’s Office (VPO) is the main regulatory organ and is responsible for coordinating environmental management in the country.

Table 6-8: Implementation Arrangements for Environmental Management

No.	Organization / Position	Roles and Functions
<National level>		
1	National Environment Advisory Committee (NEAC)	- Examines any matter which may be referred to it by the Minister related to the protection and management of the environment and recommends to the Minister sector actions necessary to be taken to achieve the objective of the Environmental Management Act; - Advises the Minister on any matter in connection with restocking and limitation of stock; - Draws recommendations to the Minister where there is degradation of the environment.
2	Minister Responsible for Environment in the VPO	- Oversees the implementation of the Act - Reports to the Cabinet and the parliament on the state of environment and sets out rules, regulations and guidelines for the implementation of the Act
3	Director of Environment (DOE) in the VPO	- Coordinates various environmental management activities undertaken by other agencies - Promotes the integration of environment consideration into development policies, plans, programmes, strategies, projects and undertakes SEA to promote sustainable development - Advises the Government on legislative and other measures for the management of the environment or the implementation of the relevant international agreements with respect to the environment - Monitors and assesses activities being carried out by relevant agencies to ensure that the environment is not degraded by such activities - Prepares and issues a report on the state of the environment in Tanzania - Coordinates issues relating to articulating and implementation of the National Environmental Policy
4	National Environment Management Council (NEMC)	- Enforces, complies with, reviews and monitors environmental impact assessment - Facilitates public participation in environmental decision making, exercises supervision and coordination over all matters related to the environment - Prepares and submits to the Minister a biannual report on how it has implemented the provisions of the act - Carries out environmental audits - Carries out surveys which will assist in the proper management and conservation of the environment - Undertakes and coordinates research, investigation and surveys in the field of environment - Reviews and recommends for approval environmental impact statements - Enforces and ensures compliance by the national environmental quality standards - Undertakes in collaboration with relevant sector environmental education programmes - Publishes and disseminates manuals, codes or guidelines relating to environmental management and the prevention or abatement of environmental degradation.

No.	Organization / Position	Roles and Functions
5	Sector Ministries (Focal point: Sector environmental section (led by the Sector Environmental Coordinator))	<Functions> - Ensures compliance by the sector Ministry with the requirement of the Act - Ensures all environmental matters, in other written laws falling under sector ministry, are implemented and report of their implementation is submitted to the DOE - Liaises with DOE and the NEMC on matters related to the environment <Responsibilities> - Advises on and in collaboration with other bodies, implements the policies on environmental management - Coordinates activities related to the environment within the Ministry - Ensures environmental concerns are integrated into the Ministry or departmental development plans and are implemented to protect the environment - Promotes public awareness on environmental issues - Refers to the NEMC any matter related to the enforcement for the Act - Oversees the preparation and implementation of EIA required for investment in the sector - Ensures compliance with various regulations, guidelines and procedures - Provides environmental advice and technical support to district level staff working in the sector in collaboration with the Ministry responsible for local government - Prepares and submits to DOE a bi-annual report concerning the state of the environment segment and the measures taken by that sector to maintain or improve the environment; - Reviews environmental laws falling under the sector
<Regional level>		
6	Regional Secretariats (Focal point: regional environmental management experts)	- Manage the environment at regional level
<District and subordinate levels>		
7	Local Government Authorities (Focal point: Environmental management officer)	- Manage the environment at local level (City, Municipal, District, and Town Councils; Township; Hamlet (Kitongoji); Ward; Street (Mtaa); and Village) - Coordinate with NEMC, sector Ministries and Ministry responsible for local government

Source: Environmental Management Act, 2004

(2) Land Issues

The Ministry of Lands, Housing and Human Settlements Development is mainly responsible for land use planning, surveying and the demarcating of land / parcel / farms, and the provision of land ownership and tenancy in both rural and urban areas.

National Land Use Planning Commission has the function of preparing regional physical land use plans, formulating land use policies for implementation by the government and specifying standards, norms and criteria for the protection of beneficial uses and maintenance of the quality of land. As an advisory organ, the Commission also recommends measures to ensure that government policies, including those for the development and conservation of land, take adequate account of their effects on land use, to stimulate public and private participation in programmes and activities related to land use planning for the national beneficial use of land, and to seek advancement of scientific knowledge of changes in land use and encourage the development of technology to prevent or minimize adverse effects that endanger man's health or welfare. The Act defines "beneficial use" as "a use of land that is conducive to public benefit, welfare, safety or health." To date, no additional land use standards have been made pursuant to the Act. Any business operating in a rural area will be expected to follow the conditions of the regional physical land use plan for that particular region.

(3) Occupational Health and Safety

Occupational Health and Safety Authority (OSHA) was established in 2003 to ensure the safety and health of persons at work by regulating, enforcing and promoting sound occupational safety and health standards for national development. To make workplaces safer and more healthy, OSHA undertake several functions and roles as shown below:

Table 6-9: Functions and Roles of OSHA

No.	Organization	Roles and Functions
1	Occupational Health and Safety Authority (OSHA)	- Conducts general workplace inspection - Conducts health and safety audits - Regulates statutory inspections - Regulates Workplace Risk Assessment - Organizes and conducts training on occupational health and safety - Disseminates information on occupational health and safety - Carries out research and surveys on OHS - Enforces safety and health standards and legislation at workplaces - Provides consultancy and advice on OHS matters - Scrutinizes and approves workplace drawings/plans - Registers and continues to register workplaces - Regulates occupational medical examinations for workers - Conducts workplace environmental monitoring - Offers expert opinion in courts of law on OHS matters - Authorizes OHS Private Providers - Accredits OHS practitioners - Investigates accidents and occupational diseases - Assesses psychosocial factors - Initiates ratification of international conventions and treaties on OHS

Source: http://www.osha.go.tz/pages/introduction?mid=148 (accessed in May 2018)

6.3 Differences between JICA Guidelines and Tanzanian Legislation for the Project

In addition to compliance with the Tanzanian environmental laws and regulations, differences from the JICA Guidelines are described in the table below.

Table 6-10: Comparison between JICA Guidelines and Relevant Tanzanian Legislation

Content	JICA Guidelines on Environmental and Social Considerations (2010)	Relevant Tanzanian Legislation	Gap with JICA Guidelines
Underlying Principles	- Environmental impacts that may be caused by projects must be assessed and examined in the earliest possible planning stage. Alternatives or mitigation measures to avoid or minimize adverse impacts must be examined and incorporated into the project plan. (Appendix 1.1-1)	- At the screening stage, Type A projects with significant adverse impacts are subject to EIA implementation. Type B projects with uncertain impacts are required to go through preliminary environmental assessment to identify the degree of impact. Screening is done prior to the project implementation and mitigation measures are well incorporated into the project design. (Section 6, “EIA and Audit Regulations (2005)”)	No gap.

Content	JICA Guidelines on Environmental and Social Considerations (2010)	Relevant Tanzanian Legislation	Gap with JICA Guidelines
Examination of measures	- Appropriate follow-up plans and systems, such as monitoring plans and environmental management plans must be prepared; the costs of implementing such plans and systems, and the financial methods to fund such costs, must be determined. Plans for projects with particularly large potential adverse impacts must be accompanied by detailed environmental manuals	- An EIA shall develop an EMP with mechanisms for monitoring and evaluating compliance and the environmental performance which shall include the cost of mitigation measures and the time frame of implementing the measures. (Section 16, 18 and 24, "EIA and Audit Regulations (2005)"	No gap.
Compliance with laws, standards and plans	- Projects must comply with the laws, ordinances, and standards related to environmental and social considerations established by the governments that have jurisdiction over project sites (including both national and local governments)	- The EIA system in Tanzania is stipulated by "Environmental Management Act (2004)" and "EIA and Audit Regulations (2005)."	No gap.
Monitoring	- After projects begin, project proponents etc. monitor whether any unforeseeable situations occur and whether the performance and effectiveness of mitigation measures are consistent with the assessment's prediction. They then take appropriate measures based on the results of such monitoring. - Project proponents etc. should make efforts to make the results of the monitoring process available to local project stakeholders. (Appendix 1) - When third parties point out that environmental and social considerations are not being fully undertaken, forums for discussion and examination of countermeasures are established based on sufficient information disclosure. Project proponents etc. should make efforts to reach an agreement on procedures to be adopted with a view to resolving problems. (Appendix 1)	- NEMC shall monitor ongoing projects on a continuous basis using parameters and indicators, and conduct measurement of environmental changes that have occurred during implementation (Section 57, "EIA and Audit Regulations (2005)") - Records shall be submitted annually to the NEMC. Any person may have access to any records submitted to the NEMC. (Section 166 and 167, "Environmental Management Act (2004)") - The NEMC shall adopt guidelines on public participation, especially those likely to be affected by the project being the subject of an EIA study or review. EIS shall be conducted through public hearings. (Section 89, 90, 104 and 178 (Environmental Management Act (2004)")	- No gap. However, there is no regulation regarding monitoring results.
Grievance Redress Mechanism	- Appropriate and accessible grievance mechanisms must be established for people affected and their communities	- Land Acquisition Act 1967, Section 13 (1) and (2) and Land Act, Cap 113. Part XIII Section 167 (1) provide a mechanism for dealing with grievances including lodging complaints to the courts.	Grievance mechanism in Tanzania is not easily accessible.

Source: The survey team

Chapter 7 Analyses on Effective Scheme of JICA Assistance

The Executing Agency had not yet been determined by the Government as of the closing of this preparatory survey.[88] Under these circumstances, this chapter has been prepared to present possible implementation arrangements based on the results of the preparatory survey and basic concepts behind the formulation of the Project assuming that BOT would become the Executing Agency of this Project.

7.1 Rationale for undertaking the TSL Project

(1) Government efforts to promote industrialization, MSME and the manufacturing sector has been described in Chapters 1 and 2. Conditions of SME limited access to finance have been described in Chapter 3 and 4.

(2) There are a number of reasons behind the limited access of SME to medium-and long-term investment loans as described in 1) to 3) below. While bank loans still remain as the major fund procurement measure, medium-and long-term loans to SME from the banking sector are not very active (i.e., less developed stock and bonds markets,[89] and underdeveloped leasing industries[90]).

1) Insufficient amount available for medium-and long-term funds: difficulties in mobilizing medium- and long-term funds through deposits partly due to less extensive branch networks,[91] less trust in banks due to the fear of bank-runs; and a limited availability of measures to raise medium-and long-term loans.[92]

2) Less competition among banks in the sector as represented by shares of the several large banks[93] and less incentive to extend medium and long-term loans to the SME sector which is considered as a high-risk market. At the same time, high NPL is faced by the banking sector and government security markets are considered to have offered less risky investment opportunities at relatively higher interest rates.[94]

3) Difficulties in assessing creditworthiness of SME for medium-and long-term investment loans: difficulties in assessing prospective SME due to insufficient capacity for appraisal on the part of bank staff (lack of basic knowledge and inadequate training to cope with periodical rotation of loan officers), underdeveloped credit reference system,[95] lack of business plans and financial statements (in case of short-term loans, however, transactions in bank accounts

[88] Annex 7-1 describes discussions over the Executing Agency and Participation of Government-owned Financial Institutions in the Project as of the end of the preparatory survey in September 2019.

[89] Domestic market capitalization was 10,728.54 billion TZS (equivalent to about 4.7 billion USD) and stock market turnover was 6,634.09 million TZS on March 29, 2018 (Dal Es Salaam Stock Exchange Market Report). Market capitalization at Nairobi Securities Exchange was 17.91 billion USD while that at Nigerian Stock Exchange 28.48 billion USD as of March 2018 (https://www.stockmarketclock.com/).

[90] An overview of the leasing sector is provided in Chapter 4.7.2.

[91] For example, 98.7% of deposits at the largest bank (CRDB) in Tanzania, including non-interest-bearing deposits, is for less than one year at the end of 2016. The branch network of banking institutions is described in Table 4-3 of Chapter 4.1. Commenting on the limited availability of medium- and long-term funds, some bank staff pointed out that business in Tanzania tends to be short in nature.

[92] This depends on banks, however. For example, NMB, the second largest bank in the country, received loans from EIB and other organizations and also issued corporate bonds.

[93] As described in Table 4-4 of Chapter 4.1, the market has been dominated by the largest banks.

[94] Weighted average interest rates of T-bill 182 days in March 2017, March 2018 and February 2019 were 13.78% p.a, 3.35% p.a. and 5.28% p.a., respectively. Weighted average interest rates of T-bond 10 years were 13.86% p.a. in March 2018 and 14.94% p.a., respectively. As described in Chapter 4.1, banks responded by diversifying their portfolio in favour of government securities.

[95] The current conditions of the credit reference system are described in Chapter 4.3.1.

can be monitored), reliance on collateral (preference for land as collateral) that will lead to difficulties on the side of SME when they are short of lands for collateral, difficulties in protecting credit due to underdeveloped legal systems concerning collateral and foreclosures, and risk management of loans (high NPL ratio in the banking sector).[96]

(3) With the above background, JICA TSL Project aims to promote finance towards SME mainly in the manufacturing sector and help them expand their investment in equipment and facilities and production, by providing them with concessional medium- and long-term loans, thereby contributing to the sound development of industries and the economy in Tanzania. The Project consists of the following components:

1) TSL component: Provision of concessional medium- and long-term sub-loans to SME mainly in the manufacturing sector through PFI.

2) Consulting Services: Assistance for implementation of the Project (project management, promotion, etc.) and capacity development of a Project Management Unit (PMU) to be set up at the Executing Agency in order to manage the Project, and PFI in implementing SME finance. Capacity development of SME can be also carried out in collaboration with other organizations concerned with SME development.

   Special attention will be paid to the following points:

   (a) Promotion of competition among financial institutions in terms of quality of services delivered to SME by encouraging participation of several qualified financial institutions in the Project, including small-sized banks and leasing companies that are in a position to promote the development of target end-borrowers;

   (b) TSL Project will be advertised to the public through various media;

   (c) Extension of TA for capacity development of PFI in appraising the medium- and long-term investment loans to SME;

   (d) Promotion of collaboration with SME under the KAIZEN project, collaboration with BDS such as PASS for the preparation of business plans and financial statements and guarantee facilities, collaboration with SIDO for the identification of growth-oriented enterprises and their capacity development, enhancement of business relations with Japanese companies, etc.;

   (e) Establishment of a Steering Committee, consisting of representatives from MOFP, MIT, BOT, SIDO, other Government and private organizations, in order to input feedback on experiences gained and lessons learned from the implementation of the Project into future policy measures;

   (f) Eligible sector will cover sectors in the value chain relating to the manufacturing sector, including the agro-processing sector, and relevant activities in the agriculture sector (such as harvesting, trading, warehousing, transporting activities)[97]; and

   (g) No special quota for credit lines will be set aside for women-led SME but the development of women-led enterprises will be encouraged. For this purpose, one of the accreditation criteria of PFI (i.e., 20% of Board Members are women) has been selected from the criteria relevant to the gender mainstreaming.

(4) Meanwhile, the Japanese Government formulated a Country Development Cooperation Policy for the United Republic of Tanzania in September 2017. The said policy set

[96] BOT, Tanzania Financial Stability Report, September 2017. NPL issue was described in Chapter 4.5.

[97] The agriculture sector could be included, but further discussions are needed to define specific sub-sectors to be targeted.

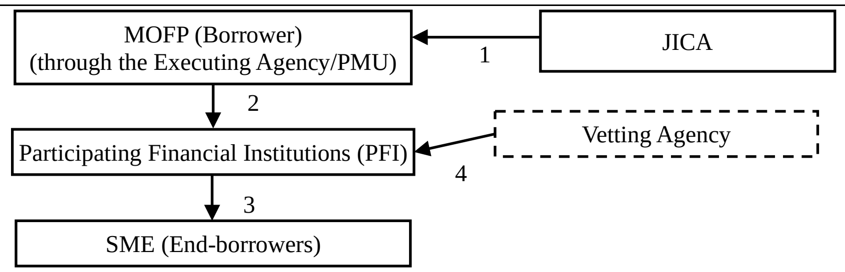
"promoting economic and social development towards sustainable economic growth and poverty reduction" as the basic policy of Japanese ODA to the country. Three priority areas have been identified: (a) nurturing the driving forces of economic growth; (b) infrastructure development conducive to economic and social development; and (c) improvement of governance and the public service delivery. JICA TSL Project is relevant to the first priority area (a). Under the first priority area (a), strengthening of the food value chain is mentioned. Furthermore, the Policy claims that under FYDP II, which sets industrialization as the first priority, engagement in development of the active cooperative sector will be made through support for the business environment improvement and the KAIZEN project.

(5) Tokyo International Conference on African Development (TICAD 7)[98] was held in August 2019 in Japan. While TICAD is sponsored by Japan, launching of TSL Project in the year of TICAD 7, which could promote potential business partners for Japanese enterprises in the future, will send a timely signal to participating countries for further development of the cooperation between Japan and Tanzania / other African countries.

7.2 Options for Implementation Schemes

7.2.1 Overall Implementing Structure

Based on the official request from the Government of Tanzania[99] and the results of the preparatory survey, the following implementation arrangements have been worked out under the proposed TSL scheme. Under the scheme, JICA extends a concessional loan (with an interest rate of 0.01% p.a. and a 40 year-repayment period including a 10-year grace period) to the Government of Tanzania represented by MOFP as a Borrower. MOFP extends On-Lending Loans (OLL), sourced from the ODA loan, to PFI through the Executing Agency. PFI in turn re-lend sub-loans to eligible end-borrowers, i.e. SME.



Fund Flow	Summary
1: JICA to MOFP (Borrower)	JICA disburses ODA loan to MOFP in JPY.
2: MOFP to PFI through the Executing Agency/PMU	MOFP extends On-Lending Loans in TZS to PFI through the Executing Agency. PMU, being established within the Executing Agency, manages and on-lends OLL to accredited PFI.
3: PFI to SME (End-borrowers)	PFI re-lend sub-loans to eligible end-borrows.
4: Vetting of PFI	A vetting agency will confirm PFI compliance with the eligibilities in accordance with the criteria.

Figure 7-1: Basic Implementation Structure

[98] TICAD was launched in 1993 by Japanese Government to promote Africa's development, peace and security, through the strengthening of relations in multilateral cooperation and partnership, particularly at country level.

[99] The official request for "Establishment of Preferential Loan for Industrial Promotion" was prepared by then MITI and TIB and was submitted to the Embassy of Japan and JICA in August 2015. The official request proposed that the responsible ministry be MITI and an agent bank TIB. TIB was also expected to bear foreign exchange fluctuation risks under the proposal. The target sector was set at manufacturing and processing, agro-processing in particular, while the target size ranged from micro to large enterprises with the maturity of loans to end-borrowers from 2 to 5 years. The amount requested for ODA Loan was 30 USD million, out of which 50% was to go to SME through TIB, 35% to large enterprises through banks from TIB, and the remaining 15% to micro enterprises through MFI from TIB.

The main features of this implementation arrangement are described as follows:

1) MOFP will bear risks of foreign exchange-rate fluctuations (JPY/TZS) in order to reduce on-lending interest rates to PFI and re-lending interest rates to SME.
2) BOT/PMU will play a role of the Executing Agency, which will be responsible for the achievement of the Project objective, implement and manage the Project.
3) In consideration of enhancement of sustainability after completion of the Project, PFI are supposed to accumulate know-how relating to TSL concerning investment loans to SME.
4) The terms and conditions of sub-loans could be made attractive enough for SME to justify their capital investment after both the Executing Agency and PFI have secured acceptable margins from their participation and engagement in the Project.

7.2.2 Executing Agency

(1) Executing Agency and Project Management Unit

The Executing Agency is responsible for implementation of the Project in accordance with a legal agreement to be concluded between the Borrower and JICA towards achievement of the Project objective. The tasks of the Executing Agency, among others, include the preparation of operating guidelines of the Project, selection of Participating Financial Institutions (PFI), employment of consultants,[100] management of proceeds of ODA loan, monitoring and evaluation of the Project and preparation of reports to JICA and other relevant organizations.

The survey team assumes that BOT is the likely candidate for the Executing Agency based on its track record of being the implementing agency under the WB-assisted Housing Finance Project, in addition to its expertise in the financial sector as well as its role of the supervision over the financial sector. In the case that BOT does not become the Executing Agency, it can still function as a vetting agency to confirm PFI eligibility in accordance with the criteria in collaboration with the Executing Agency.

For the purpose of the smooth implementation of the Project, a PMU will be established at the Executing Agency with an adequate number of management and staff members who will specifically handle all the managerial tasks related to the Project. Subject to discussions, PMU may consist of a project director and staff in charge of various fields such as administration, treasury/fund disbursement and the recovery/management of revolving funds, capacity development, promotion of the Project, review/accreditation and monitoring of PFI.

PMU is not necessarily fully staffed at the beginning stage of the Project but the establishment of the PMU at the Executing Agency needs to be completed before the Project is commenced in order to start all the preparatory works for the implementation of the Project.

The Director of PMU will be assigned to lead PMU and will be primarily responsible for Project implementation. While the Director and other managerial personnel are responsible for management of the existing tasks under the arrangements of concurrent assignments, the Executing Agency is expected to ensure that the staff members, who are in charge of management of TSL Project, will be engaged in the Project on a full-time basis as much as possible.

(2) Role of PMU

The following functions will be assigned to PMU for implementation and management of the Project.

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[100] As the outline of the terms of reference for the consulting services is described in Chapter 7.2.11, it is strongly advised that consultants are employed to support the Executing Agency in managing the Project efficiently and effectively.

Functions expected for PMU will be described as follows:

1) Loan operation to PFI and SME
   - Preparation of operating guidelines of the Project, which include terms and conditions of OLL and sub-loans, selection criteria of PFI and end-borrowers
   - The setting, periodical review and revision of terms and conditions of OLL for PFI and sub-loans from PFI to SME
   - Management and operation of revolving funds
   - Accreditation of PFI, periodical review of PFI and the setting of lines of credit to accredited PFI based on the review results of disbursement of OLL to PFI during the previous period
   - Confirmation that PFI, which submit applications for participation in the Project, meet all accreditation criteria for PFI
   - Monitoring and evaluation of PFI and their capacity development
   - Promotion of TSL Project
   - Coordination with other relevant organizations for the capacity development of SME and promotion of TSL Project

2) Disbursement from and repayment to JICA
   - Management of disbursement from JICA through MOFP
   - Arrangement of repayment in order to enable MOFP to make repayments to JICA

3) Reporting
   - Preparation of periodical and completion reports

4) Monitoring and evaluation
   - Monitoring and evaluation of the Project with operation and effect indicators

5) Policy recommendations

6) Employment of loan consultants where necessary.

(3) The Steering Committee

For the smooth implementation of the Project, a Steering Committee will be established. The Steering Committee will be a venue for the discussion and advice on policy issues relevant to the implementation and management of the Project.

The possible policy issues to be discussed at the Steering Committee will be related to:

1) Coordination of the Project among different organizations and stakeholders during the implementation period; and
2) Feedback on lessons learned from the practical experience of the Project implementation for policy formulation on SME development.

For example, these issues can include further use of credit guarantees and credit information systems, the promotion of a competitive environment among PFI in an effort to make terms and conditions of sub-loans from PFI more favorable to SME, and the review of target SME to enhance impact of the Project.

The Steering Committee will convene on a regular basis and on an ad-hoc basis if any issue arise, which need to be discussed immediately. The Steering Committee will be chaired by MOFP with the following possible members: MIT, BOT, other organizations concerned with SME development.

The costs required to run the Steering Committee and the frequency of the Steering Committee meetings will be determined prior to the commencement of the Project, together with the party which will bear the costs required.

7.2.3 PFI

With a view to expanding loan outreach of the Project and, at the same time, promoting competition among financial institutions in terms of quality of services to be delivered to SME, more than one financial institution will be encouraged to participate in the Project. In principle, PFI will be selected from those under the supervision of BOT, including leasing companies, as discussed in Chapter 4. Even if BOT does not become the Executing Agency of the Project, BOT will be tasked with playing the role of vetting agency to confirm PFI compliance with the eligibility criteria including prudential regulations, NPL ratio, adequate risk management policies, appropriate corporate governance practices, and adequate capacity to underwrite and manage credits. The draft eligibility criteria of PFI could be incorporated in the documents agreed between JICA and MOFP/the Executing Agency at the time of the loan appraisal and negotiations.

Although PMU invites financial institutions to the Project, the selection for PFI will be based on the application of financial institutions to participate in the Project as PFI, which is likely to be determined by the terms and conditions of the OLL offered from PMU. Therefore, the number of PFI will depend upon the decisions made by interested financial institutions and also on the degree to which their qualifications meet the pre-determined accreditation criteria. The tentative accreditation criteria, presented in Chapter 4.6, focus on financial soundness, governance and management, and the significance of participation in TSL (necessity for and relevance of participation of financial institutions in the Project). In terms of the point allocations, more weight will be placed on financial soundness as PFI are required to maintain good financial health to make repayments and bear credit risks concerning sub-loans to SME.

The results of the simulation of PFI accreditation are shown in Chapter 4.7. It is proposed that these criteria are predetermined and subject to periodical review in order to reflect changes in the policy and economic environment and that appropriate institutions are selected to participate in the Project for achievement of the Project objective. The performance of PFI will be periodically (at least once a year or ideally on a quarterly basis) reviewed and confirmed by BOT in accordance with the accreditation criteria and the results could be reflected in the amounts of the credit lines allocated by PMU to respective PFI in the following period.

In terms of the number of PFI, the preparatory survey team considers approximately three to four financial institutions[101] as an appropriate number of PFI to be initially accredited under JICA TSL from the viewpoint of the size (about 750 million JPY to 1,000 million JPY per PFI, which is about 15 billion TZS to 20 billion TZS per PFI), the initial management capacity of PMU and the promotion of the competition among PFI.[102]

PFI which apply for participation in the Project, could be classified into two groups: the first group would consist of eligible PFI that are permitted to participate in the Project while the second group would consist of eligible PFI on a waiting or reservation list. If the performance of accredited PFI is not as good as expected, PFI on the waiting list would be permitted to participate in the Project.

[101] PFI possibly include small-sized banks and leasing companies as well, particularly those in a position to promote the development of target end-borrowers.

[102] In past JICA ODA TSL projects, for example, four PFI participated in the first phase of the SME TSL project in Viet Nam (JICA ODA Loan amount: 4 billion JPY) and six PFI in the first phase of the SME TSL project in Myanmar (JICA ODA Loan amount: 5 billion JPY). In the case of the WB-assisted Financial Inclusion Project, it is planned that less than 10% of the total credit line will be allocated to a single PFI.

7.2.4 Selection Criteria of End-borrowers

In the light of the Project objective, the proposed eligibility criteria of end-borrowers have been presented as in the table below. These criteria are subject to discussion with the Executing Agency. As for further details other than those described below, PFI will be informed of the objective of the Project and asked to consider the details in order to achieve the objective (including the targeted sector, etc.).

Table 7-1: Eligibility Criteria of End-borrowers

Item	Criteria
Legal status	Registered SME Registered commercial farmers
Type	Companies in the private sector (sole proprietorship, public, cooperative, private company limited, partnership, private company by guarantee, foreign-affiliated but not foreign companies and bodies corporate)
Eligible Sector	Manufacturing sector, those operating on the value chain of the manufacturing sector (such as agriculture, trade, logistics, warehouses, and services.)
Definition of SME	In terms of annual turn-over
Sectors specially excluded	1) Real estate, 2) finance, insurance, 3) precious metal dealing, 4) restaurant not operating in the value chain,[103] bars and pubs, 5) amusement, entertainment (except for tourism), 6) weapons, ammunition, 7) drug dealers, or 8) anything harmful to social stability are excluded.

PFI will carry out the extension of sub-loans complying with the regulations issued by BOT under its supervision. Regarding the setting of the target sector and the target end-borrowers, PFI can be left to use their discretion to assess their creditworthiness. One point of concern will be how SME will be defined. As described in Chapter 2, the current definition of SME is the one that appeared in the SME Development Policy 2002, which uses the number of employees and the amount of capital investment in machinery as criteria for definition. However, the definition given in the policy is not clear. As presented in Table 3-8: Number of Employees, in the results of the SME survey, the number of SME will be different depending on whether or not temporary employees are included in the number of employees. Moreover, financial institutions visited by the survey team use sales or turnover to define SME. Under this condition, PFI may face difficulties in complying with the definition if the one given in the SME Development Policy is applied. While the survey team understand that the definition of SME has been under review, the adoption of an appropriate definition needs to be discussed. As described in the table above, the definition of SME has been tentatively set in terms of the turn-over.

7.2.5 Environmental and Social Management System

This Project is classified as Category FI, since the selection and appraisal of sub-loans is substantially undertaken by PFI after JICA's approval of the funding, and the degrees of impact caused by each sub-loan on the environment remains unknown until they confirm their details.

(1) Establishment of a Environmental and Social Management System

At the time of project appraisal, when the Executing Agency and PFI are appointed, their institutional capacities shall be assessed to confirm their environmental and social management systems (ESMS) (Apply the checklist for ESMS as in Annex 7-2). Appropriate measures to strengthen them shall be examined if necessary.

[103] In consideration of the proposed Project objective (promotion of investment in equipment and facilities and production), restaurants in general has been excluded from eligible end-borrowers although this is subject to discussion.

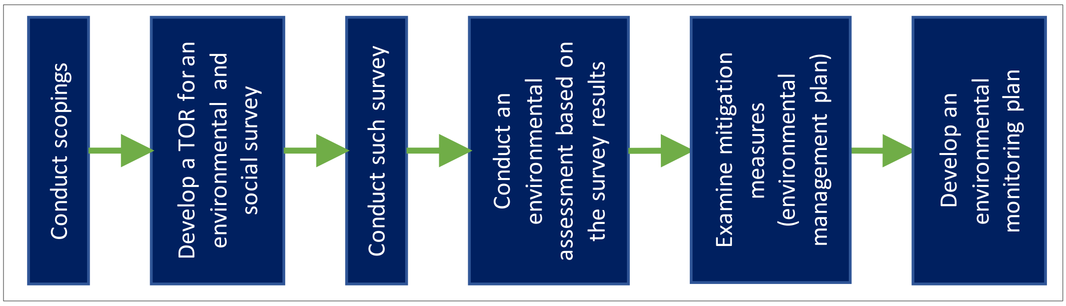
(2) Screening of sub-loans according to the JICA Guidelines

PFI shall examine the potential positive and negative environmental impacts of sub-loans and take adequate measures to avoid, minimize, mitigate, or compensate for potential negative impacts, as well as measures to promote positive impacts if any such measures are available (Applying the screening format as in Annex 7-3).

If potential adverse impacts remain site-specific and/or few even though they may be irreversible, to which normal and readily-designed mitigation measures can be applied, they shall be as Category B. If it is found that a subproject is likely to have minimal or little adverse impact on the environment and society, the proposed sub-loan shall be classified as Category C and no more environmental review will be necessary.

(3) Environmental and social assessment

The Project shall abide and comply with not only all requirements of relevant Tanzanian laws and regulations (See Chapter 6.2.2), but also those of the JICA Guidelines (2010) and the WB Safeguard Policy (OP4.01). If any of sub-loan falls into Category B, an environmental and social assessment shall be conducted as shown in the following figure:



Source: JICA Study Team

Figure 7-2: Flow of Environmental and Social Assessment for Category B Sub-loans (general)

(4) Certificates from the Tanzanian Government

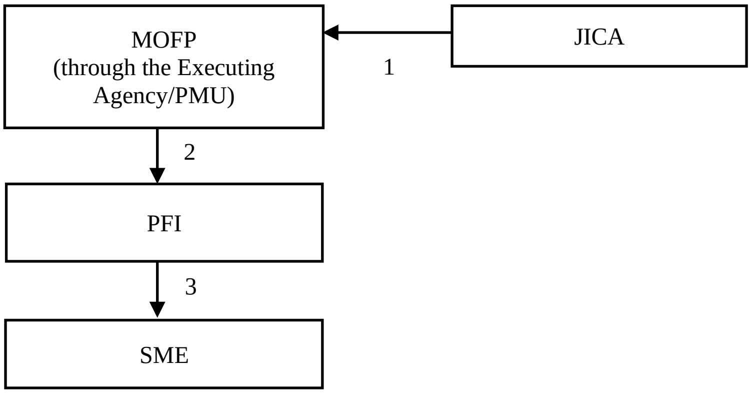
It is a pre-requisite that certificates and permits from the Tanzanian government agencies, such as EIA certificates, OSHA certificates, waste permits, noise and vibration permits, etc. are obtained according to the target activities.

(5) Monitoring and Information Disclosure

The Executing Agency and PFI shall check whether appropriate environmental and social considerations as stated in the JICA Guidelines are ensured for each sub-loan. JICA undertakes environmental reviews in the process of project appraisal, and discloses their results on its website upon their mutual agreement between JICA and the Tanzanian side. Over a certain period of time, JICA requests that the Executing Agency share, and the Executing Agency is responsible for sharing, their monitoring results in order to confirm that the Executing Agency and PFI are undertaking appropriate environmental and social considerations for particular sub-loans with significant environmental impacts, and JICA discloses them on its website upon consensus with the Executing Agency and PFI. Annex 7-4 shows the outline of an annual environmental and social performance report to JICA.

7.2.6 Fund Flows and Terms and Conditions of Loans

In general, JICA uses Advance Procedure for the disbursement of proceeds of loans under Two Step Loan projects.[104] Under the Advance Procedure, JICA disburses ODA loans, through the Borrower's Loan Account, to a designated account substantiated by financial forecasts made by the Executing Agency on a periodic basis. The Executing Agency will prepare a financial forecast that reflects the fund requirements for the subsequent two terms. The amount disbursed into the designated account is transferred to the Project Operating Account upon the instruction of the Executing Agency and the amount is on-lent to PFI upon request from the respective PFI. To disburse the next advances, the Executing Agency needs to justify the payments withdrawn from the designated account.



Fund Flow	Summary
1: JICA to MOFP	JICA extends the ODA Loan under the following terms and conditions: - Interest rate: 0.01% (fixed) - Repayment Period: 40 years including a 10 year-grace period - Currency: Japanese Yen
2: MOFP to PFI through the Executing Agency/PMU	MOFP on-lends the ODA loan to accredited PFI through the Executing Agency/PMU under the following terms and conditions: - Interest rate: subject to discussion with MOFP and the Executing Agency - Repayment Period: subject to discussion with MOFP and the Executing Agency - Currency: subject to discussion with MOFP and the Executing Agency
3: PFI to SME	PFI re-lend sub-loans to eligible and creditworthy end-borrows. Terms and conditions of sub-loans will be decided by the respective PFI.

Figure 7-3: Fund Flow

(1) On-lending conditions from MOFP to PFI through the Executing Agency/PMU

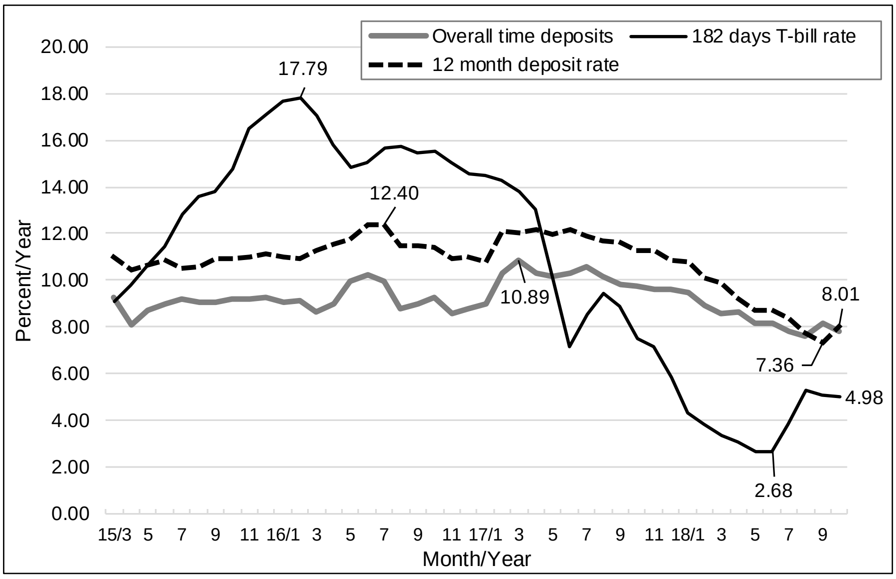
As for the interest rate of OLL from MOFP to PFI through the Executing Agency/PMU, several options were discussed and examined during the survey period in Tanzania, based on the experience of the WB project and others. Although further discussion will be required with MOFP and the Executing Agency in order to determine the appropriate interest rate of OLL, the target rate could be set at around 6% p.a. in order to encourage PFI to bring the lending rate of sub-loans to SME down to a level not exceeding 15% p.a. The following describes the points discussed during the preparatory survey period.

Based on the survey results in Tanzania, the survey team initially considered that it would be appropriate to apply to the OLL rate a weighted average cost of funds of PFI by adding the administration cost at PMU. One of the reference rates that could be applied as costs of funds would be the weighted average overall time deposit rate. The calculated rate may be at a rate a little higher than the cost of funds for large commercial banks but a little lower than the costs of

[104] Either Commitment Procedures or Transfer Procedure will be applied to the disbursement of the consulting portion.

funds for smaller financial institutions, including leasing companies. However, further discussion needs to take place in order to find a way to extend a greater degree of concessionality to end-borrowers by creating more a competitive environment among prospective PFI for the utilization of OLL and by combining the loan program with technical services.[105]

Alternatively, interest rates of the government securities such as the T-bill 182-day rate could be used as this rate is considered to reflect an opportunity cost of funds for banks. However, T-bill rates have tended to fluctuate greatly, especially in the recent year. If this rate is used, the survey team has been advised by concerned personnel to set a range of fluctuations (ceiling and floor rates) in order to avoid large volatility in the rates.



Source: BOT, Monthly Economic Review

Figure 7-4: Comparisons among overall time deposit rates, 12 month deposit rates and 182 days T-bill rates in the last three years

Table 7-2: Terms and Conditions of OLL from MOFP through the Executing Agency/PMU under Consideration

Items	Option 1	Option 2
OLL rate	A weighted average cost of funds of PFI by adding administration cost at the Executing Agency/PMU and the credit risk of PFI.	T-bill 182-day rate by setting a range of fluctuations (ceiling and floor rates) and adding administration costs at the Executing Agency/PMU and the credit risk of PFI.
Repayment period	The repayment period of the OLL will be made more or less to synchronize with that of the sub-loan. The minimum repayment period is set at longer than two years.[106]	Same as the maturity period of sub-loans
Currencies	TZS	TZS
Credit risk	MOFP Subject to discussion, the Government of Tanzania is expected to bear the credit risk of PFI as well as the exchange rate risk in converting an ODA Loan from JPY to TZS and vice versa.	

[105] Technical services that will be combined with the loan program could be, for example, the Kaizen project and provision of credit information by the Credit Reference Bureau. Such arrangements can be facilitated under the consulting services.

[106] According to the SME survey, the repayment period of about 70% of the loans (75 loans out of 109 loans) SME borrowed is no longer than 2 years.

Items	Option 1	Option 2
Others	- Collateral requirements: as required by the Executing Agency/PMU - Financing method: Refinance scheme. Adoption of pre-finance will be subject to discussion.	
Advantages	**OLL rate** More reasonable rates will be calculated and applied to PFI if the rate is updated and applied on a regular basis **Repayment Period** PFI will not utilize surplus funds in hand for other purposes. PFI will receive a clear message that sub-loans are to be used for medium-and long-term investment. **Currencies** It will be relatively easy to administrate OLL and revolving funds.	**OLL rate** It is easier to obtain the rate for OLL and adjust it on a regular basis **Repayment Period** PFI will not utilize surplus funds in hand for other purposes. **Currencies** It will be relatively easy to administrate OLL and revolving funds.
Disadvantages	**OLL rate** The Executing Agency/PMU needs to make inquiries to respective PFI on a regular basis **Repayment Period** The procedure will be complicated and will increase the workloads of the Executing Agency/PMU and PFI in managing OLL. **Currencies** The needs of end-borrowers that require loans in foreign currency may not be met.	**OLL rate** If T-bill rate shows a large volatility, and will be difficult to apply. **Repayment Period** The procedure will be complicated and will increase the workloads of the Executing Agency/PMU and PFI in managing OLL. **Currencies** The needs of end-borrowers that require loans in foreign currency may not be met.

(2) Re-lending terms and conditions of sub-loans from PFI to SME

With regard to the relending terms and conditions of sub-loans from PFI to end-borrowers (final beneficiaries) such as SME and farmers, the survey team consider it appropriate to leave such decisions to PFI. This is because PFI find themselves in a position where they can best manage the credit risk of end-borrowers and, therefore, should take such risks by instituting measures to cope with the risks. PFI may be reluctant to extend sub-loans to end-borrowers if their risks cannot be covered with terms and conditions externally set. However, in order to ensure that financial access of SME to medium-and long-term investment loans is improved, minimum conditions could be set in terms of the repayment period, the types of items to be financed, a ceiling amount of sub-loan and the types of currencies. Although they are still subject to discussion, the survey team proposes the terms and conditions of sub-loans from PFI as in the table below. With regard to the ceiling amount of sub-loans, the SME survey reveals the preferences of SME in terms of the size of sub-loans ranging from 24 million TZS to 8,666 million TZS with the average and median values being 752 million TZS and 300 million TZS, respectively. In the following table, the ceiling amount is set at 2,000 million TZS[107] and the repayment period is proposed to be longer than two years, following procedures adopted by TIB in the "SME Financing Framework" prepared in September 2018.

While PFI are given considerable discretion in setting terms and conditions of sub-loans, various measures will be proposed in order to bring the concessionally of Japanese ODA loans down to SME. For example, as described in Chapter 7.2.3, three to four PFI will be encouraged to participate in the Project and compete for credit lines from the Executing Agency. In the selection

[107] Considering the results of the SME survey in terms of the size of sub-loans preferred by SME, the ceiling amount of 2,000 million TZS may be a somewhat large. However, it is intended that loan demands are accommodated in a larger volume under the Project. If 2,000 million TZS is set as a ceiling amount, more than 90% of loan demands (61 out of 67 loans) for investment in equipment and facilities will be satisfied according to the SME survey.

process of PFI, terms and conditions of sub-loans to be set by PFI could be used as one of the accreditation criteria of PFI. Credit lines for the accredited PFI in the following period could be also set in consideration of the actual terms and conditions set by PFI in the previous period. These measures, if introduced, need to be practiced with pre-determined rules in order to ensure transparency of the operations. At the same time, the operations of PFI will be periodically monitored by PMU.

Table 7-3: Terms and Conditions of Sub-loans from PFI under Consideration

Items	Terms and Conditions
Lending rate	To be determined by PFI
Repayment period	Longer than two years
Purpose (eligible financing items) Note 1	Investment only (Fixed assets such as machinery, equipment, factory buildings, including related civil works, services and training.) Note: PFI will be requested to take responsibility in extending the working capital if necessary. For this purpose, PFI should be informed by PMU in advance of the necessity of mobilizing their own resources for working capital depending on the conditions of SME.
Maximum amount of a sub-loan	2,000 million TZS
Currencies	TZS
Credit risks	PFI
Others	- Financing ratio: not specifically set. 100% for investment costs can be financed from MOFP to PFI through the Executing Agency/PMU. - Collateral requirements: as required by PFI in compliance with BOT regulations

Note: Purchase of land or land use rights and payment of tax and import duties are not eligible for financing.

Concerning the eligible financing items described in the table above, the following figure describes value chain models together with possible eligible items for financing under the respective models:

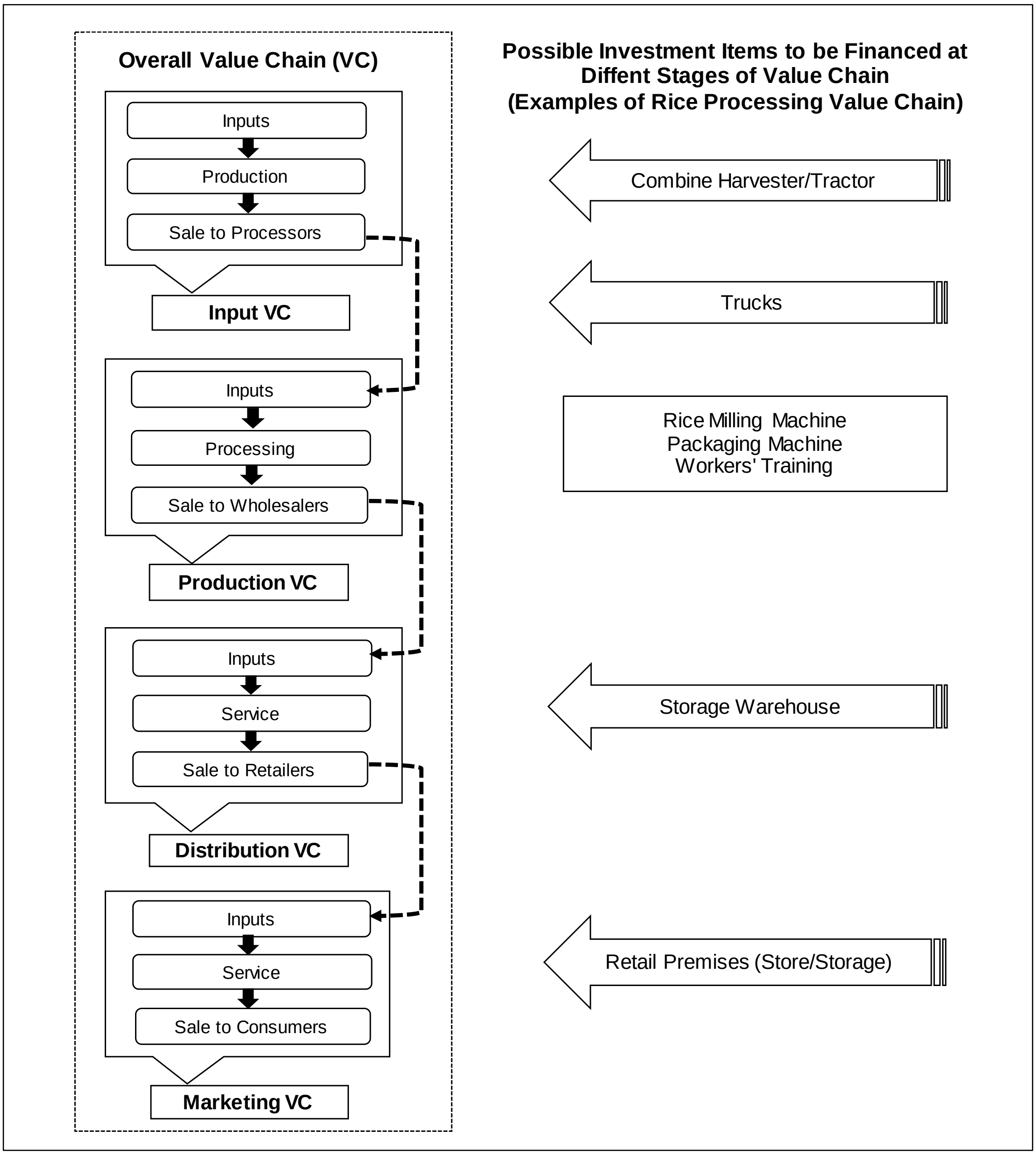


Figure 7-5: Value-chain Models and Possible Eligible Items for Financing

With a view to finding ways to transfer concessionality of JICA ODA loans to the target end borrowers, the Project will promote competition among PFI. The following mechanism is under consideration and subject to discussion.

1) The Executing Agency/PMU requests that a qualified PFI submits an application for the credit line with the terms and conditions, including the interest rate, to be applied to end-borrowers in the following year (or quarter). As the terms and conditions that PFI apply to end-borrowers will depend on the terms and conditions to be set by the Executing Agency/PMU on the OLL to the PFI, the information will be made known to all would-be PFI at the time of the application.

2) The Executing Agency/PMU publishes such conditions of PFI in table format so that prospective end-borrowers can make comparisons and choose the best PFI to borrow a sub-loan from. In order to make sure that the prospective end-borrowers are informed, the Project may need to use other media such as TV, and engage agencies such as SIDO and the relevant ministries.
3) PMU monitors and reviews the performance of PFI (the amount of sub-loans disbursed together with the terms and conditions having been applied) and publicizes the monitoring results through various means.
4) Based on the monitoring and reviews and an application from PFI for the following period, PMU also adjusts the credit line to PFI in the year (or quarter) to follow and publishes the results. For this mechanism to function effectively, PFI may need to be informed in advance that consideration for further OLL in the future will depend on the monitoring results.

7.2.7 Total Project Cost, Amount of ODA Loan and Funding Plan

The amount of the ODA loan initially requested by the Government of Tanzania was 30 million USD. The appropriateness of the amount needs to be examined after the Executing Agency has been determined together with an examination of the loan handling capacity of the Executing Agency and the funding plan. Although it depends largely on the on-lending and relending arrangements of the ODA loan, including the terms and conditions of OLL to PFI and sub-loans to SME, the survey team foresees a sufficient level of loan demand based on the SME survey (a sample survey) for a ODA loan in this amount.

The table below shows the total amount of loans estimated based on responses from 77 out of 118 sampled-companies, according to the SME survey.[108] The respondents were asked to estimate the amount they plan to borrow for investment in equipment and facilities, working capital and land and also to give the maximum rate of interest the company is prepared to bear or the interest rate that the company needs to bear for loans if the company has to carry out similar types of investments. The table below shows the amounts in cases where the maximum affordable interest rate is set at 10% p.a. and 15% p.a., respectively (details are shown in Table 3-52 in Chapter 3).

Table 7-4: Estimated Amount of Loans for Sampled Companies

Unit: Million TZS

Maximum affordable interest rate	Case 1: Investment (equipment and facilities)	Case 2: Investment and working capital	Case 3: Investment including land, working capital
10% p.a.	32,015	47,853	57,113
15% p.a.	6,556	11,457	16,432

Source: SME survey under the preparatory survey conducted in April - May and September 2018

As seen from the table above, the amount of investment in equipment and facilities (Case 1) and the amount of investment and working capital (Case 2) are estimated at 6,556 million TZS (about 2.9 million USD, the total amount of responses from 19 enterprises) and 11,457 million TZS (about 5.0 million USD, the total amount of responses from 20 enterprises), respectively, for 77 sampled companies when the maximum affordable interest rate is set at 15% p.a. Although it is a simplified calculation, if approximately 200 enterprises submit loan application under Case 1 and 120 enterprises submit loan applications under Case 2, under both of the cases in which the maximum affordable interest rate is set at 15% p.a., the amount will reach about 30 million USD that is the amount requested by the Government. If the maximum affordable rate is set at 10%

[108] The number of employees working for the 116 companies that gave their number of employees ranged from 5 to 750 with the average and the median being 58 and 29, respectively. Most of the companies surveyed fall into the classification of SME in terms of the number of employees (companies with the employees ranging from 5 to 99).

p.a., these amounts will be increased to 32,015 million TZS (about 13.3 million USD, the total amount of responses from 52 enterprises) and 47,853 million TZS (21.2 million USD, the total amount of responses from 58 enterprises), respectively. Most of the companies responded that they plan to carry out investment in the next two years (i.e., 2018 and 2019). Although the sampling procedure does not allow statistical inference based on the loan demand of SME identified through this SME survey, loan demands from the investment plans of the companies surveyed under the SME survey revealed a sufficient amount for the ODA loan requested, considering the number of SME in the country.[109]

7.2.8 Management of the Revolving Funds

The repayment period of sub-loans is much shorter than that of JICA ODA loan (i.e., 40 years including a grace period of 10 years). Therefore, "surplus" funds will be temporarily generated from differences between the repayment period of sub-loans and the repayment period of the JICA ODA loan. Such surplus funds, established by pooling the amount of sub-loans repaid by end-borrowers, will be referred to as "revolving funds" as the repaid sub-loans will be recycled for use as new sub-loans to end-borrowers. Like other JICA TSL schemes, revolving funds will be established under the Project and utilized to continuously provide benefits from the Project to target end-borrowers. Establishing the revolving funds at the organization where PMU is established would be an efficient way of allocating credit lines out of the revolving funds. This is because PMU could be in a good position to examine the needs of PFI and to allocate credit lines, sourcing from the revolving funds, to PFI that demonstrate a high performance in compliance with the operating guidelines of the Project.

Revolving Fund Accounts, together with Designated Accounts and Project Operating Accounts, will be audited annually by external auditors until the number of years agreed under the Loan Agreement have passed after the completion of the Project. Audit reports on the statements of the Designated Account, the Project Operating Account and the Revolving Fund Account will be furnished to JICA, usually, not later than nine months after the end of each fiscal year.

Repaid sub-loans to be recycled will be limited only to the principal portion of sub-loans although there is a case where both interest and principal portions are required to be recycled. The terms and conditions of sub-loans and the number of times for which repaid sub-loans are to be revolved will be also subject to discussion. As for the external auditors, it is necessary to identify appropriate auditors in consideration of the organizational features of the Executing Agency. As the revolving funds will continue to be utilized even after the Project is terminated, it is necessary to operate PMU from a medium- and long-term perspective. In order to meet the needs of PFI and end-borrowers in an appropriate manner, it is recommended that JICA continue to review the terms and conditions of OLL and sub-loans and, if necessary, give advices to revise them through discussion with the Executing Agency.

7.2.9 Implementation Schedule

Although subject to discussion with MOFP and the Executing Agency, the following schedule describes the tentative implementation schedule in terms of the fund disbursement (disbursement schedule of TSL portion) and the employment and mobilization schedule of the consulting services, assuming that the implementation period of the Project is set at six years, including a period set aside for employment of consultants. The Executing Agency will act as the Client to

[109] The number of companies falling in the category of SME (companies with more than 5 employees and less than 100 employees) is 34,424 out of 154,618 in total, as described in Chapter 2.2.1.1. The sectorial distribution shows that the number of companies classified into the manufacturing and trade sectors is 54,017 and 52,820, respectively. According to the Census of Industrial Production 2013, the number of companies with 5 or more employees and no more than 99 employees in the manufacturing sector is 7,077 out of 49,243 in total as described in 2.2.2.1. The number of companies is 1,075 if those with 5 or more employees and no more than 9 employees are excluded.

employ consultants and conclude consulting service contracts.[110] The Executing Agency will be able to proceed with the selection of consultants even before the Loan Agreement is signed but after the pledge of the Project is made by Japanese Government. If consultants will be procured through the short-list method, it is expected that it will take about one year to employ consultants following the Guidelines for the Employment of Consultants under Japanese ODA Loans (April 2012). After commencement of the consulting services, it is expected that the initial six-month period of the consulting services will be spent on the preparation of the institutional set-up of the Project, including development of operating guidelines. The initial disbursement of the TSL portion is expected to take place about one year after the loan agreement is concluded. The completion of the Project is defined as either the final disbursement of the TSL portion or the completion of the consulting services, whichever happens later.

Table 7-5: Tentative Implementation Schedule

Year	Year 1												Year 2												Year 3												Year 4											
Month	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
Pledge	1																																															
Signing of Loan Agreement					1																																											
Two Step Loan (Disbursement)																			1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Consulting Services																																																
Employment of Consultants	1	1	1	1	1	1	1	1	1	1	1	1	1																																			
Consulting Services														1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1

Year	Year 5												Year 6												Month
Month	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	
Pledge																									
Signing of Loan Agreement																									
Two Step Loan (Disbursement)	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	54
Consulting Services																									
Employment of Consultants																									13
Consulting Services	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	59

7.2.10 Implementation Arrangements

This section describes the operation and management of the Project during and after the Project implementation period including the use of the revolving funds. The aim is to enhance sustainability of the benefits generated through implementation of the Project. However, details of the implementation arrangements are largely determined based on the review of the existing operations of the Executing Agency. After completion of the preparatory survey, further discussions need to be held to clarify the following points on the implementation arrangements:

- The organizational set-up and capacity of the Executing Agency (expertise, authority and roles, accountability including anti-corruption policy and measures to ensure transparency, incentive mechanism for staff members, etc.)
- The financial conditions of the Executing Agency
- The implementation schedule of the Project
- Accreditation and monitoring of PFI
- Total Project costs and funding plan
- The needs for consulting services and the method of employment of consultants
- Management of revolving funds after the completion of the Project
- Measures to take in the field of environmental and social considerations.

[110] Under many JICA-assisted TSL projects in the past, loan consultants have played important roles in project management, capacity development of concerned institutions, project monitoring, etc.

7.2.11 Consulting Services

In most cases, the need to employ a consultant will be established jointly by MOFP/the Executing Agency and JICA, and the Terms of Reference (TOR) for the consulting services will be drawn up. At the same time, both the Tanzanian side and JICA will agree on the approximate amount of funds required for the consulting services, and the schedule of the services, including the schedule required for the selection of consultants. These are subject to discussion between MOFP/the Executing Agency and JICA during the fact-finding mission and the appraisal mission.

As described above, the Executing Agency is expected to act as the Client that signs the contact for the services with the selected consultant. It is assumed that the Director of PMU will represent the Executing Agency in handling daily operational issues under the contract. The following services could be, among others, included in TOR of the consulting services:

(1) Project Management
(2) Institutional and capacity development;
(3) Promotion of the Project (contents of TSL Project) and TSL finance for SME;
(4) Monitoring and Evaluation activities; and
(5) Coordination.

<u>The Scope of Work</u>

(1) Project management

1) To assist PMU in facilitating effective management of the Project and control of the funds
   a. To assist PMU in the overall management of the TSL Project including handling of day-to-day matters related to the implementation of the TSL Project
   b. To assist PMU in managing the disbursement and repayment of JICA ODA Loans through MOPF
   c. To assist PMU in reviewing and preparing accreditation criteria for PFI and screening financial institutions on a periodical basis
   d. To assist PMU in setting, reviewing and revising the terms and conditions of OLL to PFI
   e. To assist PMU in managing the revolving funds
   f. To assist PMU in allocating Credit Lines to respective PFI based on pre-determined criteria and formula and managing disbursement and repayment of On-Lending Loans
   g. To assist PMU in monitoring and evaluating the performance of PFI on a periodical basis
   h. To assist PMU in institutionalizing competition among PFI in utilizing proceeds of JICA ODA loans (for example, publication of terms and conditions of sub-loans by PFI under JICA ODA loans)
   i. To assist PMU in preparing Operating Guidelines for management of the Project

2) To assist PMU in preparing and submitting the following reports:
   a) Quarterly Progress Report (including Project Status Report)
   b) On-going Sub-project Summary Report (quarterly basis)
   c) Current Repayment and Overdue Status Report (annual basis)
   d) Project Completion Report (PCR)
   e) Statements of the Designated Account, Project Operating Account and Revolving Fund Account (annual basis)
   f) Audit Report on the Statements of the Designated Account, Project Operating Account and Revolving Fund Account (annual basis)
   g) Certified Audit Report on Statements of Expenditures (SOEs) (annual basis)
   h) Annual Review of performance of accredited PFI
   i) Annual Report of PFI
   j) Annual Environmental and Social Performance Report

(2) Institutional and capacity development of PMU and PFI

1) Institutional and capacity development of PMU
   a) To assist PMU in building the capacity for preparing action plans for TSL Project including advice on the following:
      - Organizational and staffing arrangements of PMU
      - Disbursement and repayment plans
      - A performance evaluation system
   b) To assist PMU in developing training materials, such as textbooks and video presentations on the aforementioned subjects.
   c) To assist PMU in identifying and implementing collaboration with other organizations (such as BDS such as KAIZEN trainers and PASS services, the Committee on Commerce and Industry of the Japanese Society of Tanzania (CCIJT) and Japanese companies) in supporting end-borrowers through PFI

2) Capacity development of PFI
   a) To assist PMU in holding workshops and/or seminars on relevant subjects including the guidance on the Operating Guidelines for PFI
   b) To assist PMU in conducting training courses for PFI on subjects including loan appraisal and the supervision of medium-and long-term investment projects, lending practices based on movable assets or cash-flows, preparation of financial statements and business plans by SME, simplified loan application procedures, loan repayment, JICA Guidelines for Environmental and Social Considerations including improvement of Environmental Social Management System.

3) Utilization of Credit reference system
   - Survey and Planning
     To survey the coverage ratio of customer credit information submitted to BOT/ Total customer credit information for each bank
     To identify issues/reasons for banks with a low coverage ratio (e.g. 50%)
     To select solutions to increase the coverage ratio of the banking sector and reporting frequency
   - (If system development is required) To develop a system to gather customer credit information from different sources and report to BOT on daily basis for selected banks
   - To conduct training for banks on to make use of credit reference data
   - (If required) To assist National Identification Agency (NIDA) on its efforts for a unique identifier

(3) Promotion of the Project and finance for SME

1) To assist PMU in preparing such publicity materials as brochures and advertisements for the Project, including the mechanism of the leasing scheme and terms and conditions of sub-loans by respective PFI
2) To assist PMU in promoting the Project in the use of the above-mentioned publicity materials through such channels as business associations like Tanzania Private Sector Foundation (TPSF)
3) To assist PMU in organizing workshops and seminars to promote SME
4) To assist PMU in identifying prospective end-borrowers (such as growth-oriented) and sub-projects for PFI in collaboration with relevant organizations such as SIDO and Credit Information Bureau.
5) To collect information and suggest PMU and PFI for the development of finance for SME (e.g. credit guarantee systems and movable collateral)

(4) Monitoring and Evaluation activities

1) To assist PMU in conducting Monitoring and Evaluation (M&E)
2) To assist PMU and PFI in the reviewing of monitoring indicators and the collection of necessary qualitative and quantitative data in accordance with the indicators.

(5) Coordination

1) To assist PMU in coordinating with other lending/technical assistance programs and supporting organizations in relation to the above-mentioned activities.
2) To assist PMU in the feedback on experience gained from the implementation of JICA TSL Project into the policy arena such as through a Steering Committee to address longer-term policy issues such as collateral issues, improvement of the business environment and a review of SME Development Policy 2002 based on the results of the implementation of the TSL Project.

7.2.12 Operation and Effect Indicators

It is necessary to set operation and effect indicators in consideration of causal relations among elements such as inputs, outputs, the project objective and impact. In order to systematically monitor and evaluate achievement levels of the Project objective and impact, it is important to make use of the data, which will be collected through the routine activities of the Executing Agency/PMU. Operation and effect indicators will be discussed with the Executing Agency/PMU once it is determined. The following operation and effect indicators will be considered as candidate indicators to be utilized.

Table 7-6: Operation and Effect Indicators (Tentative)

Operation Indicators [Note 1]	**Base Number and Value in 2018**	**Target Number and Value (2 years after the Completion of the Project)**
Ratio of the medium and long-term loan balance against the total loan balance at PFI		
Ratio of the outstanding balance of loans to SME against the total balance of loans at PFI		
NPL ratio at PFI (NPL ratio to SME)		
The number of SME that receive medium-and long-term loans for the first time at PFI		
Average repayment period of loans from PFI		
Effect Indicators [Note 2]		
Improvement of productivity of SME that receive loans under JICA TSL Project [(Gross profit + Labor Costs + Depreciation)/(Number of Permanent Employees)]		
Gross profit-to-sales ratio of SME that receive loans under JICA TSL Project		

Note 1: The data corresponding to these operation indicators may be included in the progress report routinely submitted to JICA Tanzania Office.
Note 2: The relevant data may not be collected on a routine basis, but surveyed at the time of the ex-post evaluation. The data from the SME survey conducted at the time of the preparatory survey may be utilized at the time of the ex-post evaluation.

7.2.13 Collaboration with Other Projects and Organizations

Collaboration will be pursued with the Kaizen Project and with Cluster Development. Possible areas for collaboration are described the following sub-sections.

7.2.13.1 The Project for Strengthening Manufacturing Enterprises through Quality and Productivity Improvement (KAIZEN) Phase 2 (KAIZEN Project)

It is considered that participation in KAIZEN training courses is likely to generate good incentives for participating enterprises if they are able to improve their creditworthiness as a result of participation in the training courses. Meanwhile, the financial institutions will be able to reduce credit risks associated with enterprises if they find themselves in a better position to assess existing operation and production conditions and future prospects of participating enterprises before extending loans. Therefore, possible room for collaboration between the KAIZEN project and financial institutions is identified in the following areas of the reciprocal information-sharing processes:

(1) While PFI will be informed of the contents of the KAIZEN training curriculum, the KAIZEN project will, in turn, incorporate the needs of PFI in their training curriculum;
(2) PFI will share the relevant parts of the appraisal criteria with the KAIZEN project so that the project can reflect them in their training curriculum. For example, the KAIZEN project may refer to scoring sheets used at PFI when developing business plans under the training courses;
(3) The KAIZEN project will share the list of participating enterprises,[111] especially those with perceived high growth potential, with financial institutions and the key performance indicators to be achieved during the KAIZEN training courses; and
(4) The KAIZEN project could also support improvements in the efficiency of production of participating enterprises through inventory and cashflow management.

Collaboration between the KAIZEN project and financial institutions, particularly PFI, will be facilitated by the Executing Agency/PMU[112] and is expected to continue after the KAIZEN project is terminated if both parties (KAIZEN trainers and enterprises) find it beneficial to enhance collaboration among them.

7.2.13.2 Other Organizations (SIDO, PASS, TPSF, etc.)

Collaboration with other organizations will be promoted. In particular, emphasis will be placed on organizations that provide information, technical and financial services including credit guarantees. For example, SIDO, established under the Act of Parliament No.28 of 1973, provide technical and financial services to SME and promote technology development as described in Chapter 2.3.3. Some staff members at SIDO have been trained as KAIZEN trainers, and could be mobilized to support the quality and productivity improvement of potential end-borrowers of the Project. Collaborations with SIDO could be also pursued in such areas as the identification of prospective end-borrowers and promotion of the Project.

As detailed in Chapter 4.7.3, PASS had concluded credit guarantee agreements with a number of collaborating banks, through which an application could be forwarded to the PASS office. PASS also provides business development services on a fee basis. Specific arrangements could be worked out for target end-borrowers through PFI under the Project.

Tanzania Private Sector Foundation (TPSF) was established in order to promote private sector-led social and economic development. TPSF in collaboration with Financial Sector Deepening Trust (FSDT) have developed a portal used by Micro, Small and Medium Enterprises (MSME)

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[111] Selection of enterprises participating in the KAIZEN project may be made in consultation with PFI.
[112] At the meeting held at Tanzania Kaizen Unit (TKU) under Department of Industrial Development of MIT, the survey team received a suggestion to set up a KAIZEN Desk at PMU in order to establish a continuous collaboration and communication channel between TKU and PMU.

to access useful information. Collaboration could be pursued with these organizations in order to disseminate information on the Project.

7.2.14 Other DP

As presented in Chapter 5.1, a number of other DP implements similar types of projects through financial institutions. It is important to receive and share with those DP, not only information on the operating status of loan projects but also information on institutional arrangements under the respective projects of DP for continuous improvement of the implementation arrangements of the Project. JICA TSL Project could learn various lessons from on-going and completed projects supported by other DP.

7.2.15 Gender mainstreaming and SME finance promotion

Throughout the survey, it is understood that although legal and institutional frameworks are gender sensitive, the issues outside the framework should also be considered and addressed in order to make the financial services work for those who needed.

To enable potential clients to access necessary financial services, it is clear that the appropriate technical support, including mentorship (supporting fellow business persons, including peer to peer) and training for trainers are necessary.

The following points are important factors to be considered:

a) Recognition of potential clients and creation of necessary linkages between SME and Governmental organizations, financial institutions.

b) Provide necessary technical support not only on specific field but also on business operations (BDS), and mentorships.

c) Information sharing seminar or inter organizational committees themed at legal support (including registration, licensing, tax, etc.), financial options, and various business trainings.

d) Advocacy channel to address the gender mainstreaming issues of SME.

7.2.16 Identification of Risks and Possible Measures to be taken

Possible risks identified during the first survey in Tanzania have been listed in the table below.

Table 7-7: Risk Management Sheet (Tentative)

No.	Potential project risks	Assessment
1	Stakeholder Risk	Probability: H
(Description of risk) The necessity for and establishment of a Steering Committee is yet to be discussed. A Steering Committee would be expected to consist of various government and private organizations concerned with the development of SME. It may aim to discuss policy issues relevant to the implementation and management of the Project, such as the operating guidelines, and feedback on lessons learned from practical experience of Project implementation into the policy formulation on SME development. However, a Steering Committee, even if set up, may not function as originally expected due to differences in priority issues among the various organizations concerned with SME policy and implementation.		Impact: M Analysis of probability and impact: There is a high possibility that a Steering Committee is less likely to function, and that the Executing Agency/PMU will carry out tasks as designed without bringing SME issues into policy arenas. Mitigation measures A strong initiative needs to be drawn from MOFP, which is expected to chair the Steering Committee. Whenever meetings and negotiations are held with MOFP, it is important that importance is placed on the roles of the Steering Committee. Action during implementation The Executing Agency/PMU needs to compile and publish experiences gained from the Project and attract public attention to SME access to medium and long-term finance. Contingencies Continuous dialogue with MOFP will be arranged by teaming up with other donors such as the World Bank, which planned to support MSME under Financial Inclusion Project although the preparation work was halted as of May 2019.
2.	Executing Agency Risk	
2.1	Capacity Risk	Probability: M
(Description of risk) PMU does not function as originally expected due to understaffing and an enormous managerial workload.		Impact: H Analysis of probability and impact: This will depend on the extent to which the conditions are to be set on on-lending loans and sub-loans and which organization PMU is established. The more detailed the conditions are, the closer the monitoring will be required for compliance. The experience and capacity of PMU will also be a factor that affects this risk. Mitigation measures Minimum conditions will be set and an incentive mechanism of PFI will be utilized. Selection of appropriate PMU needs to be made and capacity development of PMU will be carried out. Action during implementation Experienced staff members will be assigned to PMU and loan consultants will be mobilized to support the capacity development of PMU. Sufficient budgets need to be allocated in order to operate PMU. Contingencies Recruitment and secondment of experienced staff to PMU will be planned.
2.2	Governance Risk	Probability: M
(Description of risk) If an organization where PMU is established also acts as PFI, a conflict of interest may take place as the preceding study pointed out. The following concerns were described: (i) lending to projects obviously unfeasible from the beginning; (ii) funding of PFI through fictitious projects; and (iii) fund embezzlement by PMU employees.		Impact: M Analysis of probability and impact: M This depends on the implementation arrangements to be decided by the Government. Mitigation measures Arrangements will be made so that an organization that assumes the role of PMU will not concurrently serve in the role of PFI. Action during implementation Caution should be exercised during the Project formulation stage to avoid this risk. Contingencies If PMU needs to play the role of PFI, the following contingency plan can be worked out (based on the ideas of the preceding survey): (a) an external expert joins the credit committee to avoid the first concern (i); (b) JICA stops disbursement of the ODA loan against the second concern (ii); and (c) an external audit of PMU can be added to check PMU operation while strengthening the internal management of the organization where PMU is established.

No.	Potential project risks	Assessment
2.3	Fraud & Corruption Risk	Probability:
(Description of risk) The description provided in 2.2 above is partly related to this.		Impact:
		Analysis of probability and impact:
		Mitigation measures
		Action during implementation
		Contingencies
3	Project Risk	
3.1	Design Risk	Probability: H
(Description of risk) Employment of loan consultants is delayed due to unfamiliarity with JICA's procurement procedures and the internal approval processes of the Executing Agency		Impact: H
		Analysis of probability and impact:
		Because this is the first JICA TSL Project in the country and no financial institutions have experience in procuring consultants under a JICA ODA loan, the Executing Agency is likely to face difficulties in complying with all the procurement procedures in a relatively speedy manner. A relatively slow decision-making process will exacerbate the conditions. Any delay in mobilizing consulting services will negatively affect the selection process of PFI and thus the disbursement of ODA loans to end-borrowers, leading to a delayed realization of Project impact.
		Mitigation measures
		Although this is subject to discussion, a grant consultant will be employed for a short period of time to assist in the procurement of the loan consultant before the Project is started. With the assistance of the grant consultant, the Client will start procurement of the loan consultant before the loan agreement is signed.
		Action during implementation
		Management of the Executing Agency, the Client, will be kept well informed of the importance of the loan consultant for prompt disbursement of ODA loans to end-borrowers.
		Contingencies
		JICA Tanzania Office will constantly monitor the actions taken by the Executing Agency and inform on the updated status of the Borrower for any necessary actions.
3.2	Program & Donor Risk	Probability: M
(Description of risk) WB-assisted Financial Inclusion Project may absorb a large portion of the potential demand on SME loans once it is started.		Impact: M
		Analysis of probability and impact:
		The World Bank was scheduled to extend similar types of loans to MSME by loosely setting conditions to PFI for sub-loans to MSME[113]. PFI may find it more attractive and easier to use WB funds. Accordingly, JICA ODA loans will become less attractive to PFI and the disbursement progress of ODA loan may become stagnant.
		Mitigation measures
		The Project is designed and implemented in such a way, such as offering more opportunities to collaborate with other JICA schemes, that PFI find it more advantageous to use JICA ODA loans when participating in the Project.
		Action during implementation
		It is proposed that periodical meetings are held with PFI to review the utilization status of JICA ODA loans and improve the usability of OLL for PFI by maintaining the original objective of the Project.
		Contingencies
		Periodical meetings will be held between BOT/PMU and WB to make adjustments of usability of JICA ODA loans by maintaining the original objective of the Project.

[113] In May 2019, the survey team learned that the preparation work for the Financial Inclusion Project was halted. However, this risk management could be applied for similar types of projects to be assisted by DP in the future.

<table>
<tr><th>No.</th><th>Potential project risks</th><th>Assessment</th></tr>
<tr><td>3.3</td><td>Delivery Quality Risk</td><td>Probability: M</td></tr>
<tr><td colspan="2" rowspan="9">(Description of risk)
Access to the finance is not improved as expected despite the fact that the JICA TSL Project is implemented.</td><td>Impact: M</td></tr>
<tr><td>Analysis of probability and impact:</td></tr>
<tr><td>Most of the reasons behind limited access to the fund by SME do not reflect the actual situation faced by SME.</td></tr>
<tr><td>Mitigation measures</td></tr>
<tr><td>Periodical review and monitoring of the Project will be carried out to find ways to make adjustments of the usability of JICA TSL.</td></tr>
<tr><td>Action during implementation</td></tr>
<tr><td>Periodical review and monitoring meetings will be scheduled with PFI and other agencies concerned to improve access to the medium- and long-term investment funds.</td></tr>
<tr><td>Contingencies</td></tr>
<tr><td>Collaboration with advocacy groups such as TPST will be maintained to receive continuous feedback from SME and organizations concerned.</td></tr>
<tr><td>4</td><td>Other Risk</td><td>Probability: M</td></tr>
<tr><td colspan="2" rowspan="9">(Description of risk)
Demand on the medium- and long-term investment loans is not realized as strongly as originally expected.</td><td>Impact: L</td></tr>
<tr><td>Analysis of probability and impact:</td></tr>
<tr><td>The loan demand will be largely affected by changes in the surrounding economic environment.</td></tr>
<tr><td>Mitigation measures</td></tr>
<tr><td>Periodical review and monitoring of the Project will be carried out to find ways to make adjustments in the usability of JICA TSL although these measures may not be considered as sufficient to mitigate the situation.</td></tr>
<tr><td>Action during implementation</td></tr>
<tr><td>Periodical review and monitoring of the Project will be carried out to find ways to make adjustments in the usability of JICA TSL. The issue will be also put at the Steering Committee for identifying counter-measures.</td></tr>
<tr><td>Contingencies</td></tr>
<tr><td>Collaboration with advocacy groups such as TPST will be maintained to receive continuous feedback from SME and organizations concerned to identify counter-measures to the prevailing conditions.</td></tr>
<tr><td colspan="2" rowspan="9">(Description of risk)
Banks to become undercapitalized due to the increase of provisioning for NPL under the new IFRS 9 applicable from Jan. 1, 2018.</td><td>Impact: M</td></tr>
<tr><td>Analysis of probability and impact:</td></tr>
<tr><td>Although the amount of impact is unknown, the Expected Credit Loss (ECL) model under IFRS 9 which replaces the current Incurred Credit Loss (ICL) model under IAS 39 is expected to increase the provisioning for NPL.</td></tr>
<tr><td>Mitigation measures</td></tr>
<tr><td>The Central Bank of Kenya introduced new guidelines in April 2018 which allows the provisions charge to the income statement to be added back for a period of five years (transition period) for the purpose of calculating core capital. Similar measures may be adopted by the Bank of Tanzania.</td></tr>
<tr><td>Action during implementation</td></tr>
<tr><td>Periodical review and monitoring of PFI will be carried out to confirm the financial soundness of PFI. The issue will also be reported to the Steering Committee for discussing counter-measures.</td></tr>
<tr><td>Contingencies</td></tr>
<tr><td>Collaborate with MOFP and BOT on their actions to safeguard the financial soundness of the banking sector.</td></tr>
<tr><td colspan="2">Overall Risk Rating</td><td>M</td></tr>
</table>

Annex

Annex 1-1:
Summary of Draft Final Report
(for the feedback seminar held
in May 2019)

Preparatory Survey for
Small and Medium-sized Manufacturing
Enterprise Finance Promotion Project
in Tanzania

Feedback Seminar on Preparatory Survey
Draft Final Report

May 2019

JICA Preparatory Survey Team

Outline of Presentation

1. Outline of the Survey (Rationale behind Project Formulation)
2. SME Survey ⇒Potentials and needs of SME based on survey on 118 SME
3. Survey on Financial Institutions
   ⇒Use of readily available resources in Tanzania
4. Two Step Loan Scheme
5. Collaboration with Other Technical Cooperation Projects
   ⇒Collaboration with Kaizen/SIDO/etc.
6. Application of TSL Experiences in Other Developing Countries (lessons learnt) ⇒Improvement through instituting "competitive mechanism"
7. Points to be Considered in Preparing for the Project Formulation

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1. Outline of the Survey

Object of the Survey:

Formulation of a development finance project through financial intermediaries (i.e., Two Step Loan (TSL) Project) under Japanese ODA Loan Scheme

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Rationale behind the Project Formulation

(1) Five Year Development Plan II (FYDP II):
- Industrialization by 2025 with the manufacturing sector expected to play the key role
- Improvement of efficiency and product quality among Micro, Small and Medium Enterprises (MSMEs) that are directly linked to majority of Tanzanians.

(2) Contribution to GDP:
- SME sector's contribution to GDP: Currently 35% as targeted at 40% (Daily News, April 14, 2018)
- Manufacturing Sector' contribution to GDP: only 5.2% in 2015 as targeted at 18.0 % in 2025 (FYDP II)
- Contribution of MSMEs is targeted at 50% of the manufacturing sector of GDP (FYDP II)

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(3) Necessity of Employment Generation:
- Estimated at around 800,000 new entrants per year in the labor market (FYDP II)
- SME sector's contribution to employment: Currently 40% as targeted at 60% (Daily News, April 14, 2018)
- Share of the manufacturing sector in the total employment 3.1% in 2014 as targeted at 12.8% in 2025 (FYDP II)

(4) In the manufacturing sector, policy priority placed on development of SMEs

However, SMEs face limited access to funds for growth and expansion of their productions as shown in the following slides.

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Limited Access of SME to Loans at Selected Banks

Item	Bank A		Bank B		Bank C		Bank D		Bank E	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
SME Loan Balance	439	382	187	200	93	90	8	11	22	17
SME Loan to Gross Loan	12%	12%	6.7%	7.2%	14.4%	13.0%	34.6%	31.4%	3.4%	3.1%
NPL Ratio of SME Loan	10%	11%	2.1%	4.0%	6.9%	4.4%	10.8%	14.2%	44.3%	46.4%

Commercial Banks (Bank A, Bank B, Bank C)

Community Bank (Bank D)

Development Bank (Bank E)

Source: Annual Reports of Selected Banks

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Maturity Gap of Selected Financial Institutions (end of 2017)

Loans and Advances (Gross)	Billion TZS	% of (A)
Up to 12 months	2,240	32.2%
1 - 5 years	4,473	64.2%
over 5 yrs	254	3.6%
non-interest bearing	0	0.0%
Total Loan and Advances (A)	6,967	100.0%

Deposits from Customers	Billion TZS	% of (B)
Up to 12 months	5,374	55.4%
1 - 5 yrs	205	2.1%
over 5 yrs	0	0.0%
non-interest bearing	4,126	42.5%
Total Deposits (B)	9,705	100.0%

Maturity Gap

Source: Annual Reports of Selected Banks
Note: Selected banks are CRDB, NMB, Exim, Maendeleo and TIB

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Maturity Gap of Selected Financial Institutions (end of 2017)

Loans and Advances (Gross)	Billion TZS	% of (A)
Up to 12 months	2,240	32.2%

Local Financial Institutions have ways to mobilize short-term funds (up to 12 months).

Deposits from Customers	Billion TZS	% of (B)
Up to 12 months	5,374	55.4%
1 - 5 yrs	205	2.1%
over 5 yrs	0	0.0%
non-interest bearing	4,126	42.5%
Total Deposits (B)	9,705	100.0%

Gap

Source: Annual Reports of Selected Banks
Note: Selected banks are CRDB, NMB, Exim, Maendeleo and TIB

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Issues being Identified behind Limited Access

(1) Limited access of financial institutions (FIs) to medium and long-term investment funds for relending to SMEs

(2) Difficulties in solving conditions that have led to asymmetric information among FIs and SMEs

Parties	Issues
FIs	-Difficulties of FIs in appraising credit worthiness of SMEs including technical appraisal
SME s	- Insufficient business plan and financial statements of SMEs - Shortage of collaterals on the side of SMEs - Limited number of registered SMEs

(3) As a result:

- Terms and conditions of loans to SMEs have become less attractive (ex. Interest rate is about 20% p.a., shorter repayment period, strict collateral requirements by FIs, etc.), leading to limited access of SMEs to investment funds

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Issues being Identified behind Limited Access

(1) Limited access of financial institutions (FIs) to medium and long-term investment funds for relending to SMEs

(2) Difficulties in solving conditions that have led to asymmetric information among FIs and SMEs

The proposed Project is designed to address these problems faced by FI and SME.

- Limited number of registered SMEs

(3) As a result:

- Terms and conditions of loans to SMEs have become less attractive (ex. Interest rate is about 20% p.a., shorter repayment period, strict collateral requirements by FIs, etc.), leading to limited access of SMEs to investment funds

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Outline of TSL Project to be formulated

Project Name: Small and Medium-sized Manufacturing Enterprise Finance Promotion Project

Object of the Project: To promote finance towards SMEs mainly in the manufacturing sector and help them expand their investment in equipment and facilities and production, by providing them with medium and long-term loans through Participating Financial Institutions (PFI), thereby contributing to sound development of industries and the economy in Tanzania.

Project Scope:

TSL Portion: Medium and long-term sub-loans to SME for investment mainly in the manufacturing sector through PFI

Consulting Services: Capacity development of PMU/PFI

Project Area: Nationwide

Ministry in Charge: Ministry of Finance and Planning (MOFP)

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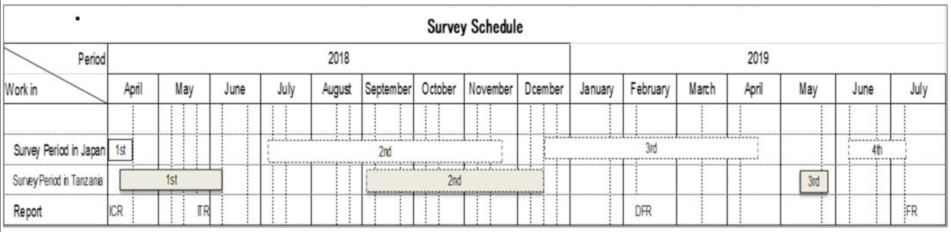
Survey Schedule



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Outline of Presentation

1. Outline of the Survey
2. SME Survey ⇒Potentials and needs of SME based on survey on 118 SME
3. Survey on Financial Institutions
4. Two Step Loan Scheme
5. Collaboration with Other Technical Cooperation Projects
6. Application of TSL Experiences in Other Developing Countries (lessons learnt)
7. Points to be Considered in Preparing for the Project Formulation

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2. SME Survey

Target SME for the Survey:

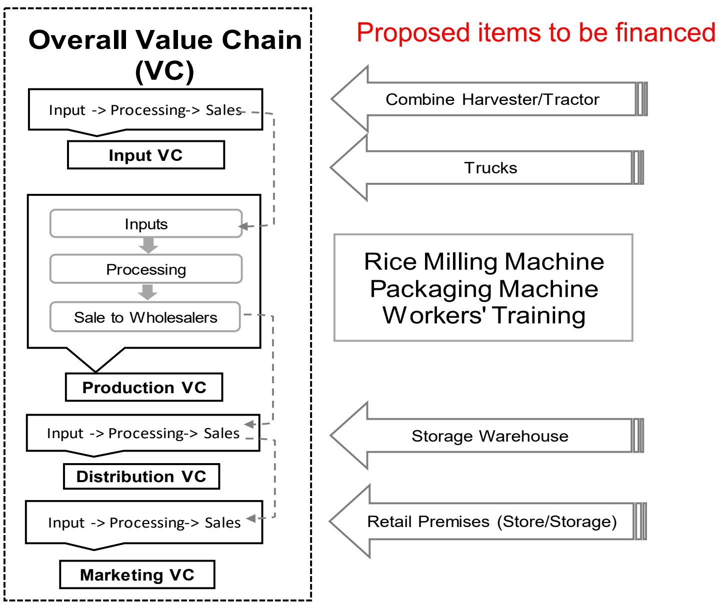
⇒ In terms of the number of employment:

5 employees up to 100 +

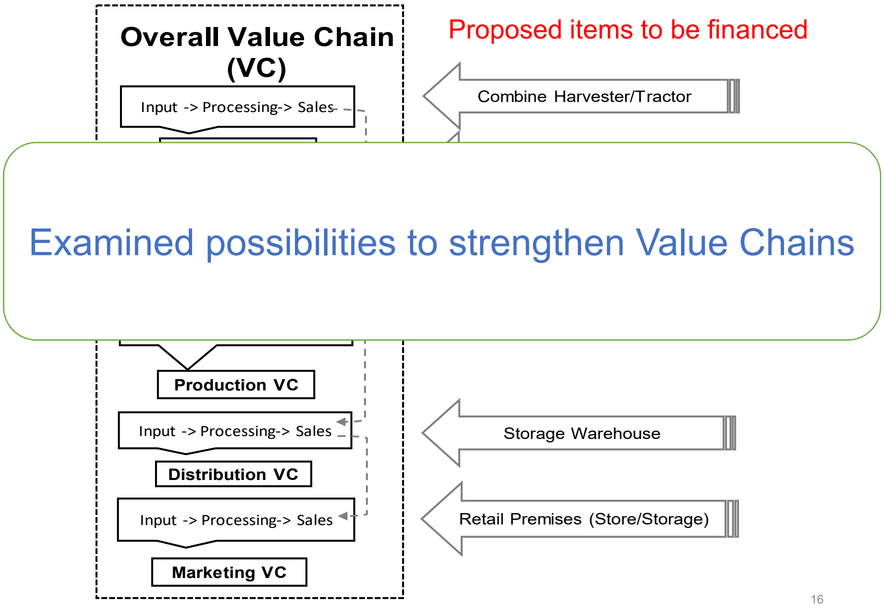
⇒ In terms of the sector

SME mostly in manufacturing sector and enterprises included in value chains of manufacturing such as agro-processing, wholesale and retail, transport and distribution, etc. Pilot companies of KAIZEN project.

Possible Investment Items at Different Stages of Value Chain (Examples of Rice Processing Value Chain)



Possible Investment Items at Different Stages of Value Chain (Examples of Rice Processing Value Chain)



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2. SME Survey

Target SME for the Survey:

⇒ In terms of the number of employment:

5 employees up to 100 +

⇒ In terms of the sector

SME mostly in manufacturing sector and enterprises included in value chains of manufacturing such as agro-processing, wholesale and retail, transport and distribution, etc. Pilot companies of KAIZEN project.

⇒Questionnaire-based Face-to-Face Interview

Selection method of SME is not a random but purposive sampling method.

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Dealer of Agricultural Machinery

Rice milling

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Packaging machine used at a beverage manufacturer

Drinking water manufacturer

Shoemaking

Papermaking

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Regions where the SME Survey was conducted

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Prospective Development Potentials of SME in Tanzania

Case 1: Food Processing Company (Based in DSM)

Processing machine of Jam, etc.

Number of Employees:
Approx. 50 (management & permanent employees)

Gross Profit in 2014:
881 million TZS

Line of products
Tomato sources, Jam, Drinking water, etc.

Case 2: Shoemaking Company (Based in DSM, Target of KAIZEN Project)

Number of Employees:
93 (management & permanent employees)

Annual Total Sales in 2016:
3,542 million TZS

Sewing section

Purpose of New Loan being requested: **Planning to expand their factories due to current undersized spaces**

Case 3: Metallic Processing Manufacturer (Based in Morogoro, Target of KAIZEN Project)

Number of Employees:
15 (management & permanent employees)

Annual Total Sales in 2016:
161.9 million TZS

Manufactured street kiosks for mobile phone

Purpose of New Loan being requested : Planning to purchase modern advanced manufacturing machines

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Case 4: Sanitary Hygiene Products Manufacturer (Based in DSM, Target of KAIZEN Project)

Number of Employees:
31 (management & permanent employees)

Annual Total Sales in 2016:
94 million TZS

Production machine of sanitary goods

Purpose of New Loan being requested : Planning to purchase modern advanced machines for producing better quality products

Products
Sanitary goods,
Gauze bandages, etc.

Case 5: Retailer of LP Gas using Smart Meter System (Based in DSM)

Gas Cylinder equipped with Smart Meter

Current Number of Customers:
1,000 (as of Dec 2018)

Purpose of New Loan being requested :
Planning to increase their customers to 100,000 by 2020

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Findings of Development Potentials of SME from SME Survey under Preparatory Survey

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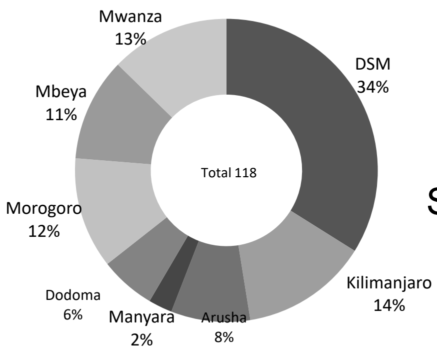
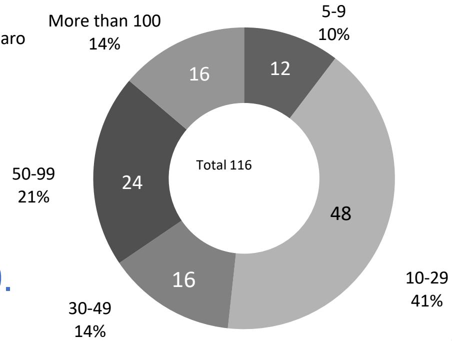
2.1 Regional Distribution of SME Surveyed



DSM, Mwanza, Morogoro….

Size Distribution of Employees



The vast majority employs less than 100.

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2.2 Sectoral Distribution of SME Surveyed (Mainly Manufacture of food products)

	Sub-sector	No. of responses (primary)	No. of responses (secondary)	No. of responses (tertiary)
1	**Manufacture of food products**	**62**	1	3
2	Manufacture of textiles	3	0	0
3	Manufacture of wearing apparel	3	0	0
4	**Manufacture of leather and related products**	**6**	3	0
5	Manufacture of wood and of products of wood and cork, except furniture	1	1	0
6	Manufacture of chemicals and chemical products	4	0	0
7	Manufacture of rubber and plastics products	5	2	1
8	Manufacture of other nonmetallic mineral products	5	1	0
9	**Manufacture of fabricated metal products, except machinery and equipment**	**6**	7	1
10	Manufacture of electrical equipment	1	0	0
11	**Manufacture of machinery and equipment n.e.c.**	**8**	3	1
12	Manufacture of furniture	5	2	0
13	Other manufacturing (e.g. pads, woven baskets, optical lenses, biomass briquettes, etc.)	5	7	1
14	Wholesale and retail	0	5	1
15	Transport and distribution	0	1	0
16	Construction	2	2	0
17	Service	2	6	4
18	Others	0	2	1
	Total	**118**	**43**	**13**

29

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13	Other manufacturing (e.g. pads, woven baskets, optical lenses, biomass briquettes, etc.)	5	7	1
14	Wholesale and retail	0	5	1
15	Transport and distribution	0	1	0
16	Construction	2	2	0
17	Service	2	6	4
18	Others	0	2	1
	Total	**118**	**43**	**13**

- Some companies operate in more than one sector.
- Classification of primary, secondary and tertiary businesses in terms of sales

30

2.2 Sectoral Distribution of SME Surveyed (Mainly Manufacture of food products)

	Sub-sector	No. of responses (primary)	No. of responses (secondary)	No. of responses (tertiary)
1	**Manufacture of food products**	**62**	1	3
2	Manufacture of textiles	3	0	0
3	Manufacture of wearing apparel	3	0	0
4	**Manufacture of leather and related products**	**6**	3	0
9	**Manufacture of fabricated metal products, except machinery and equipment**	**6**	7	1
10	Manufacture of electrical equipment	1	0	0
11	**Manufacture of machinery and equipment n.e.c.**	**8**	3	1
12	Manufacture of furniture	5	2	0
13	Other manufacturing (e.g. pads, woven baskets, optical lenses, biomass briquettes, etc.)	5	7	1
14	Wholesale and retail	0	5	1
15	Transport and distribution	0	1	0
16	Construction	2	2	0
17	Service	2	6	4
18	Others	0	2	1
	Total	**118**	**43**	**13**

- Diversification of their businesses (may contribute to management of cashflows)

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2.3 Sales vs No. of Employees of SME surveyed Classified Largely into 2 groups in terms of employees and sales

Annual total sales for FY2016 (million TZS)	Number of permanent employees				
	1-4	5-49	50-99	100 and over	Total
1-99	0	16	1	0	**17**
100-499	0	19	2	1	**22**
500-999	0	5	4	0	**9**
1,000-1,999	0	3	3	0	**6**
2,000-2,999	0	1	0	1	**2**
3,000-3,999	0	0	2	1	**3**
4,000-4,999	0	0	3	0	**3**
5,000 and over	0	0	1	7	**8**
Total	**0**	**44**	**16**	**10**	**70**

- If temporary employees are included, the above table will be changed.
- Many banks use sales (turn-over) to define SME.

2.4 Business Challenges faced by SME

	Challenges	No. of responses	%
1	Unfavorable market change	32	27%
2	Market access	21	18%
3	Severe competition	32	27%
4	Financing - Working capital	69	58%
5	Financing - Investment financing	87	74%
6	Quality of product/service	10	8%
7	Cost of product/service	25	21%
8	Access to appropriate technology	51	43%
9	Production Capacity to meet requirements of clients	31	26%
10	Procurement of raw materials	20	17%
11	Employment of workers	16	14%
12	Access to appropriate utilities like water and electricity	27	23%
13	Factory, office, shop, warehouse space	25	21%
14	Compliance with environmental standards to operate the factory	13	11%
15	Government policy & regulation	51	43%
16	No challenges	0	0%
17	Others	29	25%

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2.5 Borrowing History of SME surveyed

(1) SME have borrowing experiences

Experience of Borrowing	No. of Companies	%
Has been borrowing	84	71%
The company tried, but failed	11	9%
Never borrowed in the past three years	23	19%
Total	**118**	100%

(2) Borrowed loans mainly from banks

Type of lender	No. of Loans	%
Banks	103	88%
Informal financial institutions	0	0%
Non-banks (Including SIDO)	14	12%
Total	**117**	100%

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2.5 Borrowing History of SME surveyed

(1) SME have borrowing experiences

Experience of Borrowing	No. of Companies	%
Has been borrowing	84	71%
The company tried, but failed	11	9%

- Many SME have borrowed loans from banks.

Type of lender	No. of Loans	%
Banks	103	88%
Informal financial institutions	0	0%
Non-banks (Including SIDO)	14	12%
Total	**117**	100%

35

2.6 Loan amounts (existing loans)

Million TZS	No. of loans	%	Thousand USD	No. of loans	%
1-99	52	48%	1-99	0	0%
100-499	29	27%	100-499	2	25%
500-999	9	8%	500-999	1	13%
1,000-1,999	11	10%	1,000-1,999	4	50%
2,000-2,999	3	3%	2,000-2,999	0	0%
3,000-3,999	2	2%	3,000-3,999	0	0%
4,000-4,999	1	1%	4,000-4,999	0	0%
5,000 and over	2	2%	5,000 and over	1	13%
Total no of loans	**109**	**100%**	**Total no of loans**	**8**	**100%**
Average amount	496	Mil.TZS	Average amount	2,688	1000 USD
Median amount	100		Median amount	2,300	

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2.6 Loan amounts (existing loans)

Million TZS	No. of loans	%	Thousand USD	No. of loans	%
1-99	52	48%	1-99	0	0%
5,000 and over	2	2%	5,000 and over	1	13%
Total no of loans	**109**	**100%**	**Total no of loans**	**8**	**100%**
Average amount	496	Mil.TZS	Average amount	2,688	1000 USD
Median amount	100		Median amount	2,300	

- However, many loans are relatively small in size.

Median size: 100 million TZS

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2.7 No. of Loans and Loan Amounts by Bank

	Financial institutions	No. of loans	Total loan amount (million TZS)	Average loan amount (million TZS)
1	CRDB	28	11,905	425
2	NMB	24	5,196	217
3	SIDO	7	22	3
4	TIB	7	8,830	1,261
5	Diamond Trust	5	3,540	1,180
6	EXIM	5	5,783	1,446
7	NBC	5	1,050	210
8	AKIBA	3	23	8
9	KCB	3	1,400	700
10	Others	…	…	…
	Total	**103**		

2.7 No. of Loans and Loan Amounts by Bank

	Financial institutions	No. of loans	Total loan amount	Average loan amount
				8
9	KCB	3	1,400	700
10	Others	…	…	…
	Total	**103**		

- Borrowing from commercial banks, etc.

2.8 Annual Interest Rate of Loans being applied

Interest rate	TZS	USD
	No. of responses	No. of responses
1-5%	1	0
6-10%	0	7
11-15%	8	0
16-20%	58	0
21% and over	38	0
Total	**105**	**7**

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2.9 Repayment Period of Loans currently applied

Repayment period	No. of responses
Over 10 years	0
Between 5-10 years	15
Between 3-5 years	18
Between 1-3 years	71
Less than 1 year	5
Total	**109**

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2.9 Repayment Period of Loans currently applied

Repayment period	No. of responses
Over 10 years	0
Between 5-10 years	15

- Repayment periods of vast majority of loans range from 1 to 3 years

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2.10 Type of Loans
Many loans for Working Capital

Purpose	No. of loans	%
Investment only	25	23%
Working capital only	63	57%
Both	23	21%
Total	**111**	100%

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2.10 Type of Loans
Many loans for Working Capital

Purpose	No. of loans	%
Total	**111**	100%

- Vast majority of loans are used for working capital

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2.11 Types of Collaterals Provided for Loans

	Collateral	No. of loans	%
1	Land and buildings	64	59%
2	Residences	28	26%
3	Land and machines	3	3%
4	Residences and machines	4	4%
5	Machines	2	2%
6	Vehicles	3	3%
7	Others	5	5%
	Total	**109**	100%

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2.11-2 Repayment Status of Loans by SME

	Status	No. of loans
1	No delay	105
2	Delayed	9
	Total	**114**

- Vast majority of loans are being repaid without delay.

2.12 Reasons for having not negotiated with financial institutions for loan or failed to borrow from financial institutions

Reasons for having not negotiated	No. of responses	%out of 23
No existence of financial institutions in a reachable geographical location	0	0%
Absence of financial institutions offering loans for SME	0	0%
Absence of financial institutions offering medium/long term loan	2	9%
Unable to submit the collateral	8	35%
High interest rate offered by financial institutions	13	57%
Unable to prepare and submit the financial statements	2	9%
Do not know the reason	1	4%
Others	1	4%

2.13 Planned Amount of Loan for New Investment

Investment in equipment and facilities			Working capital		
Million TZS	**No. of responses**	**%**	**Million TZS**	**No. of responses**	**%**
1-99	13	19%	1-99	15	27%
100-499	32	48%	100-499	28	50%
500-999	11	16%	500-999	10	18%
1,000-1,999	5	7%	1,000-1,999	1	2%
2,000-2,999	0	0%	2,000-2,999	1	2%
3,000-3,999	3	4%	3,000-3,999	1	2%
4,000-4,999	1	1%	4,000-4,999	0	0%
5,000 and over	2	3%	5,000 and over	0	0%
Total No.	**67**	100%	**Total No.**	**56**	100%
Maximum	**8,666**		**Maximum**	**3,000**	
Minimum	**24**		**Minimum**	**10**	
Average	**752**		**Average**	**317**	
Median	**300**		**Median**	**150**	

2.13 Planned Amount of Loan for New Investment

Investment in equipment and facilities			Working capital		
Million TZS	**No. of responses**	**%**	**Million TZS**	**No. of responses**	**%**
1-99	13	19%	1-99	15	27%
Total No.	**67**	100%	**Total No.**	**56**	100%
Maximum	**8,666**		**Maximum**	**3,000**	
Minimum	**24**		**Minimum**	**10**	
Average	**752**		**Average**	**317**	
Median	**300**		**Median**	**150**	

On the other hand,
Planned amount of loans for new investment:

Median value: 300 million TZS

2.13-2 Purpose of New Investment

	Purpose	No. of responses (multiple selection)
1	**Expansion of existing business**	**89**
2	**Improvement of productivity**	**72**
3	**Improvement of quality of product/service**	**56**
4	Cost reduction	35
5	Research & Development	8
6	Environmental protection	14
7	Start of new business	9
8	Others	8

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2.13-2 Purpose of New Investment

	Purpose	No. of responses (multiple selection)
1	**Expansion of existing business**	**89**
2	**Improvement of productivity**	**72**
3	**Improvement of quality of product/service**	**56**
8	Others	8

- Vast majority of loans is intended for use of expansion of existing business and productivity improvement

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2.14 Currently applied vs Affordable Annual Rate of Interest

Interest rate (in TZS)	TZS		USD	
	No. of responses (current rate)	No. of responses (affordable rate)	No. of responses (current rate)	No. of responses (affordable rate)
1-5%	1	6	0	10
6-10%	0	42	7	1
11-15%	8	43	0	0
16-20%	58	5	0	0
21% and over	38	0	0	0
Total	**105**	**96**	**7**	**11**

- Affordable interest rate of loans in TZS to be not more than 15% p.a.

2.15 Currently applied vs Preferred Repayment Period

Repayment period	No. of responses (current period)	No. of responses (preferred period)
Over 10 years	0	16
Between 5-10 years	15	53
Between 3-5 years	18	25
Between 1-3 years	71	6
Less than 1 year	5	0
Total	**109**	**100**

- Preferred repayment period to be 5 to 10 years

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2.16 Loan Related Service to be Improved

Reasons	No. of responses	% out of 118
Provision of information regarding loans for SME	20	17%
Complication of loan application/Long check-list	33	28%
Attitude of a bank officer	15	13%
Requirements of a borrower (collateral and others)	43	36%
Loan conditions (interest rate, payment period, good financial performance)	75	64%
No need to improve	14	12%
Others	15	13%

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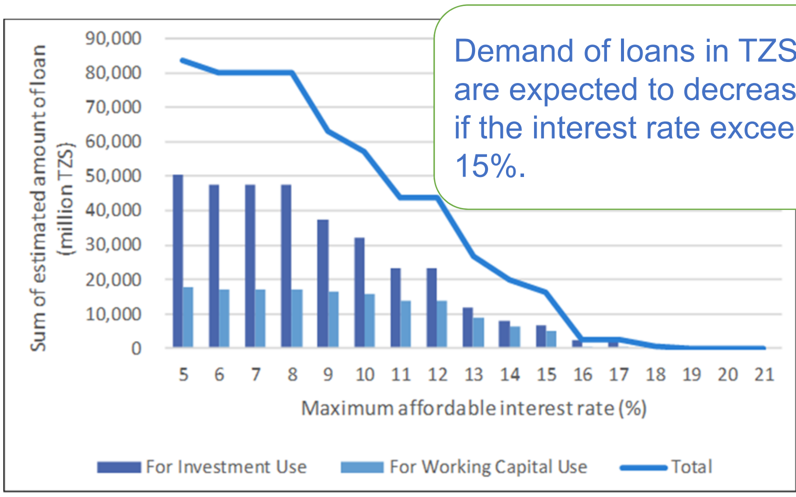
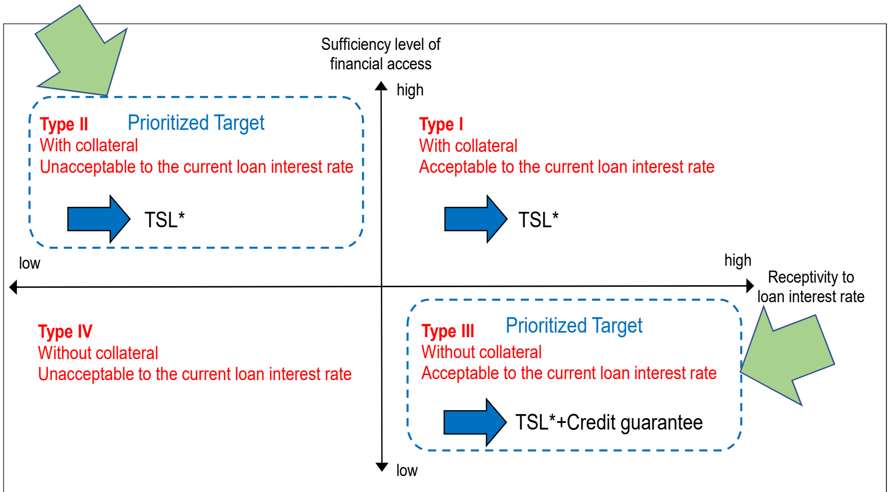
2.17 Sum of Estimated Amount of Loans per Interest Rate to be set



Demand of loans in TZS are expected to decrease if the interest rate exceeds 15%.

55

2.18 Categorization of SME to be Targeted as End-borrowers of TSL Sub-loans



*More favorable loan terms and conditions to be applied through competition among PFIs

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Outline of Presentation

1. Outline of the Survey
2. SME Survey
3. Survey on Financial Institutions
   ⇒Use of readily available resources in Tanzania
4. Two Step Loan Scheme
5. Collaboration with Other Technical Cooperation Projects
6. Application of TSL Experiences in Other Developing Countries (lessons learnt)
7. Points to be Considered in Preparing for the Project Formulation

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3.1 Banking Sector and Assets

Type of Institutions	Sep-17		Mar-18	
	No. of Institutions	Compositions of Banking Sector Assets	No. of Institutions	Compositions of Banking Sector Assets
Commercial Banks	39	94.0%	39	94.30%
Development Financial Institutions	2	3.0%	2	3.00%
Financial Institutions	3	2.0%	3	1.90%
Microfinance Institutions	5	0.6%	5	0.60%
Community Banks	9	0.3%	5	0.30%
Total	59 Note	Total Assets 28,920.3 Bil.TZS	55 Note	Total Assets 29,894.7 Bi. TZS

Note: Including one classified into “Other financial institutions”

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3.1 Banking Sector and Assets

Type of Institutions	Sep-17		Mar-18	
	No. of Institutions	Compositions of Banking Sector Assets	No. of Institutions	Compositions of Banking Sector Assets
Commercial Banks	39	94.0%	39	94.30%
Development Financial Institutions	2	3.0%	2	3.00%
Financial Institutions	3	2.0%	3	1.90%
C				
		28,920.3 Bil.TZS		29,894.7 Bi. TZS

- Many financial institutions operate in the market.

Note: Including one classified into “Other financial institutions”

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3.2 Market Share of Large Banks as of December 2017

Market Share	Assets	Loans	Deposits	Capital
Four Largest Banks	50%	47%	52%	44%
Next Six Largest Banks	21%	23%	21%	24%
Others	29%	30%	27%	32%
Total	100%	100%	100%	100%

- A few financial institutions dominate the market.

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3.3 Maturity Gap of Selected Financial Institutions

Loans and Advances (Gross)	Billion TZS	% of (A)
Up to 12 months	2,240	32.2%
1 - 5 years	4,473	64.2%
over 5 yrs	254	3.6%
non-interest bearing	0	0.0%
Total Loan and Advances (A)	6,967	100.0%

Deposits from Customers	Billion TZS	% of (B)
Up to 12 months	5,374	55.4%
1 - 5 yrs	205	2.1%
over 5 yrs	0	0.0%
non-interest bearing	4,126	42.5%
Total Deposits (B)	9,705	100.0%

Maturity Gap

Note: Selected banks are CRDB, NMB, Exim, Maendeleo and TIB

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3.3 Maturity Gap of Selected Financial Institutions

Loans and Advances (Gross)	Billion TZS	% of (A)
Up to 12 months	2,240	32.2%
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Deposits from Customers	Billion TZS	% of (B)
Up to 12 months	5,374	55.4%
1 - 5 yrs	205	2.1%
over 5 yrs	0	0.0%

Maturity Gap

- Existence of Maturity Gaps as described before.

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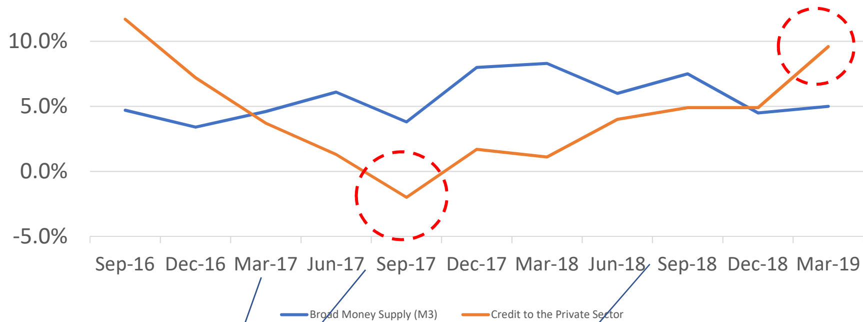
3.4 Growth of M3 and Credit to Private Sector

Indicators	Monetary Policy Target	
	2017/2018 Revised in Feb 2018	2018/2019 In June 2018
Annual Growth of M3	≤ 12.0%	≤ 12.2%
Annual Growth of Private Sector Credit	≤ 11.5%	≤ 10.2%



Discount Rate 16% => 12% in Mar-17

Discount Rate 12% => 9% in Aug-17

Discount Rate 9% => 7% in Aug-18

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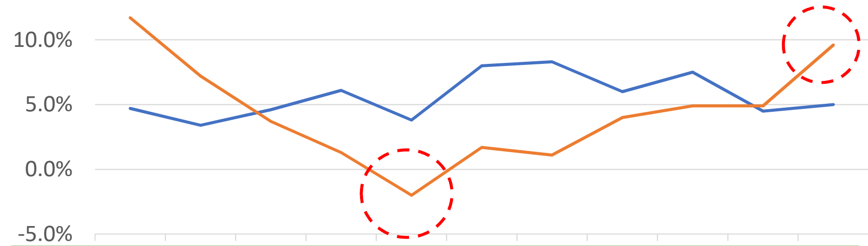
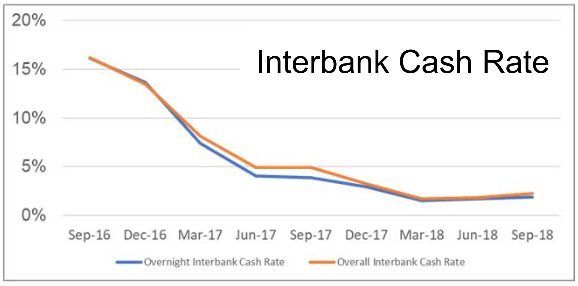
3.4 Growth of M3 and Credit to Private Sector

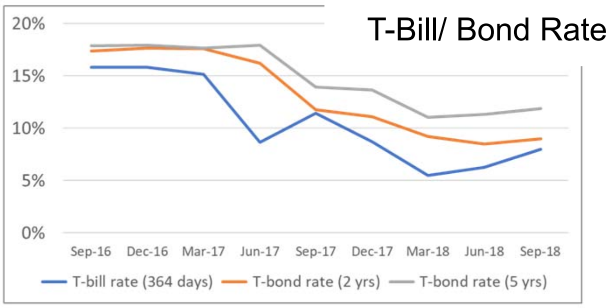
Indicators	Monetary Policy Target	
	2017/2018 Revised in Feb 2018	2018/2019 In June 2018
Annual Growth of M3	< 12.0%	< 12.2%
Annual Growth of Private Sector Credit	< 11.5%	< 10.2%



- Growth of Credit to Private Sector shows upward trend but still less than the target set under Monetary Policy Statement.

3.5 Interest Rate





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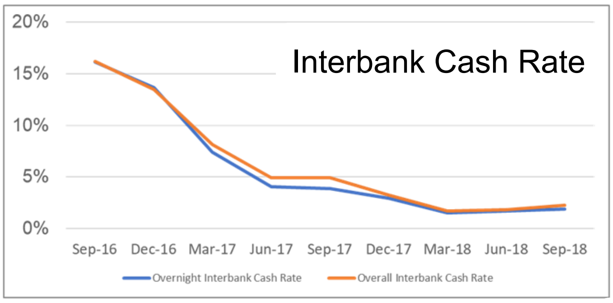
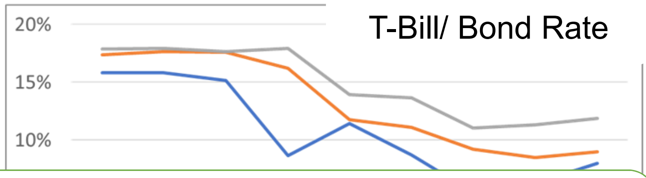
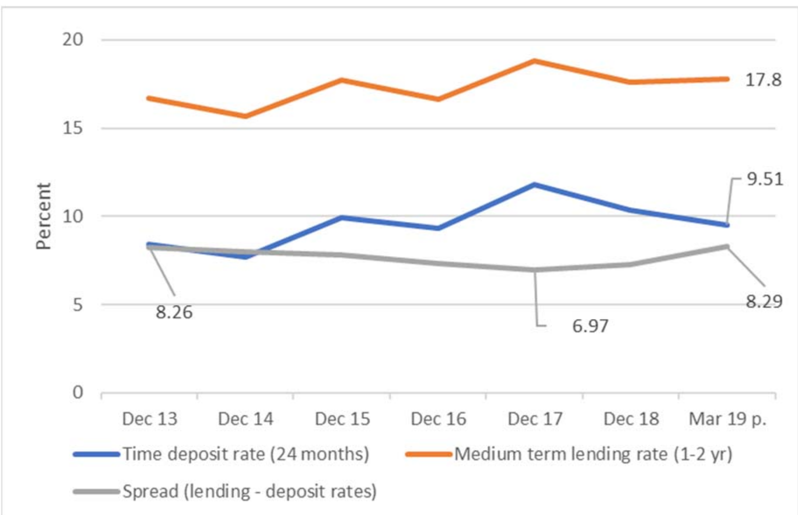
3.5 Interest Rate





- Interbank cash rate showed a decreasing trend but T-Bill/Bond rates are hovering at the higher level.

3.5-2 Lending/Deposit Interest Rate and Spread (2 years)



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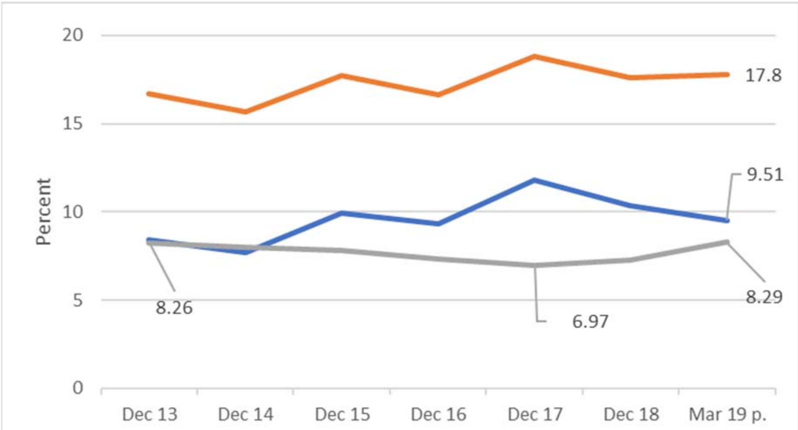
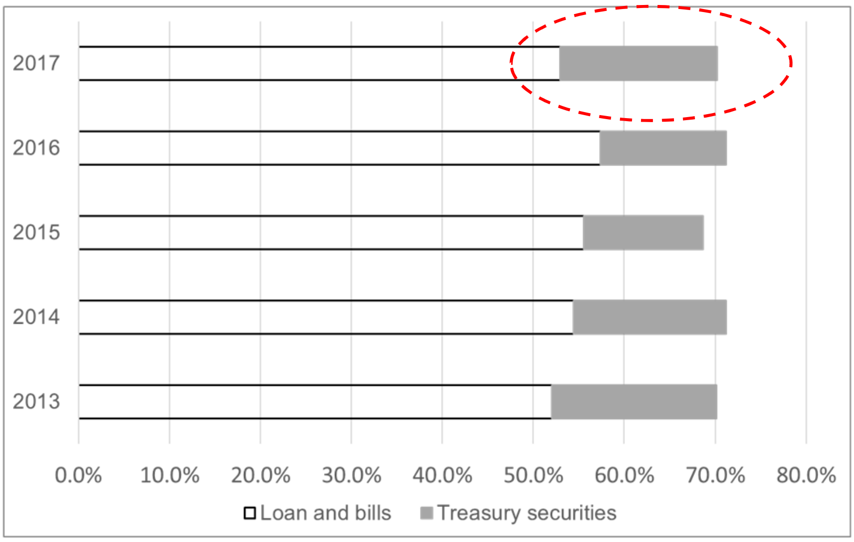
3.5-2 Lending/Deposit Interest Rate and Spread (2 years)



- In 2 years medium-term market, the spread was relatively stable at about 7 to 8% p.a.

3.6 Share of Loans and Treasury Securities



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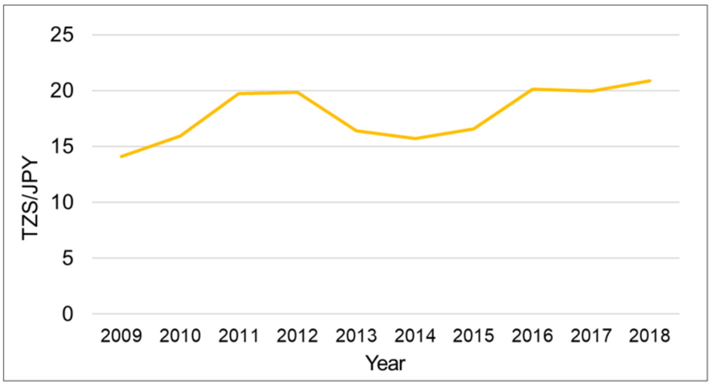
3.7 Exchange Rate (TZS/JPY)



Gradual depreciation of TZS against JPY at the annual rate of about 5 % over the last 10 years

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3.8 Non-Performing Loans

Unit: %

Banks	Sep-16	Mar-17	Sep-17
Bank M Tanzania	1.5	3.1	6.4
BBT	7.4	6.1	5.4
CRDB	7.0	9.0	8.6
DTB	1.5	2.3	2.2
Exim Bank	6.5	5.1	7.1
NBC	5.1	4.0	5.7
NMB	1.7	2.5	5.2
Stanbic Bank	3.2	2.2	1.7
Standard Chartered	4.6	4.1	3.8

High NPL of Banking Sector in Sept 2017: 12.5%

Dec 2018: 10.36% (BOT, “The Mid-Year Review 2018/19”)

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3.9 SME Loan by Selected Bank

Item	Bank A		Bank B		Bank C		Bank D		Bank E	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
SME Loan Balance	439	382	187	200	93	90	8	11	22	17
SME Loan to Gross Loan	12%	12%	6.7%	7.2%	14.4%	13.0%	34.6%	31.4%	3.4%	3.1%
NPL Ratio of SME Loan	10%	11%	2.1%	4.0%	6.9%	4.4%	10.8%	14.2%	44.3%	46.4%

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3.10 Important Point to consider

- Insufficient amount available for meidum/long term investment funds
  Less extensive branch networks, limited measures to raise investment funds as seen in maturity gap

- Less competition among banks
  Large shares of several largest banks, less incentive to extend investment loans to risky SME while high NPL faced by banks and availability of less risky and relatively high-interest bearing government securities

- Difficulties in assessing credit worthiness
  Insufficient appraisal capacity of bank staff, underdeveloped credit reference system, lack of business plan/financial statements, reliance on collaterals underdeveloped legal system, risk management

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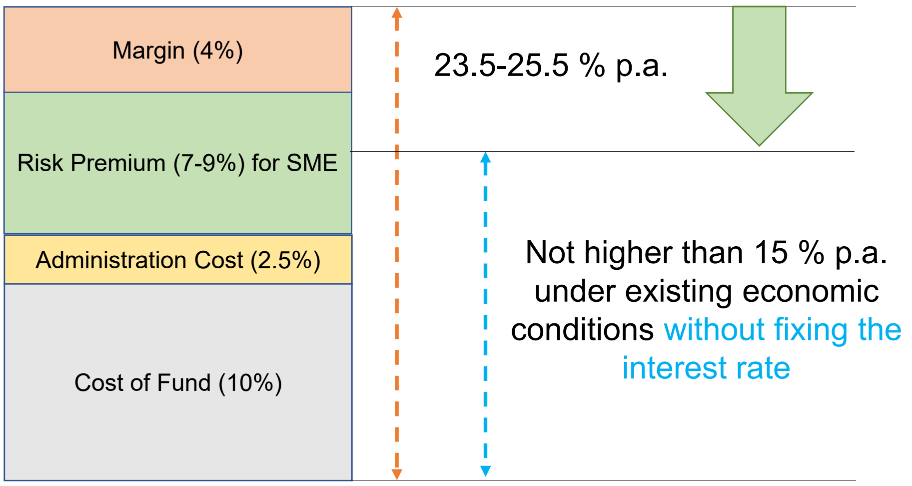
Example of Existing Interest Rate Structure based on interviews at a commercial bank



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4.1 Specific Features of TSL Project (1)

(1) Highly concessional loans (40 years including 10 year grace period) with 0.01% p.a. in Japanese Yen
=> Much room to make terms and conditions of loans more favorable to PFI/SME

(2) Establishment of Revolving Fund to continue to extend financial support to SME even after project completion

(3) Focus on SME in manufacturing sector but also those operating in the relevant value chains.

(4) Collaboration with existing JICA assisted projects i.e., KAIZEN, agriculture projects

(5) Experience-sharing of JICA assisted TSL project and development finance in the past

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(6) Selection of Financial Institutions based on accreditation criteria (financial soundness, governance, significance in SME finance)

(7) PFI will be primarily responsible for credit risks of end-borrowers (SME)

(8) Collaboration with Credit Reference Bureau, Credit Guarantee Organizations and SIDO

(9) Technical assistance through loan consultants to develop capacity of BOT/PMU and PFI

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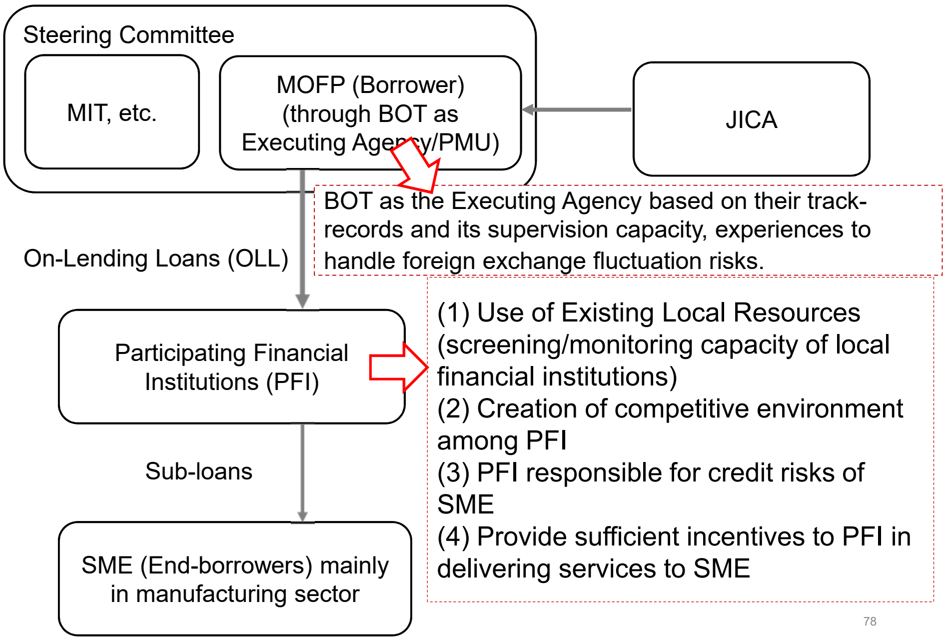
4.2 Overall Implementing Structure



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4.2.1 Executing Agency and Project Management Unit

The Executing Agency (BOT):

Responsible for implementation of the Project towards achievement of the Project objective in accordance with Loan Agreement

Management and coordination mechanism of the Project

Project Management Unit (PMU) at BOT:

- Will be established at the Executing Agency for smooth implementation of the Project
- Main Tasks

1) Loan operation to PFI and SME
2) Disbursement from and repayment to JICA
3) Reporting
4) Monitoring and evaluation
5) Policy recommendations
6) Employment of loan consultants where necessary.

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4.2.2 Steering Committee

- MOFP (Chair) and MIT, BOT, other organization concerned with SME development (Members)

- Discuss and make advices on policy issues relevant to the implementation and management of the Project.
  1) Coordination of the Project among different organizations; and
  2) Feedbacks of lessons learned from the practical experience of the Project implementation into the policy formulation on SME development

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4.2.3 Candidate PFI

- Expanding loan outreach of the Project by making use of the existing resources (existing financial institutions in Tanzania)
- Utilization of PFI's capacity to extend sub-loans to creditworthy SME (including use of information from Credit Reference Bureau)
- Promotion of competition among financial institutions to extend sub-loans to SME in more favorable terms and conditions (several financial institutions will be encouraged to participate in the Project)
- PFI will be selected from those under the supervision of BOT, including leasing companies
- PFI will be selected by applying accreditation criteria and be periodically monitored

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Accreditation Criteria of PFI

Higher weight will be placed on financial soundness

(1) Financial Soundness

- Capital Adequacy
- Asset Quality
- Profitability
- Liquidity Ratio
- Transparency

(2) Governance and Management

- Governance
- Risk Management

(3) Significance of Participating in TSL

- Focus on SME
- Loans to Manufacturing Sector
- Medium- and Long-term Loan/ Medium- and Long-term Funding
- Prime lending rate

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Simulation Results of PFI Accreditation

Accreditation Criteria		Point	Bank O		Bank P		Bank Q		Bank X		Lease Y		Bank Z	
			2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Financial Soundness		**55**	**33**	**28**	**50**	**45**	**40**	**38**	**43**	**46**	**38**	**35**	**23**	**23**
Capital Adequacy Ratio	CAR (Tier 1)	15	12	15	15	15	15	15	15	15	15	12	10	10
Asset Quality	NPL	15	5	5	15	10	5	5	15	15	15	15	0	0
Profitability	ROE	12	8	0	12	12	12	5	5	8	0	0	0	0
Liquidity	Liquidity Ratio	10	5	5	5	5	5	10	5	5	5	5	10	10
Transparency	Disclosure of Audited report	3	3	3	3	3	3	3	3	3	3	3	3	3
Governance and Management		**15**	**15**	**15**	**15**	**15**	**12**	**12**	**15**	**15**	**12**	**12**	**12**	**12**
Governance	BOD (non-executive)	4	4	4	4	4	4	4	4	4	4	4	4	4
	BOD (gender)	3	3	3	3	3	0	0	3	3	0	0	0	0
	BOA	3	3	3	3	3	3	3	3	3	3	3	3	3
Risk Management	ALCO	5	5	5	5	5	5	5	5	5	5	5	5	5
Significance of Participation in TSL		**30**	**13**	**8**	**8**	**11**	**18**	**13**	**13**	**13**	**25**	**25**	**6**	**6**
Focus on SMEs	SME share	8	8	8	5	5	8	8	8	8	8	8	0	0
Growth of Loans to SMEs	Growth rate	5	5	0	3	3	5	0	5	5	5	5	0	0
Loans to Mfg sector	Share	5	0	0	0	3	5	5	0	0	5	5	3	3
MLT Loan / MLT Fundings	Ratio	7	0	0	0	0	0	0	0	0	7	7	0	0
Prime lending rate	interest rate (p.a.)	5	0	0	0	0	0	0	0	0	0	0	3	3
Total Score		**100**	**61**	**51**	**73**	**71**	**70**	**63**	**71**	**74**	**75**	**72**	**41**	**41**

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4.3 Terms and Conditions of On-Lending Loan

Items	Option 1	Option 2
OLL rate (Note)	A weighted average cost of funds of PFI by adding administration cost at the Executing Agency/PMU and the credit risk of PFI.	T-bill 182-day rate by setting a range of fluctuations (ceiling and floor rates) and adding administration cost at the Executing Agency/PMU and the credit risk of PFI.
Repayment period	The repayment period of the OLL will be made more or less to synchronize with that of the sub-loan. The minimum repayment period is set at longer than two years	Same as the maturity period of sub-loans
Currencies	TZS	TZS
Credit risk	MOFP : Being subject to discussions, the Government of Tanzania is expected to bear the credit risk of PFIs as well as the exchange rate risk in converting ODA Loan denominated in JPY into TZS.	
Others	- Collateral requirements: as required by the Executing Agency/PMU - Financing method: Refinance scheme. Adoption of pre-finance will be subject to discussions.	

Note: In order to lower the lending rate to SME to 15% p.a. from PFI, the target rate for OLL is set at around 6% p.a. (exchange risk (5%) and administration (1%)) under the current economic conditions.

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4.4 Terms and Conditions of Sub-Loans

Items	Terms and Conditions
Lending rate (Note)	To be determined by PFI
Repayment period	Longer than two year
Purpose (eligible financing items)	Investment only (Fixed assets such as machinery, equipment, factory buildings, including related civil works, services and training.)
Amount sub-loans	2,000 million TZS
Currencies	TZS
Credit risks	PFI
Others	- Financing ratio: not specifically set. 100% for investment costs can be financed from MOFP to PFI through the Executing Agency/PMU. - Collateral requirements: as required by PFI in compliance with BOT regulations

Note: Based on the results of SME survey, the target rate will be set at around 15% under current economic conditions

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4.5 Eligibility Criteria of End-borrowers

Item	Criteria
Legal status	Registered SME Registered commercial farmers
Type	Companies in the private sector (sole proprietorship, public, cooperative, private company limited, partnership, private company for guarantee, foreign-affiliated but not foreign companies and bodies corporate)
Eligible Sector	Manufacturing sector, those operation in the value chain of the manufacturing sector (such as agriculture, trade, logistics, warehouses, and services.) The eligible sector is also subject to discussions with the Government of Tanzania
Definition of SME	Annual turn-over
Sectors specially excluded	1)Real estate, 2) finance, insurance, 3) precious metal dealing, 4) restaurant not operating in the value chain, bar and pub, 5) amusement, entertainment (except for tourism), 6) weapon, ammunition, or 7) anything harmful to the social stability are excluded.

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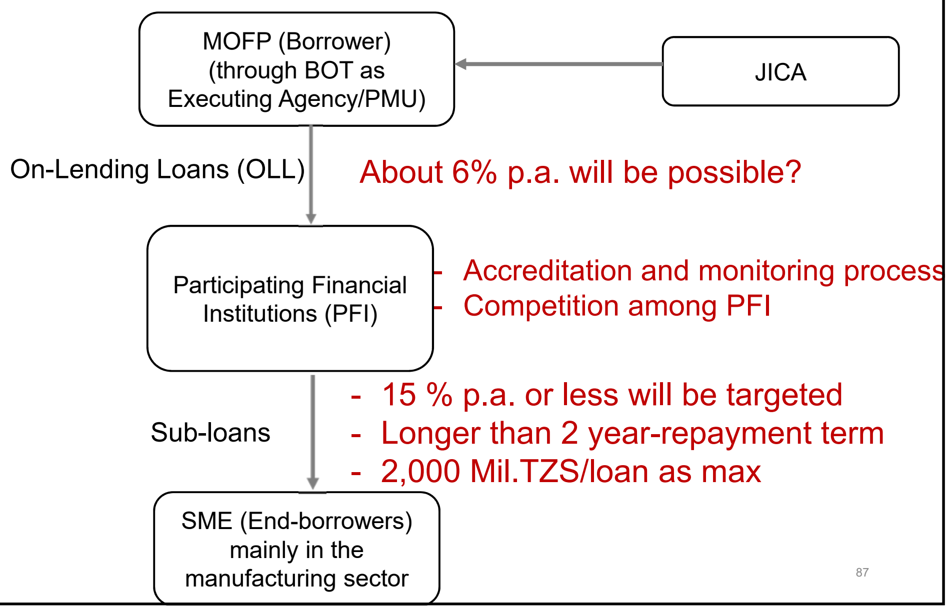
For discussions

0.01% p.a. and 40 years
including 10 year-grace period



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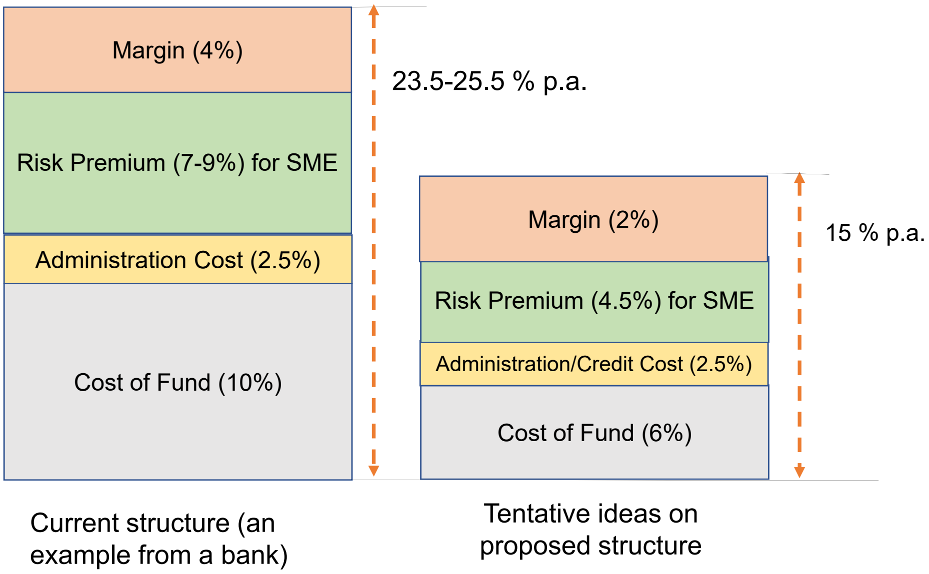
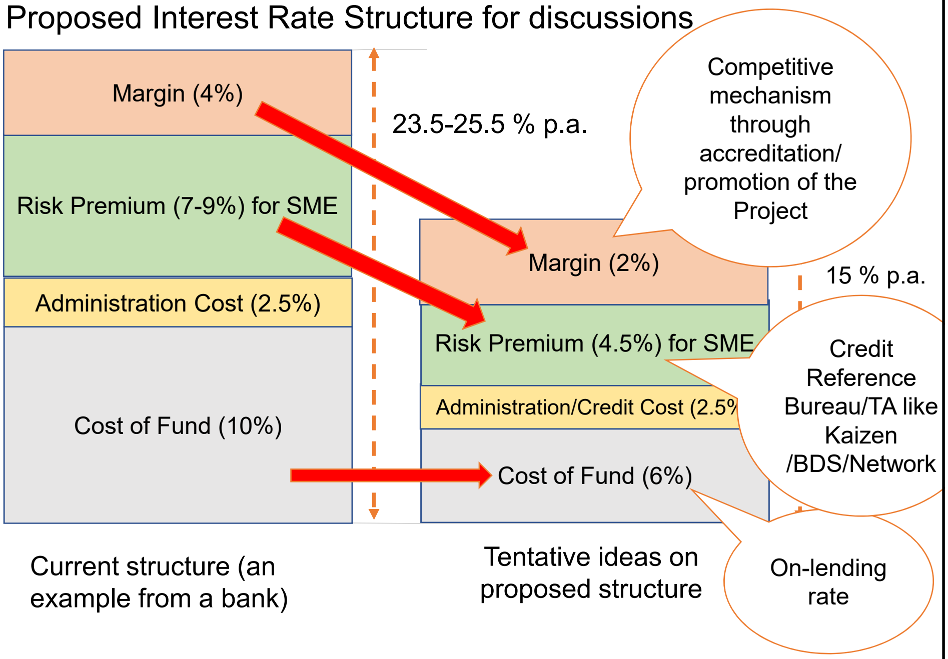
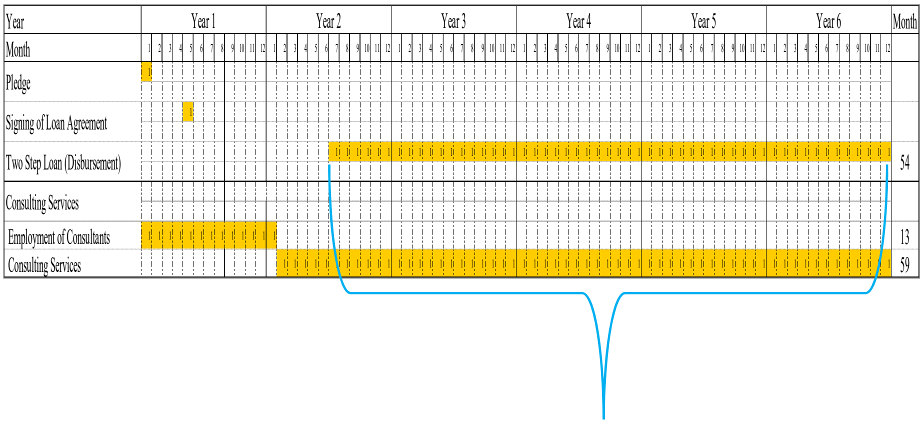
Tentative Ideas on Proposed Interest Rate Structure for discussions



Tentative Ideas on Proposed Interest Rate Structure for discussions



4.6 Implementation Schedule



Funds will be gradually disbursed as disbursement of sub-loans are proceeded to SME.

4.7 Proposed Consulting Services

(1) Project Management

- To assist PMU in facilitating effective management of the Project and control of the funds
- To assist PMU in preparing and submitting the reports

(2) Institutional and capacity development

- Institutional and capacity development of PMU
- Capacity development of PFI
- Utilization of credit reference system

(3) Promotion of the Project and finance for SME

(4) Monitoring and Evaluation activities

(5) Coordination with other lending and technical assistance programs (such as Kaizen) and supporting organizations (such as PASS), etc.

Integration of various elements of the Project toward achievement of the Project objective

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5. Collaboration with Other Technical Cooperation Projects
5.1 KAIZEN Project

SME: incentives to participate in the training courses if their creditworthiness is improved

PFI: credit risks of SME may be reduced if PFI are in a better position to assess conditions of SME

Possible areas for collaboration

(1) KAIZEN Project will incorporate needs of PFI in their curriculum.

(2) PFI will share relevant part of the appraisal criteria with KAIZEN Project

(3) KAIZEN Project shares the list of participating enterprises (high growth potentials) with PFI

(4) Selection of participating enterprises may be made in consultation with PFI

(5) KAIZEN Project supports efficiency improvement of productions through inventory and cashflow management.

5.2. Other Organizations

(1) SIDO
- Identification of growth-oriented SME (may collaborate with selected regional offices of SIDO)
- Technical services in collaboration with trainers from SIDO

(2) Credit Guarantee
Collaboration with organization like PASS (Private Agricultural Sector Support)

(3) Credit Reference Bureau
- Assistance of reporting system of PFI
- Training of PFI in making use of credit reference data, etc.

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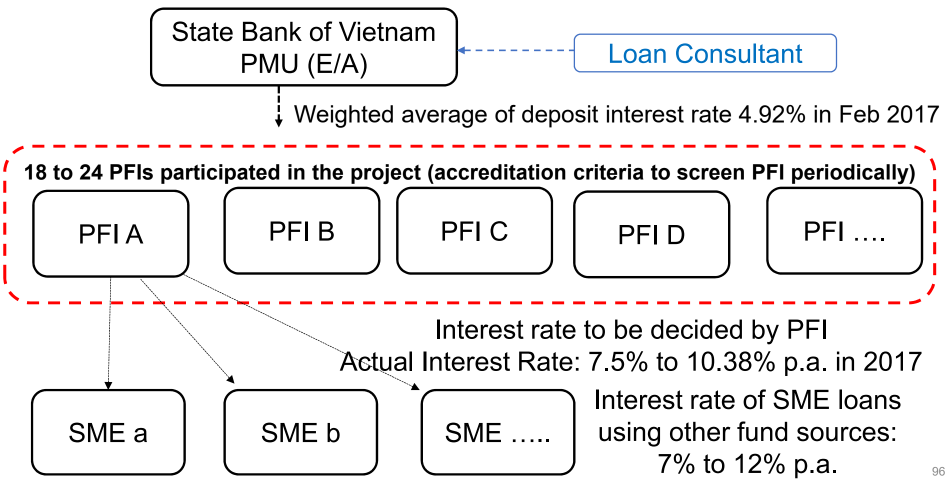
6. Application of TSL Experiences in Other Developing Countries
6.1 SME Finance Project (III)

Loan Among: 17,379 million JPY

Interest rate: 1.2% p.a. with 30 years including 10 year grace

Project Period: November 2009 to December 2014



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Lessons learnt from Past Similar Projects

In cases where a plural number of intermediary agencies (financial institutions) are involved in parallel in financial intermediary loans, it is effective to design the financing so that each institution can handle the implementation flexibility in accordance with the demand for funds and the scale of operations of each target end user, not restricting uniformly its eligibility and loan conditions. Based on such lessons, flexibility in the terms and conditions for lending, etc., will be assured in the Project.

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7. Points to be Considered in Preparing for the Project Formulation

(1) Utilization and strengthening of existing resources available in Tanzania (network of financial institutions, their capacity to identify creditworthy SME, etc.)

(2) Use of market mechanism and competition among PFI

(3) Promotion of SME by emphasizing that SME finance will be profitable business

(4) Meet medium- and long-term investment needs of SME

(5) Promotion of agro-processing value chains

(6) Capacity development of PMU and PFI

(7) Collaboration with Technical Assistance Projects (Kaizen, etc.)

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Annex 3-1: Questionnaire for the SME Survey

Preparatory Survey for Small and Medium-sized Manufacturing Enterprise Finance Promotion Project in Tanzania

Questionnaire for SME Survey

Questionnaire No.	
Date of Interview	
Name of Interviewer	

O. Contact of Company

O-1	**Company Name**						
O-2	**Address**	P.O. Box					
			1	DSM		2	Arusha
			3	Kilimanjaro		4	Manyara
			5	Dodoma		6	Morogoro
			7	Mbeya		8	Mwanza
O-3	**Phone**						
O-4	**Name of Managing Director**						
O-5	**Name and Position of Respondent**						
O-6	**Cell Phone of Respondent**						
O-7	**E-mail of Respondent**						

Part A: General Information of Operations of the Company

A-1 Year of start of business

A-2 Type of company

	1	Sole proprietorship		2	Partnership
	3	Public		4	Parastatal
	5	Cooperative		6	Private company by guarantee
	7	Private company limited		8	Foreign-affiliated
	9	Others		10	Do not know

A-3 Main stockholders

	1	Tanzanian		2	Indian
	3	PR China		4	Japanese
	5			6	

A-4 Paid-up capital - Capital contributed by shareholders

Mil. TZS	As of

A-5 Any foreign participation in investment

	1	No foreign participation		2	Indian
	3	PR China		4	Japanese
	5			6	

A-6 With or without business registration & operation license

	1	Registered and operation license obtained
	2	Registered but no license obtained
	3	Not registered and no operation license
	4	Others (Please specify)

A-7 Membership of business association

1	
2	
3	

4	
5	

A-8 **<u>The three main</u> products and/or services of your company's main business**

1	
2	
3	

A-9 **Industry sector to which your company belongs *(Please check the appropriate column)***

If the company is engaged in businesses in more than one sub-sector, please check the major sub-sector (measured in terms of the largest amount of sales) as "XX" and the secondary and other sub-sectors as "X".

	1	Manufacture of food products
	2	Manufacture of textiles
	3	Manufacture of wearing apparel
	4	Manufacture of leather and related products
	5	Manufacture of wood and of products of wood and cork, except furniture
	6	Manufacture of chemicals and chemical products
	7	Manufacture of rubber and plastics products
	8	Manufacture of other nonmetallic mineral products
	9	Manufacture of fabricated metal products, except machinery and equipment
	10	Manufacture of electrical equipment
	11	Manufacture of machinery and equipment n.e.c.
	12	Manufacture of furniture
	13	Other manufacturing (Please specify)
	14	Wholesale and retail
	15	Transport and distribution
	16	Construction
	17	Service (Please specify)
	18	Others (Please specify)

A-10 Number of management and employees at present

	Status	Male	Female	Total
1	Management Team			
2	Out of which: Tanzanian National			
3	Permanent employees			
4	Temporary employees			
4.1	Out of temporary employees: high season (month: to month:)			
4.2	Out of temporary employees: low season (month: to month:)			
5	Total			

A-11 Do your products/services follow a regular sales or periodic sales?

	1	Regular sales		2	Periodic sales

A-11-1 <u>In case the answer above is "periodic sales,"</u> the timing of periodic sales

	1	Monthly		2	Quarterly
	3	Semiannual		4	Yearly

A-12 The primary market of your main products/merchandise/services *(Choose any from the following options)*

	1	Local community or Within the same district		2	Within the same region
	3	Adjoining regions		4	DSM
	5	Whole country		6	Export
	7	Others (Please specify)			

A-13 The main clients of your company *(Choose any from the following options)*

	1	Manufacturers		2	Wholesalers
	3	Retailers		4	Government
	5	Individual consumers			
	6	Others (Please specify)			

A-14 Are any Japanese companies (local subsidiaries of Japanese companies) included in your clients? If Yes, what products/services does your company provide them?

	1	Yes	Specify products/services being provided
	0	No	

A-15 The area where your company purchase/procure main goods/services *(Choose any from the following options)*

	1	Local community or Within the same district		2	Within the same region
	3	Adjoining regions		4	DSM
	5	Whole country		6	Import directly from foreign suppliers
	7	Others (Please specify)			

A-16 Suppliers/subcontractor from which your company procure goods/services *(Choose any from the following options)*

	1	Manufacturers		2	Wholesalers
	3	Retailers		4	Suppliers / Producers
	5	Others (Please specify)			

A-17 Are any Japanese companies (local subsidiaries of Japanese companies) included in your suppliers/sub-contractors? If Yes, what products/services does your company receive from them?

	1	Yes	Specify products/services being received
	0	No	

A-18 The serious business challenges your company currently faces *(Choose any from the following options)*

	1	Unfavorable market change
	2	Market access
	3	Severe competition
	4	Financing - Working capital
	5	Financing - Investment financing
	6	Quality of product/service
	7	Cost of product/service
	8	Access to appropriate technology
	9	Production Capacity to meet requirements of clients
	10	Procurement of raw materials
	11	Employment of workers
	12	Access to appropriate utilities like water and electricity
	13	Factory, office, shop, warehouse space
	14	Compliance with environmental standards to operate the factory
	15	Government policy & regulation
	16	No challenges
	17	Others (Please specify)

A-19 The serious issues to be improved regarding production/services at your company *(Choose any from the following options)*

	1	Quality		2	Cost
	3	Delivery		4	Production capacity
	5	Technological capability of product improvement/development			
	6	Others (Please specify)			

A-20 **<u>The three main</u> machines and/or equipment which you are planning to replace within next 3 years up to 2021 and their quantity to be replaced**

A-20-1 Machines and/or equipment 1

1	Type of machines/equipment	
2	Quantity to be replaced	
3	Approximate value per quantity if replaced today	Mil. TZS

A-20-2 Machines and/or equipment 2

1	Type of machines/equipment	
2	Quantity to be replaced	
3	Approximate value per quantity if replaced today	Mil. TZS

A-20-3 Machines and/or equipment 3

1	Type of machines/equipment	
2	Quantity to be replaced	
3	Approximate value per quantity if replaced today	Mil. TZS

A-21 Is your company equipped with environmental protection measures (including measuring devices)?

	1	Yes		0	No

A-21-1 If the answer above is "Yes," please specify the equipment and facilities for environmental protection and measuring devices that you have at your company and their approximate prices.

1	Equipment & facilities for environmental protection and measuring devices	
2	Approximate prices	Mil. TZS

A-22 Does your company prepare a <u>WRITTEN</u> business plan every year?

	1	Yes		0	No

A-23 Does your company prepare written financial statements every year?

	1	Yes		0	No **>>Go to Part B**

A-24 Are your company's financial statements being audited every year?

	1	Yes		0	No

A-25 Sales, cost and profit

	Item	FY2014 Note1 From To	FY2015 Note1 From To	FY2016 Note1 From To
1	Annual total sales	Mil. TZS	Mil. TZS	Mil. TZS
2	Cost of goods/services sold	Mil. TZS	Mil. TZS	Mil. TZS
3	Gross profit	Mil. TZS	Mil. TZS	Mil. TZS
4	Depreciation expenses out of Item 2 above Note2	Mil. TZS	Mil. TZS	Mil. TZS
5	Labor costs for production out of Item 2 above	Mil. TZS	Mil. TZS	Mil. TZS
6.1	No. of permanent employees	Persons	Persons	Persons
6.2	No. of temporary employees	Persons	Persons	Persons
6.3	No. of total employees	Persons	Persons	Persons

Note 1: In case the accounting year of the company is not same as the calendar year, the accounting year (from which month to which month) should be filled in the brackets.
Note 2: If the amount of depreciation expenses is not recorded, put “0” in the corresponding cells.

A-26 Asset value

	Item	Current Amount/ Value (Estimate)	Remark
1	Land (include if land is owned and leased to another)	Mil. TZS	Land area: m^2
2	Building	Mil. TZS	Floor size: m^2
3	Machinery	Mil. TZS	
4	Other equipment and facilities	Mil. TZS	
5	Total	Mil. TZS	

Part B: Borrowing History, Future Investment and Financing Plan

B-1 Has your company been borrowing funds/goods from any Financial Institutions (FIs) or leasing companies in the past 3 years (since 2015)?

	1	Has been borrowing **>>Go to Question B-2**
	2	The company tried, but failed **>>Go to Question B-5**
	3	Has not been borrowing **>>Go to Question B-5**

Note: FIs include the following banks, non-banks and Informal FIs.
Banks: Commercial banks, Postbank
Non-banks: SACCOs, Insurance companies, Microfinance institutions, Remittance companies, Mobile money operators
Informal FIs: Village savings & loan associations (Village community banks, Savings & credit associations, Rotating savings & credit associations), Suppliers' credit, Money lenders

B-2 The outline of the loans/leases taken in the past 3 years (since 2015)

B-2-1 Loan 1

1	Type of lender		1	Banks		2	Informal FIs
			3	Non-banks			
2	Name of FI						
3	Amount of loan						Mil. TZS
4	Annual rate of interest						% p.a.
5	Kind of collateral provided						
6	Organization of guarantor						
7	Year the loan initially disbursed						
8	Purpose of loan	Investment for					%
		Working capital					%
9	Repayment period						Months
10	Grace period included in the repayment period						Months
11	No. of months required from the initial application date to the signing date of the loan contract						Months
12	Repaid without delay		1	Yes		0	No

B-2-2 Loan 2

1	Type of lender		1	Banks		2	Informal FIs
			3	Non-banks			
2	Name of FI						
3	Amount of loan						Mil. TZS
4	Annual rate of interest						% p.a.
5	Kind of collateral provided						
6	Organization of guarantor						
7	Year the loan initially disbursed						
8	Purpose of loan	Investment for					%
		Working capital					%
9	Repayment period						Months
10	Grace period included in the repayment period						Months
11	No. of months required from the initial application date to the signing date of the loan contract						Months
12	Repaid without delay		1	Yes		0	No

B-2-3 Lease 1

1	Name of leasing company	
2	Equipment leased	
3	Quantity of equipment leased	
4	Total amount of lease payment for the lease period	Mil. TZS
5	Lease rates	% p.a.
6	Year the lease initially disbursed	
7	Lease period	Months

B-3 Has your company fully repaid with no delay, both principal and interest?

	1	Yes		0	No

B-3-1 <u>In case the answer above is "No,"</u> what are the reasons for the delay?

Please specify

B-4 The sources of funds for repayment *(Choose any from the following options)*

	1	Revenue of business
	2	From past savings
	3	Funds borrowed from other sources
	4	By reducing the procurement of raw material
	5	By delaying the payment of salaries to employees
	6	By delaying the payment to suppliers
	7	Others (Please specify)

>>Go to Question B-6

B-5 The reason why your company has not been borrowing

	1	The company had no need of funds.
	2	The company needed funds, but funds were ready from other sources.
	3	The company needed funds. But it did not access any FIs because it did not have any relation with FIs.
	4	The company needed funds. But it did not access any FIs because it did not have knowledge on borrowing from FIs.
	5	The company needed funds. But it did not have interests in borrowing from FIs.
	6	The company negotiated with a FI for loan, but failed to borrow.
	7	Others (Please specify)

B-5-1 In case your answer is 3, 4, 5, or 6 in Question B-5 above, the reasons why your company did not negotiate with FIs for loan, or failed to borrow from FIs *(Choose any from the following options)*

	1	No existence of FIs' office in a reachable geographical location
	2	Absence of FIs offering loans for SMEs
	3	Absence of FIs offering medium/long term loan
	4	Unable to submit the collateral
	5	High interest rate offered by FIs
	6	Unable to prepare and submit the financial statements
	7	Do not know the reason
	8	Others (Please specify)

B-6 Does your company have an intention to make new investments in the near future (up to 2021)?

	1	Yes		0	No **>>Go to Question B-8**

B-6-1 In case the answer above is "1. Yes," the types of new investments *(Choose any from the following options)*

	1	Purchase of land		2	Purchase or expansion of building
	3	Purchase of production equipment		4	Purchase of office equipment
	5	Purchase of vehicle			
	6	Others (Please specify)			

Please describe the characteristics of the items (i.e., types of equipment) for investments:

B-6-2 The purposes of new investments *(Choose any from the following options)*

	1	Expansion of existing business		2	Improvement of productivity
	3	Improvement of quality of product/service		4	Cost reduction
	5	Research & Development		6	Environmental protection
	7	Start of new business			
	8	Others (Please specify)			

B-6-3 The amount of funds to be required for new investments

1	Investment in equipment and facilities	Mil. TZS
2	Investment in lands (purchase of lands)	Mil. TZS
3	Working capital	Mil. TZS
4	Total amount of investment	Mil. TZS
5	Not yet decided	

B-6-4 The year in which your company plans to make new investments

	1	Year 2018		2	Year 2019
	3	Year 2020		4	Year 2021
	5	Not before Year 2022		6	Not yet decided

B-7 Does your company have an intention to newly borrow loan from FIs for new investments?

	1	Yes		0	No/Not yet decided **>>Go to Question B-10**

B-7-1 <u>In case the answer above is "1. Yes,"</u> how much does your company intend to borrow?

1	Investment in equipment and facilities	Mil. TZS
2	Investment in lands (purchase of lands)	Mil. TZS
3	Working capital	Mil. TZS
4	Total amount of investment	Mil. TZS
5	Not yet decided	

B-7-2 The maximum rate of interest your company is prepared to bear / The rate of interest your company needs to bear for loans if the company needs to carry out the similar types of investments

% per year

B-7-3 The acceptable (affordable) period for repayment

	1	Over 10 years
	2	Between 5 years and 10 years
	3	Between 3 years and 5 years
	4	Between 1 year and 3 years
	5	Less than 1 year

B-7-4 The collateral/securities your company is ready to provide *(Choose any from the following options)*

	1	Fixed assets (land and/or building and fixtures thereon)
	2	Cash deposit
	3	Personal guarantee (loan or borrower is guaranteed by a third person/ party)
	4	Letter of credit issued by bank
	5	Equipment purchased
	6	Credit guarantee
	7	Others (Please specify)
	8	Unable to provide any of the above

>>Go to Question B-10

B-8 The reason why your company is not interested in new investments *(Choose any from the following options)*

	1	The company is satisfied with current business operation.
	2	Market condition is not favorable for new investment including expansion of existing facilities (e.g., tough competition, low profitability).
	3	The company has no capacity for new investment due to business condition (no or minimum profit, lack of human resource / technical know-how, etc.)
	4	The company is interested in new investment, but loan conditions are not favorable. **>>Go to Question B-9**
	5	The company is interested in new investment but have no means to get money for investment.
	6	Others (Please specify)

Note: If your answer does not include 4 above, then go to Question B-10

B-9 Will your company change its mind and consider investment if financing becomes available? ***(Choose any from the following options)***

	1	Will reconsider if the medium/long term financing becomes available **>>Go to Question B-9-1**
	2	Will reconsider if the working capital becomes available **>>Go to Question B-10**
	3	Will reconsider if the interest of loan becomes lower **>>Go to Question B-9-2**
	4	Will reconsider if the condition of collateral becomes relaxed **>>Go to Question B-9-3**
	5	Will not change mind, even if any of the above 1 to 4 takes place **>>Go to Question B-10**
	6	Others (Please specify)

B-9-1 The repayment term your company needs to get in considering a new investment

	1	Over 10 years
	2	Between 5 years and 10 years
	3	Between 3 years and 5 years
	4	Between 1 year and 3 years
	5	Less than 1 year

B-9-2 What is the rate of interest that your company looks for in changing its mind and to consider a new investment?

% p.a.

B-9-3 The types of collateral/securities your company would be able to provide if it changes its mind for investment ***(Choose any from the following options)***

	1	Fixed assets (land and/or building and fixtures thereon)
	2	Cash deposit
	3	Personal guarantee (loan or borrower is guaranteed by a third person/ party)
	4	Letter of credit issued by bank
	5	Equipment purchased
	6	Credit guarantee
	7	Others (Please specify)
	8	Unable to provide any of the above

B-10 Does your company maintain an account at any FIs?

	1	Yes		0	No

B-10-1 <u>In case the answer above is "Yes,"</u> please mention the name and branch of FIs

Name of FI		Branch	
Name of FI		Branch	
Name of FI		Branch	

B-10-2 The types of transaction accounts your company maintains with the FIs *(Choose any from the following options)*

	1	Deposit/current account only		2	Overdraft facility account
	3	Short term loan account		4	Medium/long term loan account
	5	Others (Please specify)			

B-11 Your evaluation on the FIs regarding loan related services which should be improved *(Choose any from the following options)*

	1	Provision of information regarding loans for SMEs
	2	Complication of loan application / Long check-list
	3	Attitude of a bank officer
	4	Requirements of a borrower (collateral and others)
	5	Loan condition (interest rate, payment period, good financial performance).
	6	No need to improve
	7	Others (Please specify)

B-12 Please let us know if your company has received any financial services or other supports (including technical supports) with any kind of gender considerations. ***(Choose any from the following options)***

	1	Special loan scheme for women entrepreneurs
	2	Grant or any kind of financial assistance (other than loans) especially for women
	3	Accelerator program (A program for startups which includes seed investment (other than Item 1 (loans) and Item 2 (grant or any other financial assistance) above), networking, mentorship, educational components with public pitch event)
	4	Technical or business training for women
	5	Others (Please specify)

B-12-1 <u>In case your company has received any schemes/services above,</u> please provide the details.

1	Name of the service provider	
2	Name of the scheme/services	
3	Amount/period of repayment/interest	______________TZS; ___________months; _______% p.a.
4	Other information if any	

B-13 <u>In case you are a woman business owner,</u> has your company experienced any kind of difficulties or challenges <u>in terms of gender</u> in your business operation? Do you consider any of the followings happened because of being a woman? ***(Choose any from the following options)***

	1	Experienced difficulty in business registration
	2	Experienced difficulty in acquiring necessary financing
	3	Experienced difficulty in holding title deeds of land required as the collateral
	4	Experienced difficulty in access to market or relevant procurement
	5	Less access to business services
	6	Less access to business information
	7	Others (Please provide details)

Part C: Needs of Technical Assistance

C-1 In which areas does your company wish to receive advisory and consulting services in terms of financing and bank borrowing? ***(Choose any from the following options)***

	1	Advisory & consulting service on how to start transaction with FIs
	2	Advisory & consulting service on how to prepare loan application
	3	Advisory & consulting on accounting and how to prepare financial statements
	4	Advisory & consulting on financial management
	5	Advisory & consulting on tax management
	6	Advisory & consulting on investment planning and evaluation
	7	Introduction of FIs to your company
	8	Others (Please specify)
	9	No needs

C-2 In which areas does your company wish to receive advisory and consulting services in terms of management? ***(Choose any from the following options)***

	1	Advisory & consulting service on management and business planning
	2	Advisory & consulting service when starting business
	3	Provision of legal advice
	4	Provision of technical advice on production management
	5	Provision of technical advice on production technology
	6	Information provision - market and customer information
	7	Information provision - technology information
	8	Marketing support (exhibition, trade fair, etc.)
	9	Workers' training
	10	Provision of opportunities for cooperation with other companies
	11	Material/product testing
	12	Others (Please specify)
	13	No needs

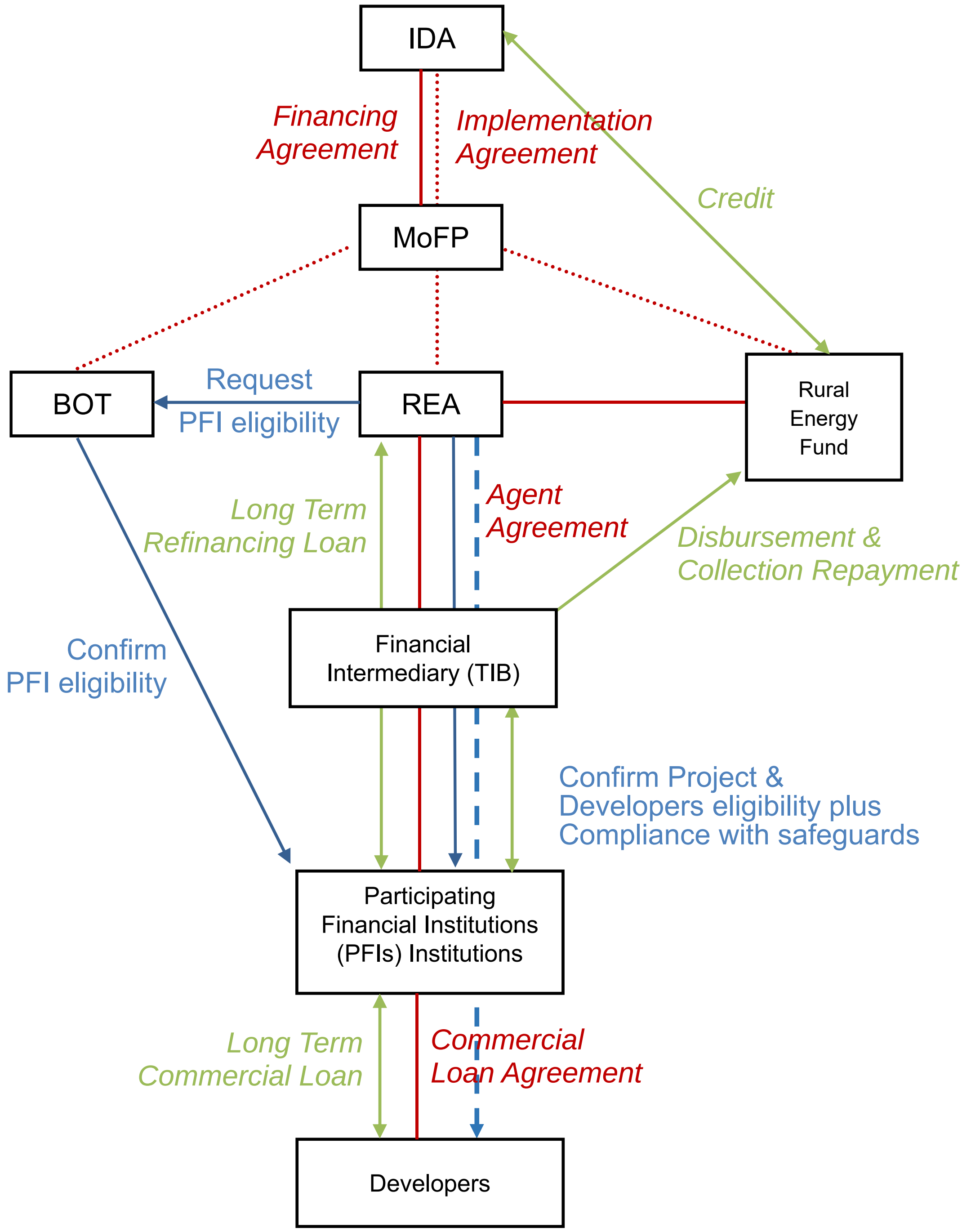
Annex 5-1: General Features of SPP Credit Line

1. General Features of SPP Credit Line

	SPP Note 1
IDA→MOPF	
Amount	32 Mil. USD
Interest rate	3.12% p.a.
Repayment period	30 years maturity
Forex	Forex risk with the Govt.
Refinancing loans from TIB to PFI	
Currency	TZS USD (Power tariff in USD)
Interest rate	TZS: 4.37% + Forex Risk Margin Note 2 USD: 4.37% p.a. (fixed) Note 3
Repayment period	Up to 15 years including a grace period up to 5 years
Re-financing ratio	Up to 70% of the amount borrowed by a developer in case installed capacity being larger than 3MW Up to 85% of the amount borrowed by a developer in case installed capacity being smaller than 3MW
PFI→End-users	
Interest rate	No restriction
Grace period	Cover the construction period for the loan covered by refinancing (also blended terms of loans not covered and loan covered by refinancing)
Loan tenors	Minimum 7 years, including grace period for the loan covered by refinancing (also blended terms of loans not covered and loan covered by refinancing)
Maximum amount of loan	10 mil. USD/loan for IDA CL

Source: REA, Operating Guidelines (TREEP), 2016 (quoted from the website of Rural Energy Agency)
Note 1: SPP＝Small Power Producer
Note 2: Forex Risk Margin = ((1+12 month average inflation rate in Tanzania from January to December)/(1+ 12 month average inflation rate in the US from January to December) -1 [The Forex Risk Margin will be revised every 12 month in January] According to "Quarterly Report on Administration of the Credit Line Facility for the Period between 1st July and 30th September 2018", on-lending interest rate in TZS is set at 9% p.a.
Note 3: The interest accrued during the grace period will be capitalized at the end of 5th year.

2. Schematic Outline of Relations between Main Actors (In case of SPP)



3. Roles and Functions of Concerned Agencies

(1) TIB

The Financial Intermediary is currently designated as the TIB Development Bank (TIB). Its role is to advance funds for refinancing eligible SPP Projects through Participating Financial Institutions upon clearance from REA. Upon receiving confirmation of eligibility from BOT and REA, it will sign Participating Agreements with PFI's.

i. Sign Project Service Agreement (PSA or Agent Agreement) with REA;
ii. Overall financial management of Credit Line funds;
iii. Open appropriately denominated project accounts for TREEP SPP Credit Line payment activities;
iv. Confirm the completeness of the refinancing application package submitted by PFIs for REC Credit Line financing and relay positive recommendations to REA for their no-objection;
v. Execute the Program On-Lending Participation Agreements with PFIs;
vi. Request data from BOT when the need arises or when instructed by the Client to gauge the market interest rate performance and advise the client on same.
vii. Disburse funds to PFIs as instructed by REA;
viii. Collect loan re-payment from PFIs and transfer them back to REA's project account held at the Trust Agent (CRDB); and
ix. Maintain a record of the debt outstanding with the PFIs based on the applications for withdrawal.
x. Prepare quarterly financial reports, and submit to REA.
xi. Participate in the Steering Committee, as a member.

(2) PFI

The PFIs have the following responsibilities:

i. Sign Participation Agreement (PA) with TIB acting on behalf of REA;
ii. Identify and appraise renewable energy projects proposed by developers to ensure economic and financial viability according to normal commercial practices;
iii. Provide loans to developers for eligible renewable energy projects if they meet all requirements of the Operating Guidelines and PFIs' internal appraisal requirements;

iv. Request refinancing of part of the loans (in either US$ or TZS) provided for eligible renewable energy projects if these projects are believed to meet all refinancing requirements;
v. Assume and share the full credit risk for the loans provided to developers;
vi. Verify that the project for which refinancing is requested meets all refinancing requirements (including safeguards) consulting REA, if in doubt;
vii. Submit Refinancing Application Package, including documentation related to environmental and social safeguards to REA for eligibility verification (the submission should be made when the application is complete – this can be before or after final loan approval by PFI);
viii. Disbursement of loans to developers in line with contracts signed with suppliers and agreed milestones;
ix. Monitor the subprojects for which refinancing has been approved during construction and operation to make sure all requirements are met;
x. Repay the refinancing loans as specified in the Participation Agreement;
xi. Report to TIB as specified in this Operating Guidelines;
xii. Each PFI will prepare quarterly progress reports;
xiii. Participate in training offered by the REA; and
xiv. If needed, access TA offered by REA for appraising renewable/rural energy projects

(3) BOT

The responsibilities of BOT include:

i. Respond to REA's request of confirmation on PFIs' compliance with the eligibility criteria (including prudential regulations, ratio of non-performing loans, adequate risk management policies, appropriate corporate governance practices, adequate capacity to underwrite and manage credits);
ii. Annually (at REA's request) reconfirm the PFIs' compliance with the prudential regulations and non-performing loans;
iii. Periodically provide data to REA for the calculation of the on-lending terms;
iv. Participate in the Steering Committee; and
v. BOT together with REA will provide feedback to the PFIs in case of non-compliance with eligibility criteria and recommend action plan.

(4) REA

REA's main responsibilities for the implementation of the Credit line are consistent with its core business: (i) to transform rural livelihood through provision of modern energy services; and, (ii) to promote and facilitate availability and access to modern energy services in rural Tanzania.

REA's specific responsibilities for the implementation of the SPP Credit Line are:

i. Ensure overall oversight and promotion;
ii. Sign TREEP Program Service Agreements with the Financial Intermediary TIB Development Bank;
iii. Open a designated USD-account with BoT for the TREEP – Results Area 2 activities and manage this account accordingly;
iv. Request replenishment of account according to values achieved under DLI's, in keeping with WB P-for-R procedures (See PAD);
v. Participate in the Steering Committee as a member and secretary to the Committee;
vi. Chair and be point organization for operation of the Technical Committee;
vii. Prepare Quarterly Reports to be furnished to the World Bank one month after the end of the period covered by such report;
viii. Prepare Completion Report to be furnished to the World Bank three months after the Closing Date of the project;
ix. Confirm that rural and renewable energy projects financed by commercial banks meet all eligibility criteria of the projects, including the type of the projects, maximum size and compliance with the World Bank's fiduciary requirements and safeguards, per criteria established in the Chapters 11-13 of the present Operating Guidelines
x. Confirm that the project sponsors meet eligibility criteria established in the Chapters 11-13 of the present Operating Guidelines
xi. Review Developer sub-project applications and verify that the applications are complete and include evidence for meeting all eligibility requirements, as described in the Chapters 11-13 of the present Operating Guidelines;
xii. Identify any problems with the verification process and/or applications and propose possible improvements
xiii. Provide funding for all Technical Assistance activities under the Technical Assistance windows available through the Rural Energy Fund.
xiv. Review reports submitted to the REA by Developers, PFIs and the Trust Agent (currently CRDB) and submit consolidated reports to MEM, MoFP and the World Bank
xv. Monitor the progress of the program in achieving the PDO, DLI, and IR indicators

xvi. Market and promote the program and provide relevant information about program and procedures to PFI's and developers
xvii. Liaise with the project sponsors and the participating banks
xviii. Monitor Developers' compliance with Environmental and Social Systems Assessment (ESSA) and Resettlement Policy Framework (RPF);
xix. Monitor Developers' compliance with best commercial practice procurement procedures;
xx. Collect loan re-payment from Financial Intermediary (currently TIB Development Bank);
xxi. Invest loan re-payments or "re-flows" in investments consistent with the goal of prudential management until they are needed for further on-lending.
xxii. Replenish Credit Line funds with loan repayments to on-lend to additional renewable energy projects until the time of the repayment of IDA loan.
xxiii. Track TREEP Refinancing Requests in an Excel Spreadsheet or similar database
xxiv. Undertake financial reporting to MoFP and the World Bank (IFRs);
xxv. Ensure Interim Unaudited Financial Reports for the Project are prepared and furnished to the World Bank forty-five days after each calendar quarter;
xxvi. Ensure Annual Audited Financial Reports for the Project are prepared and furnished to the World Bank six months after each fiscal year;
xxvii. Identify any problems with the broader SPP CL applications process and propose possible improvements
xxviii. Request BOT to confirm that financing institutions that submit applications for refinancing under the program meet all eligibility requirements for PFIs
xxix. Annually request BOT to confirm that the participating financial institutions continue to comply with the eligibility requirements
xxx. Identify issues with reporting to MoFP, MEM and/or problems with the verification process and propose possible improvements
xxxi. Periodically calculate and announce the on-lending interest rate, according to the methodology established in the Operating Guidelines
xxxii. Review PFI sub-project applications and verify that the applications are complete and include evidence for meeting all refinancing requirements, as described in the Chapter 11 of the present Operating Guidelines, including REA's confirmation of project's and developer's eligibility
xxxiii. Liaise with PFIs, where necessary, to ensure completeness of PFI applications per Operating Guidelines
xxxiv. Providing No Objections to TIB and the Trust Agent for re-financing packages as necessary and deemed appropriate.

4. Eligibility Criteria for PFI

(1) Specific Eligibility Criteria

BOT will annually review the compliance of PFI with the prudential provisions of BOT and with an additional requirement on NPL. Specifically, the following indicators will be regularly monitored. PFI will be obliged to provide an-ongoing proof of compliance with the compliance criteria listed below.

Compliance with BOT's prudential provisions[1]

	Prescribed value / (% liable capital)
Minimum Capital Adequacy Ratio	Core capital/Risk Weighted Assets ≥ 10% Total capital/Risk Weighted Assets ≥ 12%
Exposure to 1 person	≤ 25% of core capital Exposures with government guarantee may receive a waiver
Liquid asset ratio	*Liquid assets* ≥ 20% of demand liabilities
Loan to deposit ratio	Gross loan portfolio ≤ 80% of its total deposit liabilities
Net open positions in foreign exchange	≤ 20% of core capital
Placement of funds in foreign banks abroad	≤ 60% total placement for an A rated bank ≤ 40% total placement for a B rated bank ≤ 20% total placement for a non-rated bank
Total investments in equity of 1 non-financial institution	(≤ 5% of the subscribed share capital of the investee)
No credit will be given against the security of the bank's own shares	
NPLs (NPL/total loans)	≤ 10%

(2) Adequacy of risk management policies
(3) Adequate corporate governance practices
(4) Demonstrated experience and capacity to underwrite and manage credits

[1] These are based on current BOT prudential requirements and are subject to change.

Annex 7-1: Discussions over the Executing Agency and Participation of Government-owned Financial Institutions in the Project

In the course of the preparatory survey, one of the major issues that caused to trigger prolonged discussions among MOFP, JICA and JICA preparatory survey team is the implementation scheme to ensure achievements of the Project objective and channels through which SME get easier access to investment loans. The concerned questions that need to be addressed are: (1) which organization should take a role of an Executing Agency, and (2) to what extent a government-owned financial institution should be engaged in loan operations to SME.

(1) Discussions over the Executing Agency

As described in Chapter 7.2.2 of the main text of the final report of the preparatory survey, the Executing Agency is supposed to be responsible for implementation of the Project in accordance with a legal agreement to be concluded between the Borrower (MOFP) and JICA towards achievement of the Project objective. By assuming such responsibilities as the Executing Agency, it is required to perform, in a due course, such tasks as the preparation of operating guidelines of the Project, selection of PFI in accordance with the accreditation criteria, employment of consultants, management of proceeds of ODA loan, monitoring and evaluation of the Project and preparation of reports to JICA and other relevant organizations.

The official request for "Establishment of Preferential Loan for Industrial Promotion" was prepared by then MITI and TIB and was submitted to the Embassy of Japan and JICA in August 2015. The official request proposed that the responsible ministry be MITI and an agent bank TIB. Based on the official request in 2015, JICA conducted Data Collection Survey from November to December 2016 and continued internal discussions on the Project design. Earlier in August 2016, JICA was informed that the responsibility of the Project was shifted from MITI to MOFP.

In a letter to JICA in November 2017, MOFP informed that the proposed Project would be administered by TIB. However, JICA raised concerns over the nomination of TIB due to accumulation of NPL at TIB in the letter to MOFP in December 2017. Subsequently, MOPF informed JICA that they would review performance of selected banks via a letter dated February 2018.

However, MOFP reiterated its position in the letter in June 2018 (i.e., at the end of the first survey in Tanzania by the preparatory survey team) by stating that TIB would be the bank responsible for administering the loan and implementing the proposed Project. In the same letter, MOFP stated that TIB is the government-owned institution that is responsible for providing long-term loans for SME as per the objectives proposed in the Project and the Ministry would inform JICA that several initiatives would be taken into account to improve the situation.

After having received the response from MOFP, JICA requested TIB to provide JICA with further information and data on the status of NPL together with measures being undertaken to reduce the ratio, and other points relating to the implementation design of the proposed Project. Because of the confidential nature of information, Confidentiality Agreement was concluded on October 10, 2018 between TIB and JICA, upon request from TIB. However, information on the NPL at TIB and proposed measures to reduce the NPL were found not enough to assign the role of the Executing Agency to TIB. To aid further dialogues among the Deputy Permanent Secretary of MOFP, JICA and the survey team, the survey team presented the number of options at the meeting with MOFP held in December 2018, under which either TIB or BOT becomes the

Executing Agency, including explanation on advantages and disadvantages of each option (Annex 7-1-1 for Discussion Papers presented at the meeting).

While waiting for a nomination of an executing agency by MOFP, the survey team prepared a draft final report of the preparatory survey assuming that BOT is the likely candidate for the Executing Agency based on its track record of being the implementing agency under the WB-assisted Housing Finance Project and its sufficient expertise related to the financial sector in Tanzania. As of the end of August 2019, JICA did not receive any official feedbacks on the involvement of BOT for the Executing Agency from MOFP.

(2) Discussions over Participation of Government-owned Financial Institutions in the Project

Under the proposed Project, it is planned to mobilize more than one PFI in order to expand outreach of sub-loans to SME in the country. The number of accreditation criteria is presented in order to screen candidate financial institutions. The criteria include financial soundness, governance and management, and significance of participation of financial institutions in the Project. Significance of participation of financial institutions in the Project includes a criterion such as loan balance to SME against total loan balance. It is proposed that screening of candidate financial institutions will be conducted on a regular basis. Therefore, PFI are subject to change depending on their performance including extension of sub-loans to SME.

The accreditation Criteria will be applied to all financial institutions that wish to participate in the Project regardless of the ownership status of financial institutions. Under the proposed scheme of the Project, the government-owned financial institutions are therefore **not excluded** from candidate PFI that will be engaged in extending loans directly to SME.

The official request submitted to the Embassy of Japan and JICA in August 2015 considered that TIB would either directly extend loans to SME or indirectly to SME through other financial institutions. TADB is not an exception. Options presented by the survey team at the meeting with MOFP in December 2018 also include several cases where TIB is engaged in loan operations directly to SME although the survey team rose concerns over engagement of TIB in the direct lending to SME before NPL ratio is reduced to the maximum ratio set by BOT.

Annex 7-1-1: Discussion Paper

11th December 2018

Discussion Paper
Preparatory Survey for Small and Medium-sized
Manufacturing Enterprise Finance Promotion Project in Tanzania

Purpose of the Meeting
1. General Implementation Structure for JICA Two-step Loan (TSL) and Expected Roles of the Executing Agency
2. Understandings of TIB's Financial Conditions and SME Finance
3. Possible Options for the Implementation Arrangements
4. Promotion of Tanzanian Enterprises through JICA TA and enhancement of business relation with Japanese Enterprises
5. Issues to be discussed

1. General Implementing Structure for JICA Two-step Loan (TSL)

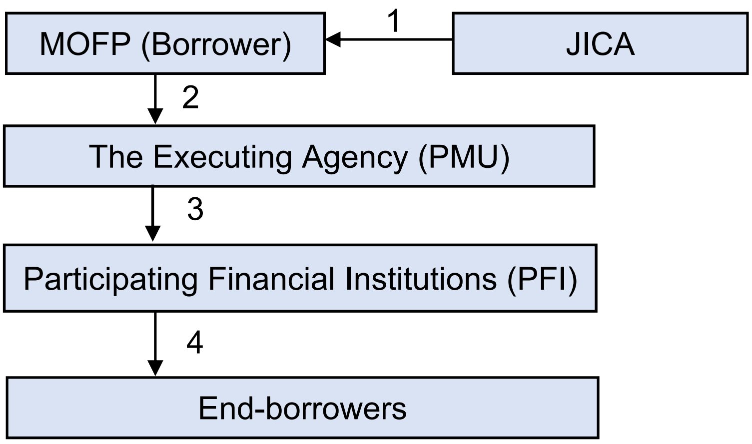


Table 1: General Implementing Structure for JICA Two-step Loan

Fund Flow	Summary
1. JICA to MOFP	JICA disburses ODA loan to MOFP in JPY.
2. MOFP to the Executing Agency	MOFA acts as a borrower of JICA ODA loan and transfers ODA loan to the Executing Agency.
3. The Executing Agency to PFI	The Executing Agency manages and on-lends On-Lending Loans (OLL) to accredited PFI (Commercial Banks and Leasing Companies).
4. PFI to End-borrowers	PFI re-lend sub-loans to eligible end-borrows.

- Expected Roles of the Executing Agency (PMU)
    1) Loan operation to PFI and SME
    2) Disbursement from and repayment to JICA
    3) Reporting
    4) Monitoring and evaluation
    5) Employment of loan consultants

- JICA's Considerations for selecting the Executing Agency
    - Technical capabilities: appraisal capacity for PFI/SME, experience, etc.
    - Financial capabilities: financial statement including ratio of NPL, etc.
    - Others: conflicts of interest between the roles of TIB as PMU and as PFI

Note: TIB Annual Report 2017 explains about managed government and other stakeholders' funds. It states that "..to administer Government funds disbursed for special projects on behalf of the Government. Establishment, design and approval of special projects rests with the Government under the Ministry of Finance. All risks and rewards arising from special projects are directly channeled to the Ministry of Finance." On the other hand, the preparatory survey team regards an executing agency as an agency to assume responsibilities for achieving the Project objective including the risks and the Project design.

2. Understandings on TIB's Financial Conditions and SME finance

(1) Financial Conditions

As seen in Table 2 below, some key performance indicators of TIB describe worsening financial conditions of TIB in 2017.

Table 2: Some of the Key Performance Indicators of TIB

Indicator	Definition & Formula	2016	2017
Return on Assets	Profits Before Tax/Average Total Assets	-4.5%	-2.7%
Return on Equity	Net Profit/Average Total Equity	-11.4%	-5.6%
Non-performing loans to total advances	Non-Performing Loans/Gross Loans	37.0%	37.5%
Growth of Loans and Advances	Current – prev.year net loans)/prev.year Net Loans	19.2%	-16.2%
Tier 1 Capital	Core Capital/Risk Weighted Assets (incl. Off B. sheet) note 1	10.2%	11.7%

Source: TIB Development Bank, Annual Report 2017 (P.50)
Note 1: Minimum regulatory requirement is 13% (P.47).
Note 2: In addition, the operationalization of the new International Financial Reporting Standard 9 (IFRS 9) is expected to affect the loss provisions and Core Equity Tier (CET)

1 ratio due to requirements to book credit impairment costs upfront based on the expected credit loss model contrary to the previous incurred loss model.
Note 3: Difference between banks or financial institutions and development financial institutions in terms of the number of days past due applied for the classification.

No of days past due	Banks or Financial Institutions	Development Financial Institutions	
Current			
Especially mentioned			
Substandard	91-180	181-365	NPL
Doubtful	181-360	366-540	NPL
Loss	361 or more	541 and above	NPL

Source: Section 13 of the Banking and Financial Institutions (Management of Risk Assets) 2014 for FI and Section 48 of the Banking and Financial Institutions (Development Finance) Regulations 2011 for DFI.

(2) Organizational arrangements for SME Finance

- SME Finance Department under Directorate of Development Financing: Project appraisal, structuring and advising, etc.
- Directorate of Portfolio Management: Monitoring and supervision of projects under implementation as well as completed projects. (The process of monitoring projects under implementation continues until the project starts operation and a completion report is prepared. The project is then transferred to Zonal office for monitoring.)
- The Survey Team understands that TIB is understaffed for operations of SME finance.

3. Possible Options for the Implementation Arrangements

Case 1 to Case 9

Table 3: Options for Implementation Arrangements under Considerations

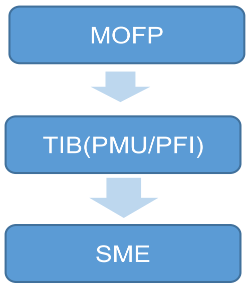
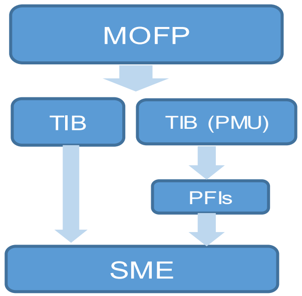
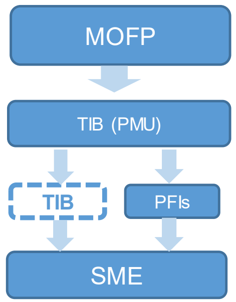
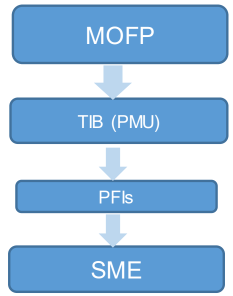
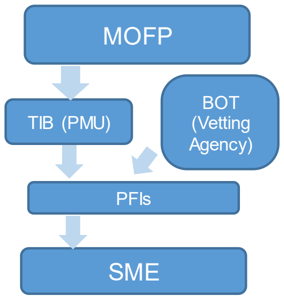
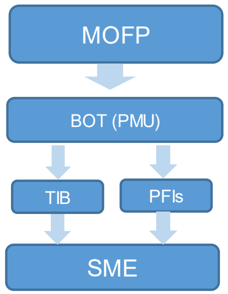
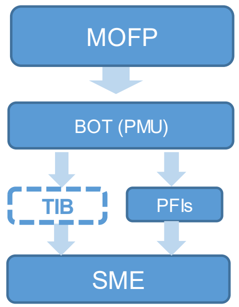
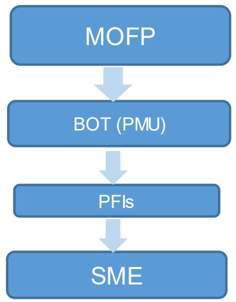
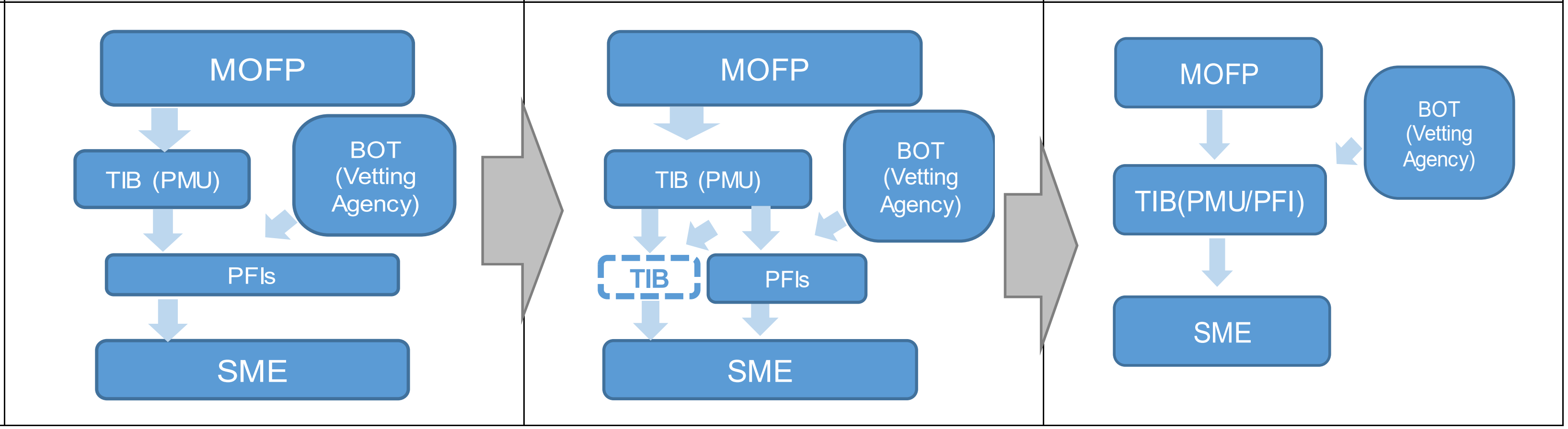
<table>
<tr><th rowspan="2">Executing Agency</th><th colspan="5">Participation of TIB</th></tr>
<tr><th>Full participation
(full amount will go to TIB)</th><th>Partial participation
(partial amount will go to TIB)</th><th>Partial participation
(partial amount will go to TIB if TIB meets criteria for PFIs)</th><th>No Participation as PFI</th><th>No Participation as PFI with BOT as vetting agency</th></tr>
<tr><td>TIB</td>
<td>**Case 1**
</td>
<td>**Case 2**
</td>
<td>**Case 3**
</td>
<td>**Case 4**
</td>
<td>**Case 5**
</td></tr>
<tr><td>BOT</td>
<td></td>
<td>**Case 6**
</td>
<td>**Case 7**
</td>
<td>**Case 8**
</td>
<td></td></tr>
</table>

Table 4: **Case 9**: Phased Approach for Implementation Arrangements under Considerations
(gradual transition from Phase 1 (Case 5 in Table 3 above) to Phase 3 (Case 1 in Table 3 above) in accordance with the progress of the capacity development of TIB in their retail business)

Executing Agency	**Case 9**: Phased participation of TIB in the retail business		
	Phase 1: Case 5 in Table 3	**Phase 2**: Case 3 in Table 3 +BOT (Vetting Agency)	**Phase 3**: Case 1 in Table 3 +BOT (Vetting Agency)
	No Participation as PFI with BOT as vetting agency	Partial participation (a partial amount will go to TIB if TIB meets eligibility criteria set for PFIs.)	Full participation (a full amount will go to TIB if TIB continues to meet eligibility criteria set for PFIs)
	Criteria: NPL: < 25%, etc.	Criteria: NPL:<10%, etc.	Criteria: NPL: <5%, etc.
TIB			

Note 1: For all the above cases, BOT will play a role of vetting agency. Under this implementation design, a financial institution could participate in the Project only if and when the financial institution satisfies eligibility criteria.
Note 2: In Phase 2 above (Case 3 + BOT (Vetting Agency)), a certain threshold will be set for the partial amount to be allocated to TIB when TIB satisfies eligibility criteria, in order to avoid a conflict of interests.

Table 5：Comparison of Advantages and Disadvantages of Each Case under **Two-Step Loan (TSL)**

	Executing Agency	TIB Development Bank (TIB)					Bank of Tanzania (BOT)			TIB
	Case	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
	Extent of participation of TIB in direct lending	Full	Partial	Partial+ condition	No	No + BOT	Partial	Partial + condition	No	Phased approach
Advantage/Accelerating factors										
1	Extensive network for TSL (good outreach)		✔	✔	✔	✔	✔	✔	✔	✔
2	Creation of competitive environment among PFI		✔	✔	✔	✔	✔	✔	✔	✔
3	Inclusion of leasing companies in PFI		✔	✔	✔	✔	✔	✔	✔	✔
4	Transparency by use of BOT					✔	✔	✔	✔	✔
5	Use of expertise from WB housing finance project at BOT						✔	✔	✔	
Number of Counts ✔ (A)		**0**	**3**	**3**	**3**	**4**	**5**	**5**	**5**	**4**
Disadvantage/Preventing factors										
1	High NPL and governance issue of TIB	✔	✔				✔			
2	Improvement of appraisal capacity of TIB remained to be seen	✔	✔				✔			
3	Less extensive network for TSL	✔								
4	Insufficient fund management capacity of TIB		✔	✔	✔	✔				✔
5	Possible conflict of interest within TIB or BOT	✔	✔	✔			✔	✔	✔	
Number of Counts ✔ (B)		**4**	**4**	**2**	**1**	**1**	**3**	**1**	**1**	**1**
(A) – (B)		**-4**	**-1**	**1**	**2**	**3**	**2**	**4**	**4**	**3**
Ranking		**6th**	**5th**	**4th**	**3rd**	**2nd**	**3rd**	**1st**	**1st**	**2nd**

Note: ✔=applicable, blank=not applicable

4. Promotion of Tanzanian Enterprises through JICA TA and enhancement of business relation with Japanese Enterprises

(1) Collaboration with KAIZEN Project

1) Incorporate needs of PFI in KAIZEN training curriculum;
2) Sharing of the relevant appraisal criteria of PFI with KAIZEN project;
3) Sharing of the list of participating enterprises in KAIZEN project with PFI, especially those with high growth potentials; and
4) Support for efficiency improvement of productions of participating enterprises in KAIZEN project through inventory and cashflow management.

(2) Enhancement of Business Relations between Tanzanian and Japanese Enterprises by making use of TSL

No specific measures will be taken for enhancement of such business relation but TSL could be utilized to deepen business relations between Tanzanian and Japanese Enterprises as shown in the table below.

Table 6: Example of Enhancement of Business Relations through TSL

No.	Enhancement of mutual benefits	Specific equipment/machinery/facilities to be invested
1	Improvement of quality of services and products from Tanzanian Enterprises	Construction machinery, agricultural machinery
2	Enhancement of business by Tanzanian affiliates (invested by Japanese companies)	Agricultural machinery, freight trucks, production facilities, repair workshop of automobiles
3	Sales of Japanese quality products by Tanzanian Dealers	Agricultural machinery, construction machinery, freight trucks, machine tools, etc.

5. Issues to be discussed

(1) Executing Agency
(2) Risks to be shared among MOFP, the Executing Agency and PFIs
(3) Amount of ODA loan

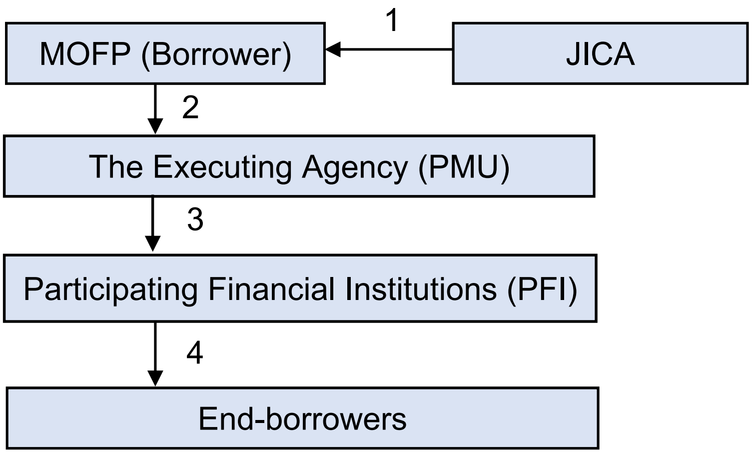


Table 7: Risks to be shared among concerned parties

Organization	Risks
2.MOFP	Foreign exchange risks Credit risks of PFI[Note]
3.The Executing Agency	Credit risks of PFI[Note]
4.PFI	Credit risks of SME

Note: Discussions need to be made over which party, either MOFP or the Executing Agency, is supposed to assume credit risks of PFI.

Annex 7-2: Checklist for ESMS of Financial Intermediary/Executing Agency

No.	Questions	Answer	Implementation Plan / Improvement Plan
1.	**Policy**		
(1)	Does the financial intermediary/executing agency have any formal environmental policy or procedures? If yes, please describe them and provide appropriate documentation. If no, does the financial intermediary/executing agency have any plan to set such policy or procedures?		
(2)	Are there any types of projects in which the financial intermediary/executing agency will not take part due to the environmental risks? (e.g., projects involving handling of hazardous wastes or endangered plants or animals).		
2.	**Procedures**		
(3)	Does the financial intermediary / executing agency have any environmental procedures such as screening, categorization and environmental review? If yes, please describe.		
(4)	Please describe how you ensure that your subproject companies and their subprojects are operated in compliance with the national laws and regulations and applicable JICA's requirements.		
(5)	How are environmental considerations taken into account in the credit review and approval process for project loans or equity investments? (For financial intermediary only)		
(6)	How are environmental issues taken into account in deciding whether to offer or extend commercial credit, working capital finance, trade finance, payment services and other financial services to a company?		

No.	Questions	Answer	Implementation Plan / Improvement Plan
3.	**Organization and Staff**		
(7)	Please provide us with the organization chart of the financial intermediary/executing agency's Environmental and Social Management System (ESMS).		
(8)	Who is responsible for environmental and social management within the financial intermediary/executing agency? (name/role and title)		
(9)	Are there any staff with training for environmental and social considerations in the financial intermediary/executing agency? If so, describe.		
(10)	Are there any technical staff with an engineering/industry background responsible for technical analysis of credit proposals?		
(11)	What experience, if any, does the financial intermediary/executing agency have of hiring or dealing with environmental consultants?		
(12)	What was the budget allocated to the ESMS and its implementation during a year? Please provide budget details including staff costs and training as well as any actual costs.		
4.	**Monitoring and Reporting**		
(13)	Do you receive environmental and social monitoring reports from subproject companies that you finance?		
(14)	Please describe how you monitor the subproject company and their subprojects' social and environmental performance.		
(15)	Is there an internal process to report on social and environmental issues to senior management?		
(16)	Do you prepare any social and environmental reports: - For other multilateral agencies or other stakeholders - E&S reporting in the Annual Report		

No.	Questions	Answer	Implementation Plan / Improvement Plan
5.	**Experience**		
(17)	Has the financial intermediary/executing agency signed any national or international agreements or declarations concerning environmental issues?		
(18)	Has the financial intermediary/executing agency ever received any criticism of its environmental record? If so, what was the criticism?		
(19)	Does the financial intermediary/executing agency carry out environmental audits of its properties to analyze health and safety issues, waste disposal, etc.?		
(20)	Please state any difficulties and/or constrains related to the implementation of the ESMS.		
6.	**Need of Capacity Development and Improvement Plan**		

Annex 7-3: Outline of an Annual Environmental and Social Performance Report to JICA

1. Basic Information

Name of Organization:
Completed by (Name):
Position in Organization:
Reporting Period: From: To:
Completed in (MM/YY)

2. Subprojects using JICA Funds during the Reporting Period

Name of Subproject approved during the reporting period	Industry Sector	Project Scope	Project Cost (JPY)	Approval Date	Environmental Category*	Reason of Categorization	Documents made (e.g. EIA, RAP, IPP)	Any outstanding environmental, IR or IP** issues

* Please refer Environmental and Social Categorization: Definition or II. 2.2. of JICA Guidelines for Environmental and Social Considerations (April 2010)
** IR = Involuntary Resettlement, IP = Indigenous People

3. Subprojects using JICA Funds to be Approved in the Next FY

Name of Subproject approved during the reporting period	Industry Sector	Project Scope	Project Cost (JPY)	Approval Date	Environmental Category*	Reason of Categorization	Documents made (e.g. EIA, RAP, IPP)	Any outstanding environmental, IR or IP** issues

4. Environmental and Social Management System (ESMS)

Please describe if ESMS of your organization has changed in any way (e.g. establishment of a new division for environmental and social management) since JICA's appraisal.

Annex 7-4: Screening Format

Screening Format

Name of Proposed Project:
Project Executing Organization, Project Proponent or Investment Company:
Name, Address, Organization, and Contact Point of a Responsible Officer:

Name:
Address:
Organization:
Tel:
Fax:
E-Mail:
Date:
Signature:

Check Items

Please write “to be advised (TBA)” when the details of a project are yet to be determined.

Question 1: Address of project site

Question 2: Scale and contents of the project (approximate area, facilities area, production, electricity generated, etc.)

2-1. Project profile (scale and contents)

2-2. How was the necessity of the project confirmed?
Is the project consistent with the higher program/policy?

☐ YES: Please describe the higher program/policy.
( )

☐ NO

2-3. Did the proponent consider alternatives before this request?

☐ YES: Please describe outline of the alternatives
( )

☐ NO

2-4. Did the proponent implement meetings with the related stakeholders before this request?

☐ Implemented ☐ Not implemented

<u>If implemented</u>, please mark the following stakeholders.

☐ Administrative body
☐ Local residents
☐ NGO
☐ Others ( )

Question 3:

Is the project a new one or an ongoing one? In the case of an ongoing project, have you received strong complaints or other comments from local residents?

☐ New ☐ Ongoing (with complaints) ☐ Ongoing (without complaints)

☐ Other ( )

Question 4:

Is an Environmental Impact Assessment (EIA), including an Initial Environmental Examination (IEE) Is, required for the project according to a law or guidelines of a host country? If yes, is EIA implemented or planned? If necessary, please fill in the reason why EIA is required.

☐ Necessity (☐ Implemented ☐ Ongoing/planning)
(Reason why EIA is required:)

☐ Not necessary

☐ Other (please explain)

Question 5:

In the case that steps were taken for an EIA, was the EIA approved by the relevant laws of the host country? If yes, please note the date of approval and the competent authority.

☐ Approved without a supplementary condition	☐ Approved with a supplementary condition	☐ Under appraisal

(Date of approval: Competent authority:)

☐ Under implementation

☐ Appraisal process not yet started

☐ Other ( )

Question 6:

If the project requires a certificate regarding the environment and society other than an EIA, please indicate the title of said certificate. Was it approved?

☐ Already certified

Title of the certificate: ( )

☐ Requires a certificate but not yet approved

☐ Not required

☐ Other ( )

Question 7:

Are any of the following areas present either inside or surrounding the project site?

☐ Yes ☐ No

If yes, please mark the corresponding items.

- ☐ National parks, protection areas designated by the government (coastline, wetlands, reserved area for ethnic or indigenous people, cultural heritage)
- ☐ Primeval forests, tropical natural forests
- ☐ Ecologically important habitats (coral reefs, mangrove wetlands, tidal flats, etc.)
- ☐ Habitats of endangered species for which protection is required under local laws and/or international treaties
- ☐ Areas that run the risk of a large scale increase in soil salinity or soil erosion
- ☐ Remarkable desertification areas
- ☐ Areas with special values from an archaeological, historical, and/or cultural points of view
- ☐ Habitats of minorities, indigenous people, or nomadic people with a traditional lifestyle, or areas with special social value

Question 8:

Does the project include any of the following items?

☐ Yes ☐ No

If yes, please mark the appropriate items.

- ☐ Involuntary resettlement (scale: households persons)
- ☐ Groundwater pumping (scale: m3/year)
- ☐ Land reclamation, land development, and/or land-clearing (scale: hectors)
- ☐ Logging (scale: hectors)

Question 9:

Please mark related adverse environmental and social impacts, and describe their outlines.

- ☐ Air pollution
- ☐ Water pollution
- ☐ Soil pollution
- ☐ Waste
- ☐ Noise and vibrations
- ☐ Ground subsidence
- ☐ Offensive odors
- ☐ Geographical features
- ☐ Bottom sediment
- ☐ Biota and ecosystems
- ☐ Water usage
- ☐ Accidents
- ☐ Global warming
- ☐ Involuntary resettlement
- ☐ Local economies, such as employment, livelihood, etc.
- ☐ Land use and utilization of local resources
- ☐ Social institutions such as social infrastructure and local decision-making institutions
- ☐ Existing social infrastructures and services
- ☐ Poor, indigenous, or ethnic people
- ☐ Misdistribution of benefits and damages
- ☐ Local conflicts of interest
- ☐ Gender
- ☐ Children's rights
- ☐ Cultural heritage
- ☐ Infectious diseases such as HIV/AIDS
- ☐ Other ( )

Outline of related impact:

( )

Question 10:

In the case of a loan project such as a two-step loan or a sector loan, can sub-projects be specified at the present time?

☐ Yes ☐ No

Question 11:

Regarding information disclosure and meetings with stakeholders, if JICA's environmental and social considerations are required, does the proponent agree to information disclosure and meetings with stakeholders through these guidelines?

☐ Yes ☐ No