MINISTRY OF FOREIGN AFFAIRS OF DENMARK
Danida

EVALUATION OF
DANISH SUPPORT FOR FINANCIAL SERVICES
IN TANZANIA

evaluation

2009.04

Map of Tanzania

Evaluation of Danish Support for Financial Services in Tanzania

August 2009

© Ministry of Foreign Affairs of Denmark
August 2009

Production:	Evaluation Department, Ministry of Foreign Affairs of Denmark
Cover:	Omar Kilima, CRDB Bank Ltd.
Graphic Production:	Designgrafik A/S, Copenhagen
Print:	Schultz Grafisk

ISBN:	978-87-7087-225-6
e-ISBN:	978-87-7087-226-3

This report can be obtained free of charge by ordering from www.evaluation.dk or from www.danida-publikationer.dk

The report can be downloaded through the homepage of the Ministry of Foreign Affairs www.um.dk or directly from the homepage of the Evaluation Department www.evaluation.dk

Contact: eval@um.dk

Responsibility for the content and presentation of findings and recommendations rests with the authors.

Table of Contents

Abbreviations 5

Executive summary 8

1 Introduction 14
- 1.1 Background 14
- 1.2 Methodology for the evaluation 14
- 1.3 Structure of the report 16

2 Context 18
- 2.1 Key characteristics of the economy and poverty in Tanzania 18
- 2.2 Agriculture and the rural economy 19
- 2.3 The financial sector 20
- 2.4 The policy environment 21
- 2.5 Assistance to the financial sector in Tanzania 22

3 Danish support for the financial sector in Tanzania 23
- 3.1 The evolution of the programme 23
- 3.2 Objectives and strategies of the programmes 25
- 3.3 Management and coordination 28
- 3.4 Monitoring and evaluation 29

4 Findings 31
- 4.1 Overall findings 31
- 4.2 CRDB Bank Limited 38
- 4.3 Private Agricultural Sector Support 46
- 4.4 Financial Sector Deepening Trust, Tanzania 54

5 Conclusions, lessons learnt and recommendations 58
- 5.1 Conclusions 58
- 5.2 Key lessons learnt 66
- 5.3 Key recommendations 68

References and Bibliography 72

Annex A Terms of Reference 77

Annex B Revised evaluation questions 84

Annex C CRDB Bank Limited 86
C.1 Background 86
C.2 Danish support to CRDB 87
C.3 Key achievements 87
C.4 Support to SME lending: areas of intervention 98
C.5 Prevailing challenges 100

Annex D Private Agricultural Sector Support 106
D.1 Background 106
D.2 Key achievements 111
D.3 Key challenges 118
D.4 Impact of PASS services on clients 123
D.5 The role of Danish support 125

Annex E Financial Sector Deepening Trust, Tanzania 126
E.1 Background 126
E.2 Danish support to FSDT 131
E.3 Reviews of FSDT, 2006-08 132
E.4 Impact on FSDT end-beneficiaries 135
E.5 Key achievements 139
E.6 Key challenges 141
E.7 The role of Danish support 142

Annex F Follow up to recommendations made in PASS and BSPS programme reviews 144
F.1 ASPS II (Component F – PASS) 144
F.2 BSPS II (Component 4 – CRDB/ FSDT) 147

Annex G List of people met during the evaluation 151

List of tables

Table 2.1	Tanzania: key economic indicators	18
Table 3.1	Objectives and strategies, 2003-08	26
Table 4.1	CRDB Bank performance highlights	39
Table 4.2	CRDB performance against targets established at programme inception	41
Table 4.3	Performance results: CRDB SME lending operations	42
Table 4.4	Analysis of progress against objectives for ASPS II Component F (PASS)	48
Table 4.5	Comparison of agricultural yields	49
Table C.1	CRDB Bank performance highlights	86
Table C.2	Performance against targets made at programme inception	89
Table C.3	Performance results: CRDB microfinance operations (wholesale operations with SACCOS)	95
Table C.4	Performance results: CRDB SME lending operations	100
Table D.1	Danida inputs into Component F, ASPS II	110
Table D.2	Analysis of progress against objectives for ASPS II Component F (PASS)	112
Tabel D.3	Distribution of PASS clients across agricultural sub-sectors	114
Table D.4	PASS Trust's Summary of 2003-08 Accounts	117
Table D.5	Comparison of agricultural yields	124
Table E.1	FSDT development partner receipts/commitments at March 2009	128
Table E.2	FSDT cumulative expenditure to March 2009	128
Table E.3	A sample of larger FSDT projects	129

- and figures

Figure 3.1	Danish financial sector support in Tanzania	24
Figure D.1	PASS business model	108
Figure D.2	Value of Business Plans prepared	113
Figure E.1	Macro/Meso/Micro Sector Levels	127

Abbreviations

ABC	African Banking Corporation
ASCA	Accumulating Savings and Credit Association
ASDP	Agricultural Sector Development Programme
ASDS	Agricultural Sector Development Strategy
ASPS	Agricultural Sector Programme Support (Phases I and II)
BDO	Business Development Officer
BDS	Business Development Services
BoT	Bank of Tanzania
BRAC	BRAC originated in Bangladesh, where it was originally called Bangladesh Rural Advancement Committee, which was changed to Building Resources Across Communities, now known worldwide as BRAC
BSPS	Business Sector Programme Support (Phases II and III)
BSSP	Business Sector Support Programme (Phase I)
CGAP	Consultative Group to Assist the Poor
CGF	Credit Guarantee Fund
CIDA	Canadian International Development Agency
CRDB	CRDB Bank Limited (formerly Cooperative and Rural Development Bank)
CRDB MFSC	CRDB Microfinance Services Company Limited
DADS	District Agricultural Development Support
DAC	Development Assistance Committee
Danida	Danish International Development Assistance
DFID	Department for International Development
DIF	Danida Investment Fund
EKN	Embassy of the Kingdom of the Netherlands
FGD	Focus Group Discussion
FSAP	Financial Sector Assessment Programme
FSDP	Financial Sector Deepening Programme
FSDT	Financial Sector Deepening Trust, Tanzania
GoT	Government of Tanzania
IDA	International Development Association (part of the World Bank Group)
InvCom	Investment Sub-Committee (of FSDT)
JAS	Joint Assistance Strategy
JAST	Joint Assistance Strategy for Tanzania
MFA	Ministry of Foreign Affairs
MFI	Microfinance Institution
MIS	Management Information System
MKUKUTA	National Strategy for Growth and Reduction of Poverty
MSME	Micro, small and medium enterprise
NBS	National Bureau of Statistics
Norad	Norwegian Agency for Development Cooperation
NSGRP	National Strategy for Growth and Reduction of Poverty (also known as MKUKUTA)
OECD	Organisation for Economic Development and Cooperation
OPM	Oxford Policy Management

OPR	Output to Purpose Review
OVI	Objectively Verifiable Indicators
PASS	Private Agricultural Sector Support
PIC	Programme Investment Committee (of FSDT)
PRSP	Poverty Reduction Strategy Paper
QA	Quality Assurance
RDE	Embassy of Denmark
RDS	Rural Development Strategy
RFSS	Rural Financial Services Strategy
ROSCA	Rotating Savings and Credit Association
SACCOS	Savings and Credit Co-operative Society(ies)
SCF	SME Competitiveness Facility
SELF	Small Enterprise Loan Facility
SELFINA	Sero Lease and Finance
SGFSRP	Second Generation Financial Sector Reform Programme
Sida	Swedish International Development Cooperation Agency
SIDO	Small Industries Development Organisation
SIDP	Sustainable Industrial Development Policy
SME	Small and Medium Enterprise
TD	Technical Director
ToR	Terms of Reference
TUR SACCOS	Turiani Savings and Credit Co-operative Society
TZS	Tanzanian Shilling
UDBS	University of Dar es Salaam Business School
VET	Vocational Education and Training
VICOBA	Village Community Bank
VLSA	Village Savings and Loan Associations
WID	Women in Development

Exchange rates
1 DKK = 233 TZS
1 USD = DKK 5.38

(Rates as at 1st July 2009)

Executive summary

This evaluation covers Danish support to the financial sector in Tanzania from 2003 to 2008. The overall objectives of the evaluation are to assess the outcomes achieved from the support during that period and to distil key lessons from the support with regard to strategies and approaches to support to financial services.

A key focus for the evaluation is the channels[1] for Danida support to financial services and their beneficiaries, namely:

- CRDB Bank Ltd (CRDB: formerly Cooperative and Rural Development Bank),
- Private Agricultural Sector Support (PASS), and
- Financial Sector Deepening Trust, Tanzania (FSDT)

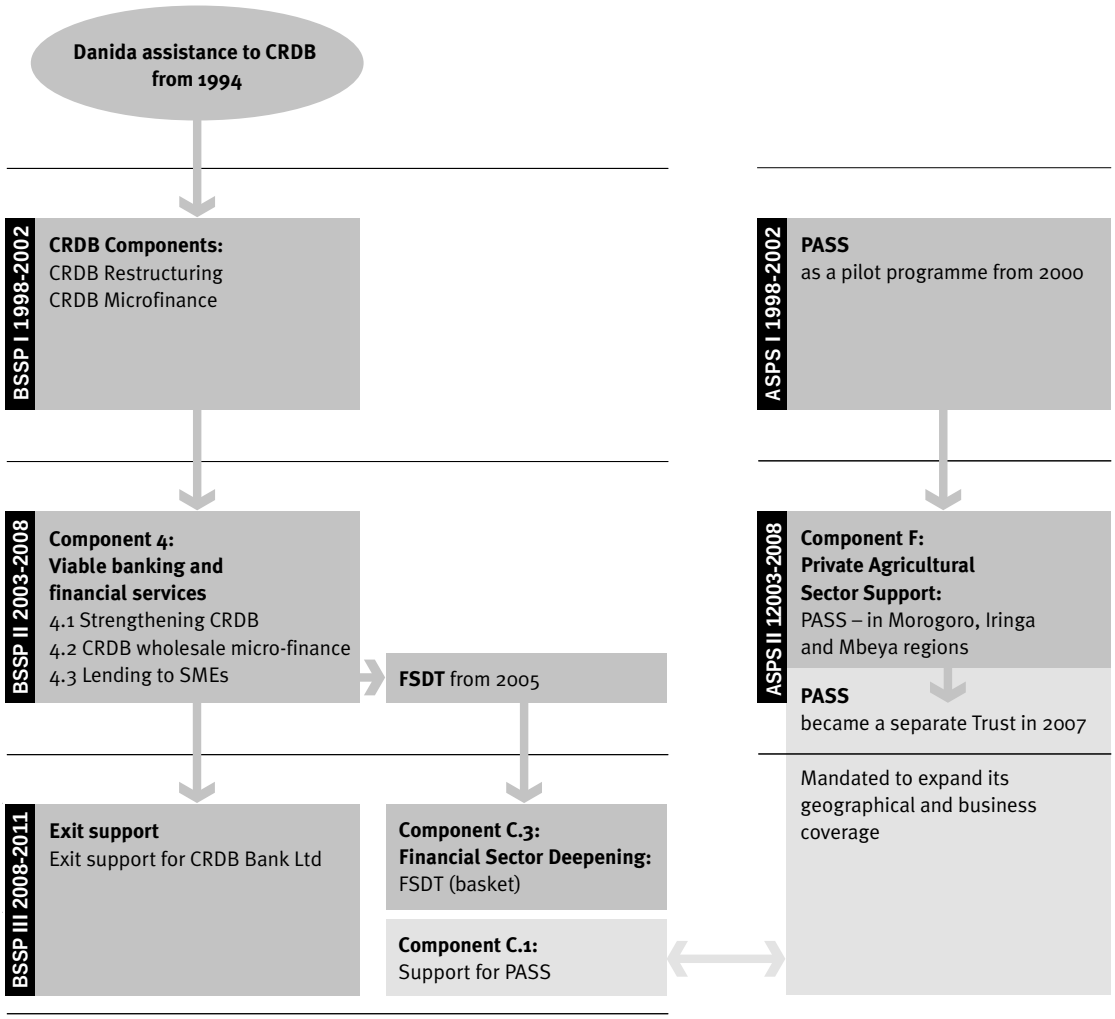
Until 2008 the second of these channels was supported under the second phase of Danida's Agriculture Sector Programme Support (ASPS II) and the other two under the second phase of Business Sector Programme Support (BSPS II). From 2008 onwards the support converged in the framework of BSPS III, as shown in the figure on the next page.

Despite Tanzania's achievements in terms of economic growth, income poverty statistics show a stubbornly high proportion of the population in Tanzania living on less than the amount needed to cover basic needs, and a significant proportion of these are experiencing food insecurity. Farming and agriculture, which account for about 45% of the country's GDP, is the main livelihood of most people in Tanzania. Even as agriculture continues to play a central role in Tanzania's economy, the sector faces a number of problems such as underdeveloped potential for irrigation, limited capital, inadequate extension services, poor rural infrastructure, vulnerability towards infestations and outbreaks of crop and animal pests and diseases, limited technological capacity and high dependence on rain. The high levels of poverty of the population and the environment within which economic activities are undertaken – especially of those in the rural/agricultural areas of the country – help to explain the extremely low level of access to financial services in Tanzania. The Danida programme is designed, alongside those of other donor agencies, to help the Government of Tanzania (GoT) to tackle this problem in the context of an extensive framework of strategies and policies to reduce poverty and financial exclusion.

The evaluation found that all three programmes (BSPS II, ASPS II and BSPS III) have been well aligned with both Tanzanian national strategies and Danish development strategies in the relevant areas, as described in various Tanzanian and Danish strategy and policy documents. They have also been well aligned with international agreements such as the Paris Declaration on Aid Effectiveness (2005). Danish commitments to women's rights and status, efforts to combat HIV/AIDS and the promotion of good governance were also prioritised in the programmes and channels of support.

1) The term 'channels' is used to refer to the institutions being supported, which are the subjects of this evaluation. In some instances, the channels may also be interchangeably referred to as the 'partner institutions' or 'implementing partners.'

Danish financial sector support in Tanzania



Danida has been supporting **CRDB Bank Limited** (formerly the Cooperative and Rural Development Bank) since 1994, and that support has been a major factor in the bank's satisfactory performance. CRDB has evolved into an important and credible player in the financial services sector in Tanzania. It has been operating profitably, and offers a wide range of commercial products and services to the market. Its clientele covers individual personal customers, small and medium enterprises (SMEs), corporate and institutional customers, and partner microfinance institutions. As of June 2009, CRDB operated in every region in the country, with a total of 60 branches, all of which were linked via satellite, enabling real time on line communication. In recent years, CRDB has become a large contributor of public revenue: CRDB was one of the largest corporate tax payers in Tanzania in 2008 (paying TZS 19.5 billion in corporate taxes). These achievements have been made possible because of the commitment of the bank's management and staff. The role of Danida has, however, been crucial, particularly in enabling a shift in the overall culture of the organisation – from being a parastatal entity to an institution that operates according to market-based approaches and performance standards. Moreover, Danish support has being instrumental in facilitating CRDB's involvement in the microfinance sector and in SME lending.

Key challenges that have emerged for CRDB are (i) to maintain sustainability in its microfinance operations, and (ii) to increase the momentum with which it grows its SME business. The barriers to the SME business include the requirement for collateral for SME loans and the time taken to disburse loans, both areas in which CRDB could learn from new entrants into the market.

Small- and medium-sized farmers in Tanzania have, since the 1980s, encountered major obstacles in accessing finance to enable their businesses to grow. In order to address this issue, **PASS** was created in 2000 as a pilot project by the Government of Tanzania under the Danish-funded ASPS. Danida continues to support PASS, which has been an independent Trust since 2007.[2] PASS's main products are business development services for agribusinesses and the provision of credit guarantees for bank loans. The early focus of operations was Morogoro Region, but PASS has been expanding into other regions in recent years. Danida has been the sole funding agency for PASS, and has also provided technical assistance.

By 2008, PASS had met or surpassed all the objectives set for it in promoting increased growth of private commercial farming and agribusiness in the regions in which it has operated. The Trust is very well regarded and positioned as a knowledgeable and efficient facilitator in rural finance. One of its key success factors is that it offers a variety of complementary services to agribusinesses under one roof. It has also built strong links with key stakeholders in the agricultural sector and with financial institutions. It has earned the trust and respect of banks and government. The PASS model has already been replicated in Kenya, Uganda and Mozambique and it is hoped that it will be replicated further in Africa.

PASS achieved operational sustainability in 2007, covering the day to day costs of its operations, and its key challenge now is the achievement by 2012 of full financial sustainability to enable it to pay for the depreciation and replacement of its assets. Other challenges include: the need to achieve greater harmonisation with partner financial institutions, especially in the area of mutual appreciation of the needs and risks; the limitations imposed by its inability to foster sufficient independent business development service capacity outside PASS to serve its end-beneficiaries; and the risks entailed in its planned geographical expansion.

FSDT is a joint donor basket fund that provides a combination of technical assistance and direct funding to enhance the capacity of the financial sector to provide services for micro, small and medium enterprises (MSMEs) and poor households. The Goal of FSDT is to develop a deeper financial system providing greater access to sustainable financial services for more people and businesses. Its Purpose is to achieve improved capacity of Tanzania's financial sector to meet the needs of MSMEs and poor rural and urban people and to contribute to economic growth.

Since it started operations in 2005, FSDT has made excellent progress towards achieving its purpose. FSDT has established itself as a central player in financial sector development in Tanzania. It has provided support to a wide variety of financial and other institutions in Tanzania, and the institutions to which FSDT has provided assistance have significantly increased the range and depth of services available to end-beneficiaries, who

2) *PASS has been an independent trust since 2007, but the original trust deed was completely revised in 2008 due to certain shortcomings in the first version prepared in 2005/06.*

have derived considerable benefit from those services. Those benefits include empowerment and self-esteem as well as financial benefits. The Trust has fostered significant innovations in the financial sector; projects sponsored by the Trust have also made an important contribution to government strategies and policies in the financial sector. FSDT has achieved a high standard of management and governance, and a coherent strategy to 2012 and beyond.

Danida has been an important financial contributor to FSDT and an active member of its governing committee, supporting the effectiveness of the Trust's successful long-term programming approach to development.

A key challenge for FSDT is that too heavy a focus on client numbers may be detrimental to a more strategic approach to the transformation of the sector as a whole and its political economy, a risk already recognised by the Trust, which is seeking a better balance in its future strategy. Also recognised is FSDT's relatively poor record in communications, both with the public and with key stakeholders and groups, which the Trust plans to improve in the coming years.

The evaluation assessed Danida support to the financial sector in Tanzania with regards to its relevance, effectiveness, efficiency, impact and sustainability, and reported that the support met all five criteria to a very high degree. Danish support has had a significant impact on the overall development of the financial sector in Tanzania. The three channels, separately and collectively, have played an important role in mitigating imperfections in the financial market, while the combination of the three has enabled Denmark to draw on the strengths of Danida in co-operative and rural banking and finance and in private sector development, and to deploy those strengths in activities which are aligned with the financial sector development efforts of the Government and of other development partners. This has ensured that the programme has impacted significantly on the development of the financial sector and on its role in poverty reduction and the promotion of growth.

The key lessons learnt from the programme included: the effectiveness of the combination of channels supported by Danida – a single major bank (CRDB), a specialist agricultural finance trust (PASS) and a sector-wide multi-donor trust fund (FSDT); the advantages of thus taking a sector-wide perspective which nevertheless accommodated a responsive approach to the identification of specific interventions, particularly in response to evolving partner strategies and policies; the significant benefits of taking a long-term view of financial sector development; the important contribution to aid effectiveness that can be made by adhering to the principles of alignment and ownership; the potential advantages of enhancing the benefits of using five year integrated programme cycles by seeking ways of introducing greater flexibility in the allocation of funds; the need to pay attention at the design stage of large programmes to the identification of specific potential synergies between the sub-components of the programmes, and to the design of mechanisms to ensure that the potential is realized; the value of systematic recording of the follow up to the recommendations of progress reports and reviews; and the need to find ways of ensuring sufficient technical inputs into the decentralised management of Danida's programme.

These lessons led to a number of general recommendations, such as:

- Taking a sector-wide perspective on the financial services industry is important to ensure that a financial sector programme maximises its impact on growth and poverty reduction; such a perspective, however, is particularly effective if combined with a responsive approach to identification of specific interventions as opportunities arise, particularly in response to evolving partner strategies and policies. Effectiveness is also increased, of course, when a donor is playing to its strengths – as in Tanzania, where the programme drew on the specific strengths of Danida in co-operative and rural banking and finance and in private sector development.

- Danida should continue to take a long-term view of financial sector development, as it has successfully done in Tanzania. A long-term perspective facilitates the integration of specific interventions into the sectoral approach; enables the programme to be adjusted in the light of changes in circumstances and/or in the priorities of GoT, Danida and the international community; and facilitates the introduction of new initiatives alongside established interventions.

- It would be useful if the lessons learnt in this programme about the benefits of adherence to the Paris Declaration principles of alignment and ownership were widely disseminated. Denmark's adherence to those principles in Tanzania has, for example, enabled CRDB to be widely recognised within the country as a Tanzanian bank, in a context in which it is important for national champions to be operating in the sector alongside foreign banks; it has enabled PASS to take a very proactive role as a highly effective facilitator between banks and agri-enterprise borrowers; and it has supported FSDT's role as a useful conduit between the international community and GoT in relation to financial sector development.

- Whenever programme reviews take place, there needs to be a systematic recording of the follow up to their findings and recommendations. Specifically, it would be useful if subsequent reviews systematically record the findings of the pervious review, and what was done to follow up those findings. The monitoring of the Tanzania programme improved in the second half of BSPS II and ASPS II, which was facilitated by more consistent recording of follow up, even though there were still cases in which follow up was not recorded.

- In designing sectoral programmes, it is important to do more than pay lip-service to synergies between components and sub-components of the programme. Close attention needs to be paid at the design stage to the identification of specific potential synergies between components and sub-components and to the design of mechanisms to ensure that the potential is realized, while maintaining the alignment of each component and sub-component with partner requirements. Such synergies need to be built into the design of the programme, including the logical framework; to be clearly specified in the ToR for the managers of the programme; and to be closely monitored during implementation.

- It would be advisable for the MFA to consider whether there is a need to strengthen the capacity of the technical assistance staff in order to ensure that programme managers can be drawn from the cadre of technical assistance or, in the case of non-specialist programme managers, can get easy access to technical assistance at MFA headquarters.

A number of specific recommendations were also made in relation to the three channels of support. Those recommendations mainly constituted suggestions on how the considerable success of Danida support to CRDB, PASS, and FSDT might be continued and built upon.

- In the case of CRDB, the recommendations included: the need to disseminate the benefits of the approach taken to the development of the bank; the potential usefulness of seeking to ascertain in more detail the extent of the public good attributable to the development of the CRDB SACCOS programme; the importance of the promotion within that programme of a culture of savings alongside lending by SACCOS; the need for CRDB to improve the provision of services to SMEs, perhaps by learning from new entrants into the market, and to work with other banks to seek to improve the regulatory environment for SME lending; and the heed to take a critical look at the impact of the credit guarantee fund.

- PASS needs to ensure that it continues to maintain the key elements of its success as it expands throughout the country; it needs in particular to maintain its role as true facilitator, a bridge between the bank and the borrower; it also need to take full account of the risks inherent in the planned geographical expansion; in moving towards financial sustainability, the PASS will need to take full account of the implications of its new Trust status, particularly for financial management and accounting, and to seek to harmonise risk assessment methods with those of partner financial institutions; finally, PASS should increase its efforts to support credible external suppliers of extension, consultancy and counselling services for its clients.

- FSDT needs to continue to maintain its high standard of management and governance and the coherence of its strategy to 2012 and beyond; it will also be important for FSDT to make more of an impact on the enabling environment as well as on financial service providers; for this reason, and to increase its impact in general, FSDT needs to improve its communications, both with the public and with key stakeholders and groups; the management is encouraged to continue its work on correcting the flaws in the calculation of its logical framework indicators; and the Trust needs to find new donors and sources of funds to enable it to fulfil its promise as a long-term player in financial sector development in Tanzania.

1 Introduction

1.1 Background

Under an agreement with the Evaluation Department (EVAL) of the Danish Ministry of Foreign Affairs (MFA), Oxford Policy Management (OPM) was engaged to undertake an evaluation of Danish support to the financial sector in Tanzania.[1]

The overall objectives of the evaluation are to assess the outcomes achieved from the Danish support to financial services in Tanzania since 2003 and to distil key lessons from the Danish support with regard to strategies and approaches to support to financial services. The evaluation is expected to assess the support provided with regards to its relevance, effectiveness, efficiency, impact and sustainability, in line with the evaluation criteria recommended by the Development Assistance Committee (DAC) of the Organisation for Economic Development and Cooperation (OECD). These criteria are also used in evaluating the strategies, approaches and methods used for achieving the objectives and assessing the performance of the implementing partners. The Terms of Reference (ToR) for the evaluation are reproduced in Annex A.

1.2 Methodology for the evaluation

Following an initial document review and a visit to the MFA in Copenhagen by the Project Manager, a final Inception Report was submitted on 15 May 2009 elaborating the methodology to be used in the evaluation, on the basis of the approach and methodology set out in the ToR at Annex A.

It was agreed that a key focus for the evaluation would be to examine the channels[2] for support to financial services and its beneficiaries. In this respect, the focus was on support through:

- CRDB Bank Ltd (CRDB: formerly Cooperative and Rural Development Bank),
- Private Agricultural Sector Support (PASS), and
- Financial Sector Deepening Trust, Tanzania (FSDT). and their beneficiaries.

As the ToR make clear, the evaluation was undertaken as a formative evaluation, focusing on the role of Danida assistance in promoting pro-poor growth in the context of the convergence of the agricultural and business sector programmes into the third phase of Business Sector Programme Support (BSPS III). In particular, the evaluation set out (i) to examine to what extent the approaches and strategies adopted were appropriate for achieving the overall objectives and (ii) to assess the performance of the individual channels.

3) The evaluation team consisted of: from OPM, Robert Stone (Project Manager), Abigail Carpio, Janet Hayes and Katarina Kotoglou; and from Ernst & Young, Tanzania, Hugh Kweku Fraser. Anne Thomson of OPM was the Quality Manager for the evaluation.

4) The term 'channels' will be used to refer to the institutions being supported, which are the subjects of this evaluation. In some instances, the channels may also be interchangeably referred to as the 'partner institutions' or 'implementing partner'.

An important focus of the investigation has been the extent to which support to these channels has led to sustainability without compromising the objective of poverty reduction.[5]

The evaluation also investigated the extent to which there have been synergies between these different channels (PASS, CRDB and FSDT), as well as the possible links between the support provided to these channels and that which has been provided to other components within the Agricultural Sector Programme Support (ASPS) and Business Sector Programme Support (BSPS) programmes. For the sake of completeness, developments before 2003 were also taken into account. The evaluation was able to supplement desk research with interviews with MFA and Government of Tanzania (GoT) officials who had been involved with implementation of the earlier programmes, ASPS I and the Business Sector Support Programme (BSSP).[6]

During the field visit, from 26 May to 5 June 2009, a range of key informant interviews were undertaken with Danida in-country staff and management; direct and indirect stakeholders of the Danida-supported programmes – including counterpart representatives/ managers at the three institutions (CRDB, PASS and FSDT), and relevant government and donor agencies. The evaluation team also conducted:

- interviews with end-beneficiaries of CRDB and PASS, organized into two focus group sessions,
- visits to organisations and businesses supported by CRDB, PASS and FSDT and interviews with members, managers and/or owners,
- visits to the end-beneficiaries of organisations supported by FSDT.[7]

The tight timetable of the evaluation restricted the scope for covering remote areas of Tanzania but a considerable amount of the fieldwork was undertaken outside Dar es Salaam, including the visit to PASS in Morogoro; a meeting with TUR Savings and Credit Co-operative Societies (SACCOS) in Turiani; a visit to Dakawa Farmers Cooperative Union in Dakawa, interviews with Small and Medium Enterprises (SMEs) in Kibaha and Kisarawe; as well as visits to outlying districts of Dar es Salaam such as Magomeni and Kijitonyama.[8]

In the complementary analysis of the performance data of the institutions, the evaluation was guided by the indicators provided in the monitoring and evaluation frameworks

5) *It was recognised at the outset that there are limitations to the scope that can be covered in this evaluation. Given the time allotted to the assignment and the field visit (due to unavoidable operational constraints), it was not going to be possible to complete a full assessment of whether a balance between sustainability and poverty reduction objectives has been achieved. It was agreed, however, that this question would be answered as far as possible given the resources available, or suggestions made of ways through which the question may be fully explored in the future.*

6) *BSSP I – the name was changed when BSPS II was appraised.*

7) *Specifically, group interviews with Village Savings and Loan Associations in the CARE network, and site visits and interviews with small business clients of Access Bank, BRAC and Sero Lease and Finance (SELFINA), as well as SACCOs being supported by CRDB.*

8) *The tight timetable was dictated by the availability of key interlocutors. Work started on the evaluation at the beginning of April 2009 and the final report was required at the end of August 2009. Dar es Salaam, Morogoro and Kibaha appear in the map on the inside cover. Dakawa is about 50 km north of Morogoro and Turiani 30 km north-east of Dakawa. Kibaha is about 20 km north-west of Dar es Salaam, and Kisarawe is 20 km south-west of Dar es Salaam.*

agreed upon between Danida and the partner institutions. Where necessary, a limited number of other quantitative indicators were identified (i.e. those not specified in the logical frameworks) that can be used to assess performance. In doing so, the evaluation was guided by the set of performance indicators used generally in the microfinance industry and endorsed by various stakeholders in the international development community such as the indicators published by MIX Market (www.mixmarket.org) and the Consultative Group to Assist the Poor (CGAP) 'Pink Book'.[9]

It was recognized at an early stage that it would be impossible for the evaluation, in assessing the outcomes of the Danish programme, to include a theoretically and statistically robust counterfactual analysis – i.e. an analysis of what would have happened in the absence of the support provided.[10] It was also recognized, however, that some attempt to address the counterfactual issue would be necessary to support the conclusions of the evaluation. Thus, the analysis of the outcomes also suggests what would have happened in the absence of the support provided. To achieve this, a combination of modified with/without and before/after comparisons was used. The work began with an analysis of the evolution of the Danida programme over time and geographically. The results of that analysis were reinforced by findings drawn from structured questions during focus group discussions (with end-beneficiaries) and during the interviews with the managers of programmes supported by Danida.[11]

The resultant conclusions about the contribution of the programme to the development of the financial sector and to growth and poverty reduction in Tanzania were then taken into account in assessing the programme against each of the five OECD/DAC criteria for evaluating development assistance, as mentioned in Section 1.1 above, namely: relevance, effectiveness, efficiency, impact and sustainability.

Internal quality assurance (QA) and management policies were established to ensure that the process and products of the evaluation meet international evaluation principles and standards, especially the DAC evaluation criteria. The QA processes included internal review of key outputs by the senior focal point for evaluation methodology in OPM to assure the quality of the main outputs.

1.3 Structure of the report

The report is structured as follows: Chapter 2 examines the context in which support to financial services has been provided, including key characteristics of the economy and poverty in Tanzania, the agricultural and rural economy, and the financial sector and its

9) CGAP, Good Practice Guidelines for Funders of Microfinance, 2nd Edition, October 2006.

10) There were, for example, insuperable difficulties in conducting a full before/after comparison for the Danida channels, particularly without adequate panel data. But there were also resource constraints preventing the collection of the necessary primary data and the comparison of with/without scenarios to carry out a full impact study. The issue was discussed in detail in the evaluation inception report of 15 May 2009.

11) During the focus group discussions and visits made to the different end-beneficiaries, semi-structured questions were posed pertaining to (i) the degree and quality of financial access by the end-beneficiaries (or clients) before their relationship with the specific partner institution started; (ii) other likely options (i.e. comparable institutions) that may have existed or are providing similar types of services as CRDB, PASS and FSDT; and (iii) the end-beneficiaries' own assessment of what would have been different if they were not able to access the kind of services provided them by CRDB, PASS or FSDT.

policy environment. Chapter 3 presents the Danish support provided to the financial sector in Tanzania including the evolution of the programmes and the strategies and objectives of the support provided. Chapter 4 sets out findings of the evaluation, first the general findings and then those specific to the three main channels of support (CRDB, PASS and FSDT). Finally, Chapter 5 presents the overall conclusions of the evaluation, lessons learnt and recommendations.

The ToR for this evaluation are reproduced in Annex A, followed by the revised evaluation questions under Annex B. Case studies on the channels of support (CRDB, PASS and FSDT) are presented in Annexes C, D and E. Finally, Annex F presents findings from Danida programme reviews and recommendations, and Annex G includes a list of people met during the evaluation.

2 Context

2.1 Key characteristics of the economy and poverty in Tanzania

Tanzania has initiated macroeconomic and structural reforms in recent years, which have resulted in strong macroeconomic performance, characterised by high economic growth rates. Real GDP growth rates have steadily remained above 6.0% since 2004, and the country registered a growth rate of 7.1% in 2007. While all other sectors posted higher growth rates over the years, agriculture has declined in recent years, which the World Bank and other observers attribute in part to adverse weather conditions.

Table 2.1 Tanzania: key economic indicators

Population (2007)	40.4 million
Annual population growth (2007)	2.5%
Poverty, as a % of the population (2007)	36.0%
Rural population (2007)	75.0%
GNI per capita (2007)	USD 400
GDP growth rate (2007)	7.1%
Economic structure (2006):	
Agriculture, as a % of GDP	45.3%
Industry, as a % of GDP	17.4%
Services, as a % of GDP	37.3%

Source: World Bank Country Data and Statistics.

Inflation is also shown to be generally high and erratic: the rate of inflation at the end of 2005 was recorded at 20.2% (a dramatic rise from 7.5% registered in the previous year). The last quarter of 2005 was marked by a drought, which severely affected food production. The inflation rate was dramatically reduced in 2006, reaching 4.2% at the end of the year. However, the persistent increase in petroleum prices led to a further increase in the country's inflation, which had reached 6.0% in 2007.[12] According to the 2007 Tanzania Household Budget Survey, average real consumption levels in urban areas appear to have stagnated or even declined (compared to 2000/01), which is explained as having been partly a consequence of fuel price shocks in 2007.

Despite the country's achievements in terms of economic growth, income poverty statistics show a stubbornly high proportion of the population in Tanzania living on less than

12) See World Bank Key Development Data and Statistics: http://go.worldbank.org/1SF48T40L0.

the amount needed to cover basic needs, and a significant proportion of these are experiencing food insecurity.[13] Those belonging to the lower income groups tend to be more dependent on money from family and friends, sale of agricultural output and informal and/or seasonal employment, which indicates a high degree of vulnerability among these households (Integrated Labour Force Survey 2000/01 and findings from FinScope 2006).

2.2 Agriculture and the rural economy

Farming and agriculture, which account for about 45% of the country's GDP, is the main livelihood of most people in Tanzania. Studies show that agriculture-related activities, such as selling of produce and output from livestock, are more frequently identified as a source of income – especially by the rural population. Farming and agriculture in Tanzania are characterised by a high degree of subsistence. According to the National Bureau of Statistics (NBS), approximately 93% of the total area planted to crops is farmed by smallholder farmers.[14]

Even as agriculture continues to play a central role in Tanzania's economy, the sector faces a number of problems such as underdeveloped potential for irrigation, limited capital, inadequate extension services, poor rural infrastructure, vulnerability towards infestations and outbreaks of crop and animal pests and diseases, limited technological capacity and high dependence on rain (Macroeconomic Policy Framework for the Plan/Budget 2006/07-2008/09). Moreover, the agricultural sector is also constrained by external trade shocks, dysfunctional marketing arrangements and weak backward and forward linkages that distort prices along the value chain.

Given the geography of Tanzania, its size and population dispersion, roads and road transport play a significant role in the integration of the rural/agricultural sector with the rest of the economy. However, as the data provided by the Ministry of Infrastructure Development (2006) show, more than 99% of regional, district and feeder roads remain unpaved and only about 40% of trunk roads are paved. The poor road networks, especially in rural areas, help to explain the tendency for rural/agricultural households to be relatively isolated and the poor integration between the rural and urban sectors.

While agricultural exports are slowly beginning to diversify with the introduction of non-traditional crops, 85% of revenues still come from the five main traditional crops: coffee, cashew nuts, cotton, tobacco and tea (World Bank 2006). This is a cause for concern, given that the relative importance of the present 'big five' is declining as a percentage of the world market. These traditional exports will have to become more competitive in an increasingly demanding global commodities market. This in turn requires the capacity to reduce the costs of production, marketing and transport of goods through a combination of improvements throughout the value chain, from the level of infrastructure development to the production capacity of farmers.

13) Basic needs in this context conforms to the 'upper' poverty line recognized by GoT and food insecurity to those below the 'lower' line. Lower lines denote basic food needs based on specific assumptions about eating habits, nutritional requirements, and cost, and upper lines cover in addition to such food requirements, other essential needs, such as clothing, housing, water, and health. www.tanzania.go.tz/poverty.html.

14) Smallholder farmers are defined as those farming on less than two hectares of land.

At present, the low degree of mechanisation among most rural households and enterprises underlines the observed dominance of subsistence farming in the rural areas. Very few rural households own or have access to a plough and/or tractors. Moreover, in 2002, the NBS estimated that only about 8.5% of all households in rural mainland Tanzania were connected to electricity grids and therefore only very few households are able to utilise this energy source for both consumption and production purposes. Thus, given the volatility in the prices of the main agricultural crops, combined with the constraints faced by these households in producing and selling these goods, their dependence on agriculture as a major source of income exposes them to the risk of not being able to generate enough income to support household consumption.

The low income levels and irregularity of income received by most households make them vulnerable to sudden changes in the economic environment. Their limited access to financial instruments such as savings and insurance schemes makes it all the more difficult for them to protect themselves from shocks and other adverse changes in their income flows.

2.3 The financial sector

These dominant characteristics of the population and the environment within which economic activities are undertaken – especially of those in the rural/agricultural areas of the country – help to explain the low level of financial access in Tanzania. FinScope 2006 data show that access to financial services on mainland Tanzania as well as in Zanzibar is extremely low: more than half (54%) of the Tanzanian adult population are financially excluded and do not use either formal or informal financial products; 89% of people do not have a bank account, and only 4% of those who claim to borrow money have had a loan from a bank – the rest borrowing from non-bank financial institutions or from semi-formal or informal sources. The FinScope survey also highlighted the gap between the urban and rural populations: 18% of the urban population had access to formal financial services, compared to only 5% in rural areas.

In terms of the supply of financial services, banks and other formal financial institutions tend to have a very low level of penetration, especially in the rural areas. This is primarily driven by the tendency for most bank branches to be located in areas with high population densities and high market activity. A number of commercial banks provide wholesale funds for on-lending via SACCOS or regional community banks, though this is more common in urban or peri-urban areas. Similarly, NGO-microfinance institutions (NGO-MFIs) are more concentrated in the urban and peri-urban microfinance markets. The success of their business model relies heavily on the delivery of a certain volume of services, which makes it difficult for NGO-MFIs to set up sustainable operations in areas that are sparsely populated.

In terms of the number and spread of institutions that are physically present in rural areas, SACCOS tend to be the key players. However, rural SACCOS face a set of interrelated challenges, including: (i) limitations in the scale of their operations, both in terms of the number of members reached and the amount of savings mobilised; (ii) poor portfolio quality;[15] and (iii) limitations in their professional capacity. Despite there being

15) *Poor portfolio quality in this case means a high proportion of the portfolio being at risk (i.e. payments >30 days overdue) and/or a high default rate.*

more than 5,000 SACCOS across Tanzania, the majority of these institutions are small and vulnerable. While a limited number of them are showing promise of becoming significant providers of financial services (in terms of scale and efficiency), this vast group of SACCOS are still unable to make a significant contribution to address the problem of financial access in the country.

There are also numerous informal organisations that are typically community-based, such as Rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs), Village Savings and Loan Associations (VSLAs) and Village Community Banks (VICOBAs).

2.4 The policy environment

Tanzania has an extensive framework of complementary strategies and policies including: (i) economic and poverty reduction strategies and policies; (ii) agricultural and rural development strategies and policies; (iii) financial sector strategies and policies; and (iv) strategies and policies for cooperatives, including SACCOS.[16]

Strategies for growth and for poverty reduction in Tanzania have been envisaged as interdependent. In the Mainland this close link was maintained in the two founding documents of the current strategy framework produced in 1998 – the National Poverty Eradication Strategy and the National Development Vision 2025 – through the Poverty Reduction Strategy Paper (PRSP) of 2000 to the National Strategy for Growth and Reduction of Poverty (NSGRP) of 2005. Each of these documents has a financial sector component (though the financial sector is more prominent in some documents than in others), and the key financial sector strands in all of them were brought together for the whole Union in the Second Generation Financial Sector Reform Programme (SGFSRP) set out in 2006.

Current policies and strategies recognise the importance of the rural and agricultural sectors, which make up a very large proportion of the Tanzanian economy. As recognised by the Ministry of Agriculture, Food Security and Cooperatives in the 2006 Agricultural Sector Review, two fundamental challenges need to be addressed in the sector: the need to shift from subsistence to commercial agriculture and the need for growth in the activities of commercial enterprises.

In terms of financial sector strategies and policies, the SGFSRP sets out an extensive range of financial sector reforms for the Union, most of them relating to the banking sector as a whole, and supporting services such as payments systems, credit reporting, etc. The SGFSRP operationalises key elements of NSGRP in the financial sector and implements, among other things, the recommendations of the Joint International Monetary Fund (IMF)/World Bank Financial Sector Assessment Programme (FSAP) Report of May 2003. The main recommendations of the FSAP report relating to enhancing access to financial services, and accepted in the SGFSRP, include the clarification of regulatory

16) *The policies include the National Microfinance Policy and other policies related to microfinance; Cooperative Development Policy; National Employment Policy; Community Development Policy; Small and Medium Enterprise Development Policy; Agricultural and Livestock Policy; Non-Governmental Organisation Policy; National Policy on HIV/AIDS; Development Vision 2025; National Land Policy. The relevant strategies include the National Strategy for Growth and Reduction of Poverty; and the Rural Development Strategy.*

intentions regarding smaller MFIs; encouraging the development and strengthening of umbrella organisations; greater reliance by MFIs on local banks rather than external donors; setting up an agency of cooperative financial institutions focusing on capacity building and financial infrastructure; and abandoning policy prescriptions to open special windows for SMEs at financial institutions or for government promoted development banks.

2.5 Assistance to the financial sector in Tanzania

The government's role in the development of the financial sector, as in other sectors of the economy, is to create macroeconomic stability and a conducive regulatory environment that will enable the development of sound financial institutions that can offer the kinds of services needed by households and enterprises. Since the early 1990s, the GoT has been implementing financial sector reforms to facilitate the creation of an effective and efficient financial system. Until recently, the Bank of Tanzania (BoT) played the lead role in coordinating government efforts to develop strategic options for improved access to financial services in the country, with support from other ministries. In 2009, the Ministry of Finance and Economic Affairs gave additional responsibilities to a new Monetary and Financial Sector Policy division that is taking on some of these responsibilities, including the revision of the National Microfinance Policy. The government also implements a number of specific projects and programmes aimed at improving access to financial services. These include: (i) the Rural Financial Services (RFSS) Programme; (ii) the Small Entrepreneurs Loan Facility (SELF) Project; (iii) the Tanzania Second Social Action Fund (TASAF II) and (iv) the Economic Empowerment Programme.

Apart from the government, donor agencies also play a crucial role in assisting the development of the financial sector in Tanzania. For example, donors are currently providing the main source of capital for a number of start-up institutions. They also provide support for the capacity building of many providers of financial services and their networks or federations. In 2004, FSDT was established by five bilateral donors, namely: Swedish International Development Cooperation Agency (Sida), the UK's Department for International Development (DFID), Canadian International Development Agency (CIDA), Danida and the Embassy of the Kingdom of the Netherlands (EKN). Other donors active in supporting activities in the financial sector include the World Bank, the African Development Bank (AfDB), the Gatsby Foundation, the Stromme Foundation, Grameen Trust, the MTAJI Fund (SNV), Norad, and OIKO Credit (World Council of Churches). Their support is often provided in the form of wholesale loans to or equity participation in financial institutions; and/or grant funds to support institutional capacity building, such as staff training and product development. In some cases, as with the World Bank, support is also provided to address policy and regulatory issues (through technical assistance). In carrying out projects and programmes to support the financial sector, both government and donors work mostly with individual financial service providers, such as banks and MFIs, and their networks or federations.

3 Danish support for the financial sector in Tanzania

3.1 The evolution of the programme

Denmark has supported access to financial services and financial sector strengthening for micro, small and medium enterprises (MSMEs) in Tanzania since the 1990s. The focus of support has generally been divided between (i) agricultural enterprises and (ii) micro-finance, including MSME clients. Between 2003 and 2008, approximately DKK 80 million were allocated in support of access to financial services under BSPS and ASPS. Support under the present (third) phase, BSPS III, will reach approximately DKK 177 million.[17] During the period of support the channels of support have remained more or less the same. These are:

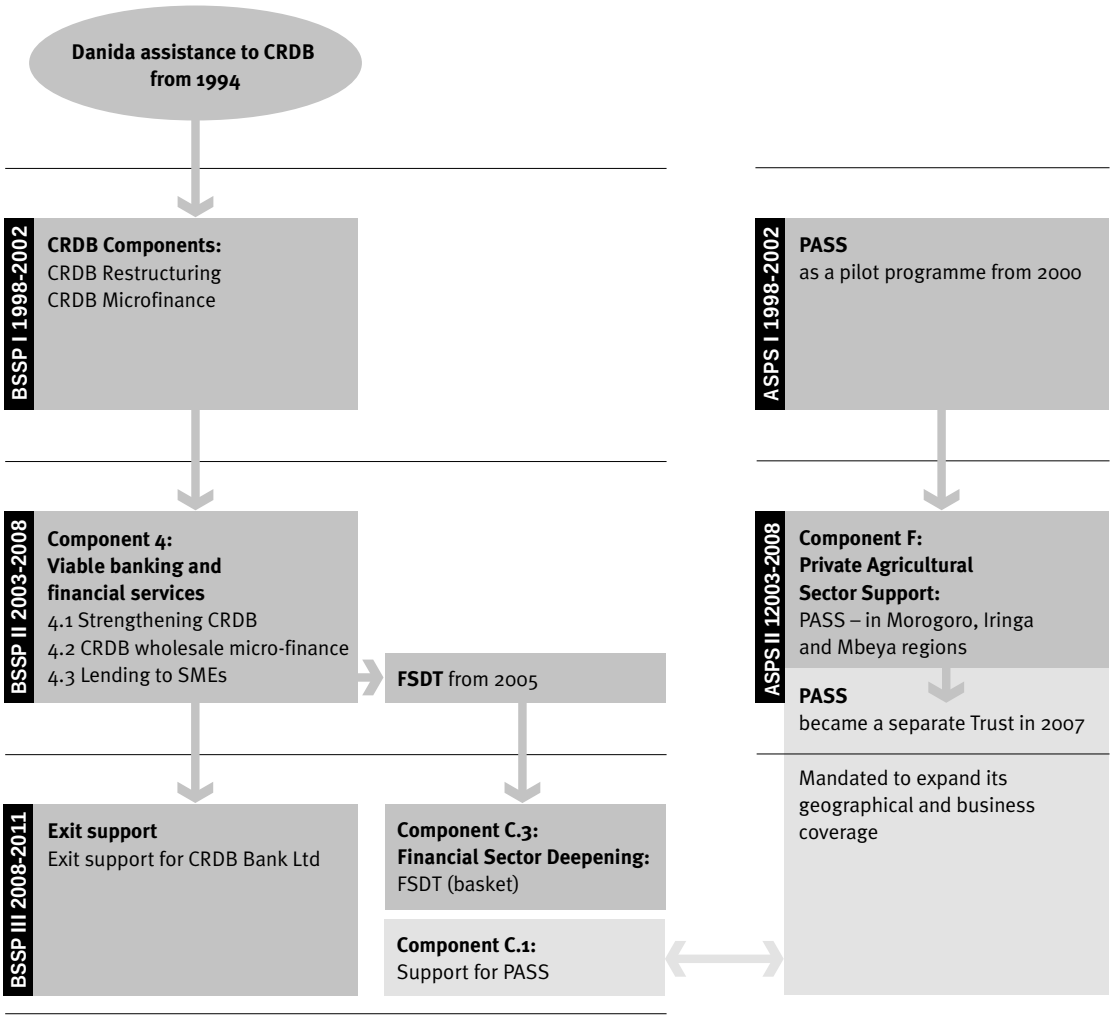
- Private Agricultural Sector Support (PASS);
- CRDB Bank Limited; and
- Financial Sector Deepening Trust (FSDT).

The channels of support constituted different components and sub-components of the various phases of BSSP (1998-2002),[18] BSPS II (2003-08), BSPS III (2008-13), ASPS I (1998-2002) and ASPS II (2003-08).[19] Since 2008, however, all support has been consolidated under BSPS III, as shown in Figure 3.1.[20] While the current evaluation covers only activities during the period 2003-08, earlier activities are shown in Figure 3.1 to give a complete picture of the evolution of the programmes, components and sub-components.

The financial services support targeting agricultural sector activities began with PASS as a pilot project in 2000, during the first phase of ASPS I. The pilot focused on activities such as business development services (BDS) and credit through a Credit Guarantee Fund (CGF). In 2003, support was continued as component F of ASPS II (DKK 43 million). PASS was institutionalised and established as an independent legal trust in 2007 with the aim of covering its own operational costs from fees and commissions.[21] Since 2008, support to PASS has been provided as sub-component C1 of BSPS III (DKK 140 million) with the aim of expanding its geographical coverage and assisting not only commercial farmers but also agro-industries and agribusinesses.[22]

17) *Government of Tanzania and Danish Ministry of Foreign Affairs (2008): Tanzania Business Sector Programme Support – Phase III, BSPS III, 2008-13, Programme Document.*
18) *As mentioned in section 1.2 above, the name was changed from Business Sector Support Programme (BSSP) in Phase I to Business Sector Programme Support (BSPS) in Phase II.*
19) *The design of BSPS II was informed by an evaluation of BSSP undertaken in 2002: Danish Ministry of Foreign Affairs (2002), Evaluation Report: Business Sector Support Programme Tanzania (Evaluation 2002/6).*
20) *As explained at the end of section 3.2 below, health, environment and the business sector became the three focus areas of Danida under the 2007 Joint Assistance Strategy (JAS). Support for the agricultural sector as was therefore discontinued at the end of ASPS II, and support for PASS was incorporated into BSPS III.21) PASS has been an independent trust since 2007, but the original trust deed was completely revised in 2008 due to certain shortcomings in the first version prepared in 2005/06.*
22) *Government of Tanzania and Danish Ministry of Foreign Affairs (2008): Component Description Document Component C Business Sector Programme Support – Phase III 2008-13', pp. v and 10.*

Figure 3.1 Danish financial sector support in Tanzania



In December 1994 the Governments of Tanzania and Denmark agreed that Denmark should provide a grant of DKK 45 million for the restructuring of CRDB.[23]The agreement stated that Tanzania could allocate up to DKK 20 million of the grant to a Tanzanian trust, the Danida Investment Fund (DIF), established with the objective to own shares in CRDB and follow the development of the bank until the DIF shares could be sold to the private sector. DIF subscribed DKK 20 million to acquire 30% of the shares in CRDB. DIF is established by the Government of Tanzania (settler) and the Government of Denmark (appointer), and DIF is managed by a board of four senior officials from Government of Tanzania. Three of CRDB's ten board members are appointed by DIF. As a result of the privatisation process, CRDB Bank Limited was established as a commercial bank in 1996. Under BSSP, support was focused on the man-

23) At that time the name of the institution was Cooperative and Rural Development Bank; it became CRDB Bank Limited in 1996.

agement and communication functions. In 2003, support continued under Component 4 of BSPS II – Viable Banking and Financing (DKK 34.7 million) – focusing on (i) strengthening CRDB Bank; (ii) support to viable wholesale microfinance; and (iii) support to SME lending.[24] Since 2008, exit support (DKK 7 million) has been provided to CRDB as part of BSPS III. The decision to discontinue direct support to CRDB was based on the rationale that since FSDT has become fully operational it would be a more appropriate mechanism for FSDT to support CRDB's microfinance operations than for the Danish Embassy (RDE) to continue operational support to a commercial bank.[25]

Since 2008, the Financial Sector Deepening Programme (FSDP) (Component C3) (DKK 30 million) has been supported under BSPS III. FSDT, initiated in 2005, is a joint donor basket fund that provides a combination of technical assistance and direct funding to enhance the capacity of the financial sector to provide services for micro, small and medium enterprises and poor households.[26] In addition to Danida, FSDT is funded by Sida, DFID, CIDA and the EKN. The GoT has also committed USD 12 million (DKK 64.5 million) as part of the World Bank Private Sector Competitiveness Project (PSCP).

3.2 Objectives and strategies of the programmes

While the channels of support discussed above have remained more or less the same, the objectives and strategies of the programmes and their components and sub-components have changed during the period of support. These changes have been influenced by the GoT's and the Government of Denmark's policies and priorities. Table 3.2 illustrates the objectives and strategies of the programmes and their components and sub-components as well as the alignment to the GoT's strategies and Danish development strategies.

The ASPS II programme objective emphasised the role of agricultural growth as the means of and requirement for reducing poverty, which was in line with the priorities of the first PRSP (2000). As part of the PRSP process, the Agricultural Sector Development Strategy (ASDS) and the Rural Development Strategy (RDS) were developed in 2001 (prepared with financial assistance from Danida). Both ASDS and RDS gave high priority to the promotion of commercial farming and agribusiness, agricultural productivity and profitability, and the promotion of rural business. In terms of Danish strategies, Danida's policy for support to the agricultural sector (1996) stressed that agriculture is a private sector activity, and support should therefore also focus on agribusiness, rural financial services, and rural economic[27] PASS therefore aimed to support these priorities directly through providing BDS and credit guarantees for loans to commercial farmers and agribusiness.[28]

24) *Danish Ministry of Foreign Affairs, 'Component Description Viable Banking and Financing Component Four of Business Sector Programme Support II', April 2003, p. 1-5.*
25) *Government of Tanzania and Danish Ministry of Foreign Affairs, 'Programme Document Business Sector Programme Support – Phase III 2008-13', January 2008, p. 47.*
26) *Government of Tanzania and Danish Ministry of Foreign Affairs, 'Component Description Document Component C Business Sector Programme Support – Phase III 2008-13', January 2008, p. vii.*
27) *Government of Tanzania and Danish Ministry of Foreign Affairs, 'Sector Programme Support Document Agriculture Sector Programme Support Phase II', October 2002, Section 4.2.1.*
28) *Ibid. section 7.2.*

Table 3.2 Objectives and strategies, 2003-08

	Objective	Strategy	GoT strategy	Danish strategy
PASS				
ASPS II/ Component F: PASS (2003-08)	ASPS II programme development objective: 'a sustained higher rate of growth in the income of rural populations'. Component F development objective: 'increased growth of private commercial farming agribusiness.'	PASS should aim to become institutionalised and established as a legal private sector entity. The strategic goal is to increase the leverage of the CGF and the number of co-operating financial institutions. For facilitation of access to capital, PASS should limit its services to provision of credit guarantees. While there may be demand and need for long-term risk capital (for instance, in the form of venture capital), PASS does not have the experience and position required for entering the venture capital market.	First PRSP (2000) 'Vision 2025' (1998) The Agricultural and Livestock Policy (1997) ASDS (2001) ASDP (2002) RDS (2001) WID (1992) WGP (2000)	Danida Policy for Support to the Agricultural Sector (1996) Denmark's Development Policy Strategy (2000) Danida Country Strategy for Tanzania 2001-05
BSPS III/ Component C1: PASS (2008-13)	BSPS III programme development objective: 'accelerated and more equitable, broad based and export oriented growth in Tanzania's business sector'. Component C1 PASS objective: 'acceleration of investments, financing and growth of commercial agriculture, agribusiness and agro-processing'.	Expansion of the geographical coverage, through zonal branches supported by a new headquarter organisation established in Dar es Salaam. Expansion of the target group to cover all players in the agricultural value chain, i.e. commercial farmers, agro-processing industries, input suppliers, and other agri-businesses. Development and introduction of new guarantee and BDS products. Increase the volume of business and thus increase agricultural sector credits.	MKUKUTA (2005) JAS(2006) Strategy for Development Cooperation with Tanzania 2007-11 'Vision 2025' (1998) SIDP (1996) SME Development Policy (2002) Microfinance Policy (2000) ASDS (2001) RDS (2001) WID (1992) WGP (2000)	

CRDB				
BSPS II/ Component 4: Viable Banking and Financing (2003-08)	BSPS II programme development objective: 'socially balanced economic growth through more coherent, transparent and sustainable institutions, including legal and regulatory environment that support development of the business sector in Tanzania'. Component 4 development objective: 'viable institutions for banking and financing for MSMEs in Tanzania established'.	Strengthening of CRDB bank operations that has a comparative advantage in reaching out to poorer segments of the population. Second floor lending to MFIs and development of SME lending capacities will support CRDB to capitalise on its comparative advantage and service the emerging niche of poorer borrowers. Capacity building of MFIs and SMEs will address demand side constraints through assisting marginalised borrowers to become bankable.	First PRSP (2000) 'Vision 2025' (1998) SME Development Policy (2002) Microfinance Policy (2000) ASDS (2001) RDS (2001)	Denmark's Development Policy Strategy (2000) Danida Country Strategy for Tanzania 2001-05
BSPS III/ Special component: Exit support for CRDB	To maintain stability in the management team, during the period when the DIF is selling its shares to institutional and private investors.	BSPS III will provide continued financing of the Danida adviser position as Deputy Managing Director until the completion of the exit process. It is estimated that the adviser will be required for three years.	See BSPS III above	See BSPS III above
FSDT				
BSPS II/ Component 4: Viable Banking and Financing (2003-08)	Other donors are starting a Financial Sector Deeping programme to assist Tanzania to reduce poverty and provide for the basic human needs of its people through increased access to financial services by the poor	FSD interventions are planned to focus on retail capacity development, sector wide development, and enhancing the enabling environment. Danida is expected to join and support the programme [which it did from 2005].	See BSPS II above	See BSPS II above
BSPS III/ Component C3: FSDP (2008-13)	Component C3 FSDP development objective: 'expansion of private sector financial services for MSMEs and poor rural and urban households'.	Focus is on capacity development, not provision of capital/loan funds. FSDT will by grants and contracting of service providers assist financial sector institutions with developing pro-poor financial services and new financial products. Support will also be provided for improving market integration and policy and regulatory framework.	See BSPS III above.	See BSPS III above

Balanced economic growth, in particular private sector development, was defined as a main engine for poverty reduction in the first PRSP (2000) and Vision 2025 (1998). BSPS II aimed to support the GoT's endeavour to develop the business sector as an engine of pro-poor economic growth. The programme development objective therefore focused on socially balanced economic growth through more coherent, transparent and sustainable institutions. Component 4 – Viable Banking and Financing – further supported poverty alleviation by establishing financially viable and commercially sustainable national financial institutions capable of servicing segments of the Tanzanian population that were previously neglected in terms of access to financial services, in particular micro and small enterprises, with special attention to women-owned enterprises. A recognised challenge for the support, however, was to 'strike a balance between development goals, i.e. empowering the poor, and profitability interests of the CRDB Bank.'[29]

While BSPS III was a direct continuation of BSPS II and the PASS component of ASPS II, the overall programme development objective was modified to better reflect and target the 'growth and income' cluster of the NSGRP/MKUKUTA (2005) by focusing on 'equitable, broad based and export oriented growth'. All financial service support was covered under one component (C) with a development objective that emphasised the contribution of MSMEs and commercial agriculture to equitable growth, export, employment and government revenue. The objectives of the sub-component covering PASS (C1) focused on the acceleration of investments, financing and growth of commercial agriculture, agribusiness and agro-processing. The FSDP subcomponent (C3) focused on the expansion of private sector financial services for MSMEs and poor rural and urban households.[30]

The design of BSPS III was also influenced by the Paris Declaration (2005) and the Tanzania Joint Assistance Strategy (JAST) (2006), which stressed the need for improved alignment of donor support to national strategies, harmonisation and division of labour between donors.[31] Denmark's Development Cooperation with Tanzania (2007-11) further committed to the principles in the JAST by selecting three sectors for cooperation – health, environment and the business sector – while phasing out support to transport and agriculture. PASS, however, remained as a focus area for support as it was viewed as delivering important services for the agro-business sector.

3.3 Management and coordination

ASPS II was a highly complex programme where implementation depended on several agencies at national and local government level. The management of the components was therefore decentralised to the implementing authorities. For PASS, the management arrangements were such that implementation of the component was under the supervision and direction of the Board of Directors (including the Ministry of Finance and Danida).[32] To facilitate coordination between the components of ASPS II, a Steering

29) *Danish Ministry of Foreign Affairs, 'Component Description Viable Banking and Financing Component Four of Business Sector Programme Support II', April 2003, p. iii.*
30) *Government of Tanzania and Danish Ministry of Foreign Affairs, 'Programme Document Business Sector Programme Support – Phase III 2008-13', January 2008, p. 8, 17, 20-21. The third sub-component of BSPS III is Enterprise Development, which is not covered by the current evaluation.*
31) *Ibid. p. 13.*
32) *After the establishment of PASS as a Trust, responsibility passed to the Trustees in 2008, following a transitional period from 2007 to 2008.*

Committee was established where activities could be monitored and synergies between components explored. Members of the Steering Committee included component partners and representatives from relevant ministries. The Committee discussed progress reports and approved component work plans.

The diversified nature of BSPS II also called for a decentralised management approach with decisions taken at component or sub-component level. At the same time, there was a need for coordination and information sharing between components. A Steering Committee was, however, considered inappropriate because of the complex structure of the programmes and the diverse set of partners. The Ministry of Finance had overall responsibility for programme coordination, and annual sector reviews were undertaken jointly with Danida. Component Coordination Committees were also set up, usually comprising the sub-component managers. For the BSPS II component on Viable Banking and Financial Services, CRDB had overall responsibility for component coordination, subject to the approval of work plans, budgets and progress and financial reports by Danida.

BSPS III also comprises a diverse range of support interventions and components. A Programme Steering Committee is considered inappropriate as the partners are too diverse. Instead, it is the responsibility of the responsible programme officers at the RDE to facilitate cooperation and linkages between components and partners within specific areas and where relevant. Since 2007-08, a Board of Trustees has been responsible for PASS management, policies and operational strategies, presenting and agreeing annual work plans and budgets with the RDE. The activities of the FSDT component are guided by the Trust Deed, its Strategy Paper and annual business plans. An international Technical Manager is responsible and accountable to the Programme Investment Committee (PIC), and one of the funding donors acts as a lead development partner and Chair of the PIC on a rotating basis. CRDB had overall responsibility for component coordination, while work plans, budgets and progress and financial reports needed to be approved by the RDE.

3.4 Monitoring and evaluation

Due to the complexity of ASPS II, monitoring and evaluation was carried out through a decentralised system. As monitoring and evaluation was an integral part of each component and sub-component there was no centralised monitoring and evaluation unit. For PASS, feasibility studies and plans prepared as part of BDS were used in order to establish baselines and criteria against which to judge the success of the institution. Assessment of client income before and after investments was also conducted. PASS further developed its own procedures for semi-annual and annual planning, budgeting and reporting, including data on implementation and achievement of outputs.

ASPS used an approach where monitoring and evaluation was an integral part of each component and sub-component. Under BSPS II, monitoring and evaluation was also the responsibility of the individual components and sub-components. Each component developed mechanisms for systematic data collection on the basis of the BSPS II indicators and individual component descriptions. For the component on Viable Banking and Financing, annual reviews were undertaken as part of the BSPS review undertaken jointly with RDE. Monitoring and evaluation under BSPS III follows the same principle as BSPS II, i.e. each sub-component partner is responsible for its own monitoring and eval-

uation. The RDE programme officers are responsible for monitoring trends in indicators for the overall programme development objective and intermediate objectives. PASS has established its own logical framework with indicators supplemented by additional indicators decided by the Board. Similarly, FSDT has developed its own system based on a monitoring and reporting manual and logical framework.

The evaluation found that design of the monitoring and evaluation systems for ASPS II, BSPS II and BSPS III to be generally sound, useful and fit for purpose, accurately identifying key issues as they arose and facilitating the resolution of those issues. There were some shortcomings in implementation in the early stages of ASPS II, as described in Section 4.1 below, but these shortcomings were largely corrected during the later years of the the programme.

4 Findings

This chapter begins by setting out the overall evaluation findings relating to Danida support for financial services in Tanzania. Each of the three channels is then considered in turn in Sections 4.2-4.5, covering in each case the background, key achievements, the role of Danida support and key challenges.

4.1 Overall findings

Alignment with Tanzanian strategies
All three programmes (BSPS II, ASPS II and BSPS III) have been well aligned with both Tanzanian national strategies and Danish development strategies in the relevant areas, as described in various Tanzanian and Danish strategy and policy documents. The three programmes also complied with the principles of the Paris Declaration (2005) and the JAST.

The ASPS II programme objective emphasised the role of agricultural growth as the means of and requirement for reducing poverty, an approach which was in line with the priorities of the first PRSP (2000). As part of the PRSP process, the ASDS and the RDS were developed in 2001 (prepared with financial assistance from Danida). Both ASDS and RDS gave high priority to the promotion of commercial farming and agribusiness, agricultural productivity and profitability, and the promotion of rural business. PASS directly supported these priorities, and was specifically mentioned as one of the achievements of the agricultural sector in the 2004 PRSP progress report.[33]

Balanced economic growth, in particular private sector development, was defined as a main engine for poverty reduction in Vision 2025 (1998) and in the first PRSP (2000). BSPS II aimed to support the GoT's endeavour to develop the business sector as an engine of pro-poor economic growth.[34] The component on viable banking and financing directly aimed to support poverty alleviation through establishing viable and commercially sustainable financial institutions servicing segments of the population with poor or no access to financial services, in particular poor women. Under BSPS III, the overall programme development objective was modified to better reflect and target the 'growth and income' cluster of the MKUKUTA (2005) by focusing on 'equitable, broad based and export oriented growth'.[35]

The design of BSPS III and the implementation of ASPS II and BSPS II were influenced by the Paris Declaration (2005) and the JAST (2006), which stressed the need for improved alignment of donor support to national strategies, harmonisation and division of labour between donors. In particular, the JAST was an important influence on the design of BSPS III including components that supported basket funds for joint donor programmes (such as the FSDT), while other direct bilateral support was integrated into

33) *Government of Tanzania and Danish Ministry of Foreign Affairs, 'Technical Review of the Private Agriculture Sector Support (PASS)', Final Report, December 2005, p. 6.*
34) *Danish Ministry of Foreign Affairs, 'Component Description Viable Banking and Financing Component Four of Business Sector Programme Support II', April 2003, p. iii.*
35) *Government of Tanzania and Danish Ministry of Foreign Affairs, 'Programme Document Business Sector Programme Support – Phase III 2008-13', January 2008, p. 8, 17, 20-21.*

partners' budgets and systems.[36] Denmark's Development Cooperation with Tanzania (2007-11) further committed Denmark to follow the principles laid out in the JAST. In line with the JAST and the global Danida requirements to concentrate sector support programmes on a maximum of three sectors, support to Tanzania was concentrated on health, environment and the business sector. While support to agriculture was phased out, PASS was continued under BSPS III.[37]

At the programme level, the Danida partner institutions are working effectively to align their activities in the field with relevant GoT programmes. For example, the RFSS was actually designed with the support of FSDT, and FSDT is planning to provide support for the implementation of a number of its components; PASS works closely with the Small Enterprise Development Organization and the SELF project to ensure complementarily of their finance and BDS provisions; and CRDB was a partner bank in the Economic Empowerment Programme. RDE and the three partner organizations are all engaged in regular dialogue with relevant GoT institutions at the national, regional and district level to ensure alignment with relevant projects. Tanzania has an unusually large number of strategies and policies, as listed in Section 2.4, and there are some inevitable frictions, overlaps or misalignments between them at the policy goal level. These problems have not generally affected the alignment of Danida programmes with GoT activities at the implementation level, however, because of the constructive dialogue between RDE, the three partner institutions and the relevant parts of GoT.

Danish development strategies

The three programmes (ASPS II, BSPS II and BSPS III) directly support the Danish Government's development policy. The overriding objective of Denmark's development policy is poverty reduction through the creation of growth and employment.[38] The government's assistance in Africa focuses on growth and economic development.[39] Business development is a priority[40] and the government aims to promote 'a positive business climate, for example through formulating a strategy for business development and allocating general support to micro-financing in connection with business and agricultural sector programmes.' [41]

Each of the programmes makes a clear contribution to this aim. Danida's Country Strategy for Tanzania (2001 to 2005) also clearly stated that Denmark would support Tanzania in increasing production in agriculture and other parts of the private sector, placing particular importance on supporting the agriculture and business sectors.[42] Denmark's commitment to private sector strengthening is further highlighted in Danida's 'Trade, Growth and Development' policy, which also gives particular priority to the strengthening of economic and financial infrastructure (including increasing 'borrowing opportunities').[43]

36) Ibid. p. vii, viii, 13, 14.
37) Ibid. p. 14.
38) Denmark's Development Policy – Strategy, 2000, p. 6.
39) Priorities of the Danish Government for Danish Development Assistance, Overview of the Development Assistance Budget, 2009-13, p. 4.
40) Africa – Development and Security: The Government's priorities for Danish cooperation with Africa 2005-09, p. 3.
41) A World for All: Priorities of the Danish Government for Danish Development Assistance, 2008-12, p. 9
42) Danida: Country Strategy for Tanzania, 2001 to 2005, p. 22.
43) Danida: Trade, Growth and Development: Strategy for Danish Support for the Promotion of Trade, Growth and Development in the World's Poorest Countries, p. 3.

ASPS II and its PASS component (Component F) were designed to be consistent with Danish development strategies. Danida's policy for support to the agricultural sector (1996) stressed that agriculture is essentially part of the private sector, and support should therefore also focus on agribusiness, rural financial services and the rural economic infrastructure that determines the incentives for agricultural investments and growth. PASS was designed to be consistent with this global Danida policy by promoting private investments in agriculture and agribusiness.[44]

BSPS III emphasised Danida policies for support to private sector development that lay out the overall guidelines for support to business sector programmes, including priorities such as support for 'increasing the competitiveness of enterprises and their access to markets, *inter alia* through business development services … and improving access to financial services, including microfinance'.[45]

'Women's rights and status', 'efforts to combat HIV/AIDS' and 'good governance' [46] were also prioritised in the programmes and channels of support: gender issues were addressed as cross-cutting issues in ASPS II, BSPS II and BSPS III; HIV/AIDS issues were addressed in ASPS II and BSPS III; and governance issues were addressed in BSPS II.

In April 2008, Denmark established the Africa Commission on Effective Development Cooperation with Africa. The main goal of the Commission is to put economic growth and employment in Africa higher on the international agenda. The 2009 BSPS III review suggested that BSPS III is in line with the priorities of the Africa Commission, but that stronger emphasis should be given to African leadership as part of BSPS III, including the involvement of the private sector.[47]

Contribution to financial sector development in Tanzania

The alignment of Danish support for financial services in Tanzania with both Tanzanian and Danish development strategies was an important factor in ensuring that the programme made a significant contribution to the support of the overall development of the financial sector in the country. The strategies of both governments emphasised the potential role of donor support in addressing market imperfections in general, and imperfections in the financial market in particular. The three channels, separately and collectively, have played an important role in mitigating such imperfections. For example:

- the CRDB microfinance programme has developed effective ways of tackling capacity constraints in MFIs, particularly in SACCOS;
- PASS has pioneered an innovative programme supporting rural and agricultural borrowers in a manner that removes the information asymmetries that normally discourage bank lending to agricultural enterprises;
- cooperation between CRDB, PASS and FSDT in the field of SACCOS financing has demonstrated the benefits of an integrated approach to dealing with the combination of SACCOS resource and capacity constraints and asymmetric information;

44) Government of Tanzania and Danish Ministry of Foreign Affairs, 'Sector Programme Support Document Agriculture Sector Programme Support Phase II', October 2002, section 4.2.1.

45) Danish Ministry of Foreign Affairs, 'Business Growth and Development – Action Programme for Danish Support to Private Sector Development in Developing Countries', March 2006.

46) A World for All: Priorities of the Danish Government for Danish Development Assistance, 2008-12, pp 8 9.

47) Danish Ministry of Foreign Affairs, 'Review Aide Memoire Business Sector Programme Support (BSPS) III', March 2009, p. 20.

- FSDT has established itself as a central player in financial sector development in Tanzania. It has provided support to a wide variety of financial and other institutions in Tanzania, often filling gaps that could not readily be filled through the normal process of bilateral donor assistance or the activities of international financial institutions.

This serendipitous combination of support for a single bank, a specialist agricultural finance trust and a sector-wide multi-donor trust fund has been very potent. It has enabled Denmark to draw on the strengths of Danida in co-operative and rural banking and finance and in private sector development; to deploy those strengths in activities which are aligned with the financial sector development efforts of the Government and of other development partners; and therefore to make a significant contribution to overall financial sector development in Tanzania.

Decentralised approach to supporting financial services

It is possible that aspects of the way in which the management of Danida is structured may have had disadvantages in relation to the management of PASS.

The Danish Government takes a decentralised approach to the Danida programme, giving Embassies considerable autonomy in the management of the programme. As in other Embassies, the RDE in Dar es Salaam has staff dedicated to the management of the Danida programme, but those officers are not necessarily technical specialists and will therefore be dependent on assistance from outside expertise from MFA headquarters, a relatively small cadre of specialists, or from consultants. Even where the country programme managers are drawn from the technical cadre, they will not necessarily be specialists in specific sectors or sub-sectors such as financial or private sector development. The headquarters technical assistance includes such specialists, acting in an advisory role: it is entirely up to the RDE whether or not to follow their advice, though it would be exceptional for an Embassy not to do so. In other words, the specialist headquarters advisers do not act as technical 'policemen' as they do for some other donors, but their advice is generally followed.

The evaluation was told that that the Danish Government's 1999 guidelines on support for financial services were not updated. Instead, the MFA decided not to issue its own guidelines for the financial sector, but to follow international guidelines such as the Donor Guidelines on Good Practice in Microfinance (the Pink Book) issued by CGAP. In the case of private sector development a similar decision was taken, using guidelines such as those issued by the Donor Committee for Enterprise Development. The MFA have taken the view that this is more consistent with the Paris Declaration principle of harmonisation than the use of separate national guidelines for Danish aid.[48]

The decentralisation formula, in other words, represents a *combination* of:

- using international guidelines rather than specific Danida ones (lowest common denominator);
- programme officers who are not necessarily technical specialists and will therefore be dependent on access to external technical assistance, particularly from MFA headquarters, where there is relatively limited capacity within financial services;

48) Interviews with MFA officials in Copenhagen, April 2009.

- if the programme managers are drawn from the cadre of technical assistance staff, however, (which is very common) then they will also be specialists in the sectors they are managing.

This formula gives the RDE the authority to ensure that the country programmes are run in accordance with Paris Declaration principles. But the combination also carries the obvious danger that important technical flaws in the design or implementation of a specific programme may be overlooked for a considerable time. There were indeed shortcomings in the implementation of PASS in the early stages of ASPS II, for example, and those shortcomings were not identified until 2006/7.[49] It is, of course, impossible to say with certainty that the problems would have been identified sooner if greater technical resources had been deployed by Danida in monitoring PASS at that time, but there must at least be a suspicion that the decentralisation formula contributed to the delays in identifying the shortcomings of PASS management. In recent years, the decentralisation has undergone some adjustments that have made it easier for Embassies to access technical assistance in MFA headquarters. Similarly, relatively little attention was paid to the potential for exploiting synergies between the three channels and other elements of Danida programmes, particularly BSPS II, until regular quarterly meetings between PASS, SCF and CRDB in 2006-08, which has resulted in better coordination and several jointly supported projects.[50]

Synergies between the programmes and channels of support

The evaluation found considerable synergies between the Danida channels of support, as exemplified in the case of the TUR SACCOS in Turiani – this was a SACCOS supported by CRDB Microfinance Services under their FSDT grant, to which CRDB was lending under a guarantee by PASS. There was much closer co-operation between PASS and CRDB and between FSDT and CRDB than between PASS and FSDT, but that was the result of the nature of the operations of the three channels rather than of a failure by FSDT and PASS to find ways of working together.[51]

There are, however, indications that possible synergies between the three channels and other parts of ASPS and BSPS were not always fully explored. In particular, the evaluation found cases in which those responsible for parts of the programmes were not even aware of other Danida supported activities that were relevant to their responsibilities. This was obviously a barrier to the exploitation of synergies. Given the importance of microfinance and SME lending to BSPS, for example, and the role of PASS in supporting agricultural microenterprises, it was surprising that the evaluation found that at least two senior officials in the Bank of Tanzania responsible for these sectors appeared to be unaware of the extent of the remit of PASS. Within the Tanzanian Government, it was the Ministry of Finance that took the lead on PASS: the Ministry was instrumental in establishing PASS and has always been represented on the PASS board. Even if the

49) The shortcomings, as explained in Section D.2.2 of Annex D, related to inadequate general and financial management capacity in PASS which resulted in the non-collection or under-collection of fees that, together with other inefficiencies in financial management, undermined the profitability and sustainability of the operation.

50) See the section on Efficiency in Chapter 5 below.

51) It appears that FSDT management had not been fully aware at first of the great improvements in PASS since 2008 or of its impact on rural finance, but even if that was the case, it was remedied with the appointment of the Chair of PASS to the FSDT Investment Committee. It should also be noted that SCF was established as a sub-component only in 2005: The formulation of this sub-component was only done after BSPS II was launched.

Ministry did not keep BOT up to date on PASS, however, this might have been done by either RDE or FSDT; but this did not apparently happen. Some opportunities for synergies between PASS, BSPS and the microfinance and the SME activities of BOT are therefore likely to have been lost.

Management, coordination and monitoring

As discussed in Sections 3.3 and 3.4 above, management, coordination and monitoring arrangements have differed between programmes, components and sub-components. Due to the complexities of the programmes and diversity of partners, responsibilities for management, coordination and monitoring have in most cases been delegated to component or sub-component level and the implementing partner.

The effectiveness of the different approaches to management, coordination and monitoring (as described in Section 3.4) has been mixed. In particular, it is sometimes not clear the extent to which the findings and recommendations of progress reports and annual reviews were followed up and acted upon, particularly in the early years of BSPS II and ASPS II. For instance, under ASPS II, the Steering Committee had the responsibility for discussing component progress reports and approving work plans. The 2006 Aide Memoire Review, however, notes that 'it is unclear which decisions are taken' and 'the minutes should clearly state the decisions made and the parties responsible for following up on these decisions'.[52] It was further noted that while component partners reported bi-annually on achievements, not much attention was given to 'challenges faced, reasons for delays and adjustments to be made.' [53]

This is by no means an isolated case, as illustrated in Annex F. In that Annex, the recommendations made in programme reviews for PASS, CRDB and FSDT are listed in the second column, while the third column reports whether a follow up was reported upon and, if so, what follow up action was reported. It is noted that:

- in the cases of the PASS component of ASPS II (Section F.1 of Annex F), 17 recommendations are recorded, of which the follow-up was reported in subsequent reviews in nine cases, partially reported in two cases, and not mentioned at all in six cases; and
- in the case of the CRDB and FSDT components of BSPS II (Section F.2 of Annex F), 23 recommendations are recorded, of which the follow up was reported in subsequent reviews in 15 cases,[54] partially reported in one case, and not mentioned at all in seven cases.

Recommendations on which no follow up is reported related to a range of issues, including coordination and synergies between components, but also ownership, capacity and strategic issues. For instance, a number of recommendations were made in the ASPS II 2003 review relating to need for the establishment of linkages to BSPS II; handling over the deputy manager position to a Tanzanian staff member; and establishing a mentor arrangement with Danish business organisations. However, there is no mention in the 2004 review of whether or not the recommendations were implemented.

52) Aide Memoire Review of Agricultural Sector Programme Support ASPS II, March 2006, p. 6.
53) Ibid. p. 7.
54) Though in two of those cases, what was reported was that no action had been taken, even though 'the situation has … not substantially changed.'

To cite another example, in the ASPS II 2006 review two crucial recommendations were made. The first one was that the PASS Board should look into the capacity of PASS management to ensure that PASS can recruit and retain qualified staff. The second one was that the PASS Board and management should ensure that the strategic focus is further developed and that the business plan and strategy for the development of the loan portfolio are internalised. The 2007 review, however, makes no reference to as to whether these recommendations have been implemented.

It was pointed out by RDE that these programme reviews are essentially a management tool rather than a monitoring tool. They are not required to be conducted every year – annual reviews were undertaken during the 2003-07 period simply as an aid to management. Indeed, not all of them were uploaded onto the MFA Project Database in Copenhagen.[55] It is also the case that reviews often have different focus from time to time, which means that efficient follow-up should not rely on the programme reviews, but much more on the Embassy's and the Ministry's internal monitoring and reporting procedures, which are generally implemented satisfactorily and regularly. It was not, therefore, thought necessary to re-iterate in each year the recommendations of the previous year and to record what action had been taken, as each review constituted a fresh look at the issues. The evaluation concludes that a specific systematic investigation and follow-up of the recommendations of the reviews, and the recording of the outcomes, would nevertheless have been useful. In the first place, there were changes in management, both of components and at the RDE during this period, as well as changes in the people carrying out the reviews – so a systematic monitoring would have been useful to ensure continuity of monitoring and management.[56] Secondly, given that the reviews were being conducted in any case, it was a pity to miss the opportunity for systematic monitoring of progress in implementing their recommendations.

It is therefore recommended that in future, when periodic reviews are conducted of any programme or project, the recommendations of a previous review should, as a matter of course, be explicitly considered in the subsequent review, the follow-up to the recommendation should be reported on, and the requirement for any further action should be considered and reported on.

The evaluation concluded that there may have been a link between this issue and the issues of decentralisation mentioned above. The complexity of the programme made management and monitoring a challenging task. Most of the key management issues, however, had been resolved by 2007-08. The recording of follow ups to previous reviews had also improved somewhat in this period, which may have contributed to the improvement in management and monitoring.

55) *For example, the 2006 and 2007 Annual Review Aide Memoires for BSPS II were sent to the MFA and loaded onto the Project Database, but the 2004 and 2005 ones were not uploaded, until this was done in May 2009 for the purposes of the evaluation. In all, 14 reviews and other documents not previously uploaded MFA were uploaded in May 2009 for the purposed of the evaluation. Some of these documents would not normally have been uploaded if it were not for the evaluation, or were of relatively recent date, but some of them should have been uploaded long ago.*

56) *It is interesting to note that some of the recommendations of the 2004 and 2005 reviews related to management and staffing issues that proved to be critical, and that in the event required major changes to be made in 2007-08. This does not necessarily mean, however, that the problems could have been detected or dealt with sooner if the recommendations had been systematically followed up during the review process. There is not enough evidence to support that conclusion.*

The CRDB and PASS components are implemented under bilateral agreements between the Danish and Tanzanian Governments. Danida therefore has a major influence on the management, coordination and monitoring arrangements for these channels. FSDT, on the other hand, is a multi-donor Trust, so RDE has a much more limited influence on such arrangements. Management and monitoring arrangements are generally considered satisfactory for FSDT, especially since a strengthened Investment Sub-Committee was established in 2008. The 2007 FSDT Review of Performance noted, however, that quarterly reports submitted to the PIC did not seem to undergo any great deal of scrutiny. It was recommended that closer scrutiny should be instituted by the expanded InvCom. It was further recommended that the preparation of annual reports would assist the PIC in taking stock of achievements.[57] The recent 2008 FSDT Output to Purpose Review (OPR) noted that while quarterly reports are rich in information,[58] in the absence of annual reports it would improve reporting if the quarterly reports included information on the cumulative performance against purpose and output level indicators. It was further noted that the FSDT 2007 review recommendation to start preparing annual reports had not been acted upon. The 2008 FSDT review therefore recommended again that annual reports should be prepared.[59]

4.2 CRDB Bank Limited

Background
The history of CRDB dates back to 1947, with the establishment of the Land Bank of Tanganyika (LBT) by the government. Over the years, a number of mergers and attempts to restructure the bank were undertaken by the government in the hope of mobilizing credit for rural and agricultural development – which gave birth to the Cooperative and Rural Development Bank or CRDB. By the early 1990s, however, the bank was in dire straits: it was insolvent, almost bankrupt. This was a pivotal point in CRDB's history. Investigations were carried out and a reconstruction agenda for the bank was designed: this included a programme for institutional capacity building and a 30% equity infusion by the Danida Investment Fund (DIF), a trust company that was established for the sole purpose of owning shares in CRDB. The restructuring entailed a series of activities to overhaul the bank, including the immediate termination of employment of about 300 of the bank's managers and staff.

Support provided to CRDB Bank by Danida fell under Component 4 of BSPS II, the component which seeks to establish '*viable institutions for banking and financing for micro, small and medium enterprises in Tanzania*'. There are three sub-components, guided by the following immediate objectives:

- That CRDB Bank become financially viable, economically sustainable and capable to service a diversified customer segment;
- That viable wholesale micro financing is established at CRDB Bank for microfinance institutions that are effective and efficient in providing financial services to the poorest segments of borrowers with an equal gender balance; and

57) *FSDT Review of Performance, October 2006-September 2007, March 2008, p. 5.*
58) *The quarterly reports cover FSDT activities performed in the respective quarter, performance against business plan, next period activities and priorities, financial performance, project monitoring tool, client quarterly performance against targets, project pipeline, actual and projected cash flow.*
59) *FSDT Output to Purpose Review, draft May 2009, p. 17.*

- That access of small and medium sized enterprises to financial services is increased.

The approach guiding the achievement of these objectives primarily involved strengthening the capacities of CRDB Bank to provide services to currently unbanked customer groups, and building capacities among microfinance institutions and small and medium enterprises so that they become bankable. This represented a continuation and consolidation of Danida's previous support for and involvement in CRDB to help strengthen its management and operational capacities. The support provided by Danida comprised capacity development, technical assistance, and some investments in vehicles, office equipment and operational costs. The general capacity building work for CRDB Bank continued to be supported by two Danida long-term advisers: (i) one long-term expert filling the position of the deputy managing director (DMD) of the bank; and (ii) one credit adviser to help consolidate previous achievements in strengthening the bank's credit performance. Grant funding for the period 2003-08 amounting to a total of DKK 34.7 million was planned to cover short-term technical assistance, capacity building measures and guarantee funds amounting to DKK 20.2 million. Of this budgeted amount, only 2.4% has not been utilised and thus refunded to Danida.[60]

Key achievements

The financial results of CRDB Bank over the years demonstrate the bank's overall satisfactory performance. CRDB has evolved into an important and credible player in the financial services sector in Tanzania. The bank is currently owned by over 35,000 shareholders, comprising individuals (52%), cooperatives and private companies (12%), parastatals (14%) and the DIF (22%). As one of the fastest growing banks in the country, it has an average annual growth rate of 30% (in terms of total assets). The bank currently has a 20% share in the market for deposits, with a total of about 700,000 accounts. It has been operating profitably, and offers a wide range of commercial products and services to the market. Its clientele covers individual personal customers, SMEs, corporate and institutional customers, and partner MFIs. As of June 2009, CRDB operates in every region in the country, with a total of 60 branches, all of which are linked via satellite, enabling real time on line communication.

Table 4.1 CRDB Bank performance highlights

(in billion TZS)	2003	2004	2005	2006	2007	2008
Total loans	60	121	202	406	588	837
Total deposits	331	424	656	792	1,013	1,275
Total assets	376	482	745	898	1,143	1,447
Profit before tax	7.3	14.3	24.4	38.4	51.7	60.0

Source: CRDB Annual Reports 2003-08.

60) Component Completion Report, April 2009.

Important progress has been made and can be summarised as follows:

- The bank's business processes have improved; head-office and branch structures have been re-organised; and important functional units within the bank have been established – all of which have contributed to the harmonisation of activities undertaken within the bank. Moreover, staff and management capacity have been enhanced through institutionalized forms of training; and partnerships with training facilities and institutions have been duly established, which help ensure sustained efforts in improving the capacity of bank management and staff.

- 'Microfinance operations' have also been established within the bank, supported by adequate human resource capacity and knowledge of the sector – which are essential in ensuring sustainability of the microfinance operations of the bank. The work of CRDB in the microfinance sector is an important contribution to overall market development, as the capacity of an increasing number of institutions (SACCOS) is being developed and strengthened through partnerships with CRDB Bank; and

- SME lending capacity is another functional area that continued to be strengthened within CRDB. SME products have been developed and policies and processes have been adjusted to reflect a greater understanding by the bank of the SME sector and its financing needs. The provision of business development services to SME clients have been facilitated through the development of an SME 'toolkit,' to guide SME clients in business planning and management. Adjustments have also been made to banking software to support particular needs in monitoring the SME loan portfolio.

Table 4.2 shows the bank's performance as at June 2008 using a set of indicators identified at the inception stage of the programme. The indicators include standard measurements of profitability, portfolio quality, scale and efficiency. Moreover, the latter set of indicators tracks the bank's progress in relation to the objectives set for overall capacity building (e.g. in terms of staff training). The results show that CRDB has met, and at times even surpassed expectations – especially in terms of profitability and efficiency.

Further development of the bank's training and personnel development programmes is expected to have a substantial impact on the bank's overall performance and competitiveness in the long term: this is an important mechanism to help ensure continuity in building skills and knowledge within the bank – enabling the transfer of know-how to new and junior staff as well as constantly improving on the skills of higher management (in order for the bank to remain competitive).

The SME portfolio at CRDB Bank has grown steadily over the years, as the performance results in Table 4.3. A total of 3,136 loans have been processed, and loans approved had a value of TZS 68.8 billion (DKK 30 million) as of April 2009 – an increase of 100% from the previous year. The portfolio has also been performing well, with PAR well below 2%, which fares well when compared with the bank's overall average of roughly 5%.

Table 4.2 CRDB performance against targets established at programme inception

	BSPS Targets (for June 2008)	Actual performance (as of June 2008)
Profitability: Pre-tax profit (in TZS)	27.8 million	28.5 million
Return On Equity (ROE) (%)		30%
Portfolio at risk (%)	5.0%	6.2%
Number of outlets in operation (including branches, SACCOS, ATMs and POS)	1,590	1,587
Number of accounts		716,466
Efficiency ratio (%)	45%	58%
Number of direct reports made to the CEO	5-6	12
Retention rate (training programme)		
Short course	90%	95%
Long courses	95%	99%
Retention rate (traineeship programme)		
Short course	90%	95%
Long courses	95%	99%
Employee compliance with performance standards measured	100%	100%
Proportion of staff having been rated satisfactory (or better)	90%	95%
Number of candidates to assume key positions	11 out of 11	3

Source: CRDB Presentation of implementation status by Dorah H. Ngaliga, CRDB Director of Human Resources (May 2009).

Table 4.3 Performance results: CRDB SME lending operations

	2006	2007	2008	2009
Number of loans processed	440	1,420	2,463	3,136
Value of loans approved (in TZS)	7.6 billion	30.2 billion	60.4 billion	68.8 billion
Number of customers trained	555	950	1,453	1,533
Portfolio at risk (PAR)	---	0.83%	0.88%	1.60%
Number of branches with SME operations	20	25	28	28
Value of the guarantee fund	2.5 billion	2.5 billion	2.5 billion	2.5 billion
Value of loans guaranteed	1.77 billion	5.78 billion	6.76 billion	

Source: CRDB Presentation of implementation status by Mussa Mwinyidaho, CRDB Bank Senior Relationship Manager for SME, (May 2009).

The role of Danish support

It is important to recognise that these achievements have been made possible because of the commitment of the bank's management and staff. This level of commitment and the work delivered by everyone involved have, at the same time, been significantly supported by Danida. CRDB management acknowledges that the most significant aspect of Danida's support has been in enabling a shift in the overall culture of the organisation – from being a parastatal entity to an institution that operates according to market-based approaches and performance standards. Moreover, Danish support is also viewed as being instrumental in facilitating CRDB's involvement in the microfinance sector: Danida helped generate interest within the bank (and the sector), at a time when the microfinance sector in Tanzania was practically non-existent and hardly any financial institution paid attention to the need to reach the unbanked market. Furthermore, funding from RDE proved to be necessary to support the business model in place (i.e. wholesale lending through SACCOS/MFIs). Danish support has also facilitated the introduction of changes in the bank's policy with regard to SME banking: the CGF allowed CRDB to learn about the SME market and to widen slowly the range of acceptable security, even while it continues to operate in an SME market that is characterised by market imperfections and very high transaction costs.

This long-standing partnership between Danida and CRDB has enabled the bank to test and further refine new approaches to effectively reach unserved or under-served market segments in Tanzania. There are already indications of how these approaches are being replicated by other financial service providers in the country such as NMB and Akiba Bank – which may be interpreted as evidence that CRDB's approach in expanding outreach is indeed effective.

Key challenges

Despite these achievements, there are prevailing issues that need to be addressed and key challenges confronting CRDB.

Sustainability of the microfinance operations

In the course of developing the microfinance approach, CRDB recognized that in order to help improve financial access by individuals and enterprises, it was necessary to help build the capacity of partner-institutions (SACCOS) – as they tend to be most accessible to those who are among the unbanked in the country. CRDB needed partner institutions to enable it to reach unbanked markets (though indirectly). However, the capacities of SACCOS needed to be strengthened – otherwise, it would not be possible to expect them to deliver financial services to the target market on a sustained basis.[61] The relationship between CRDB and its partner SACCOS, therefore, needed to go beyond a straightforward wholesale lending/linkage banking model.

Addressing the gap in terms of the SACCOS' institutional capacity required a considerable amount of resources on the part of CRDB. And in order to ensure that indeed there would be an increasing number of better performing SACCOS, the use of a subsidy was therefore justified, directly under BSPS II and through FSDT under BSPS III – Danida's contribution especially in terms of helping to finance the training and support extended to SACCOS by CRDB meant that it has facilitated an undertaking that would not have otherwise been possible to pursue by a purely commercial organisation. Such an organisation would have to recover the costs by passing the burden onto the consumers.

As the approach requires an upfront investment that is considerable in size, it is therefore difficult to imagine the replicability of this model on a commercial basis (e.g. solely undertaken by other financial service providers). Moreover, 'building capacity' does not only require funding resources but also entails a longer term view as results take time to materialise.[62] While some commercial banks with relationships with other donors may have the means to pursue similar business models, it will be important for them to bear in mind that this approach requires them not to be governed by the desire to reap immediate benefits.[63]

Over the long term, as the microfinance operations of CRDB evolve, it will be important for the bank to determine the extent of the benefits it is able to derive from its microfinance operations, given the investments made by CRDB, Danida and FSDT. In that context, it will be meaningful to ascertain – as much as possible – the extent of the public good attributable to this approach, especially considering the perceived long-term benefits to CRDB. Long-term benefits include those benefits which may arise from building SACCOS' loyalty towards CRDB and its brand, or even the likelihood that some may eventually be transformed into branches that operate as part of CRDB's network. This is an issue which seems to be vaguely assumed in the business plan and other relevant project documents: i.e. that sustainability of the approach can be achieved. So far, the CRDB MFSC – which now operates as a service subsidiary – charges the mother company (CRDB Bank) commissions for the deposits it is able to generate within the microfinance operations (which accounts for the cost of the non-financial services CRDB MFSC delivers). This income that the CRDB MFSC generates, however, does not cover the full cost of capital and investments needed to support capacity building activities for

61) And in some cases, SACCOS did not even exist – which meant that CRDB had to intervene and encourage the formation of SACCOS.

62) For example, according to CRDB, it has taken them as much as three years to train some SACCOS before any considerable degree of confidence is built between them and these partner-institutions.

63) The importance of this message could not be over-emphasized, especially considering that a number of financial institutions (in Tanzania) have already expressed an interest in replicating the model.

SACCOS. Indeed, CRDB is receiving grant funding from FSDT to support the work of CRDB MFSC in SACCOS capacity building.

Furthermore, the wholesale microfinance model[64] was conceived under the assumption that local communities are not able to mobilise enough savings to meet demands for loans. While this may be true in certain cases, it will be important for CRDB to recognize the importance of promoting a culture of savings in the communities where it operates and that SACCOS are institutions founded on savings mobilisation.

Related to this, it will be meaningful to re-visit the intent of the wholesale microfinance activity by CRDB to its partner SACCOS. There is a considerable degree of overlap between the markets served by certain larger SACCOS (especially in the urban and peri-urban areas) and those of banks, taking account of the range of products offered by SACCOS as well as the kinds of clients that such SACCOS tend to reach.[65] This suggests that although the wholesale lending scheme may have originally been conceived as a mechanism for reaching micro-clients indirectly, especially those in the rural areas, the emerging arrangement may actually be functioning more as a delegated form of banking services for small (often informal) enterprises.

SME lending capacity: Remaining gaps to address
CRDB's achievements with respect to SME lending have been significant – especially considering its history as a bank that formerly dealt only with corporate clients. With the support of Danida, the bank has demonstrated flexibility in terms of adjusting its policies and practices in order to better meet the needs of the SME market segment.

It is, however, important to look at these achievements as part of CRDB's early stage of entering a new market segment; there are still important lessons to be learned and areas where further enhancement of its capacity will need to be made so that it can grow its SME business in the coming years. There is scope for FSDT to cooperate with CRDB in extending their SME business, as they have already done in supporting CRDB's work with SACCOS, a possibility that is being discussed between the two channels.

64) *The model encompasses provision of a range of microfinance products and services (including 'Tembocard' services (a smart card payment solution), money transfer, a range of deposit products and micro-insurance (in collaboration with African Life Assurance (TZ) Ltd.*

65) *For example, available supply-side data collected by OPM in 2008 (to help develop the Rural Financial Services Strategy) show that while SACCOS tend to offer loans in amounts that range from TZS 50,000-100,000, the maximum amount of loans available for a single borrower can reach up to TZS 30-45 million. The high upper limit is indicative of the range in clients being served by SACCOS. This is also consistent with the 2006 FinScope survey results, which show that of the rural population with access to banking services, about 44% are also using the services of SACCOS, ASCAs and other informal sources. The overlap between those who are banked and still take out loans from SACCOS is about 19%. Thus, while SACCOS do indeed provide access to services to those falling within the lower income groups, a considerable proportion of their portfolio is channelled towards those that may be considered 'bankable' (given these client-members' income and asset profiles). While this pattern has been observed to be more pronounced among the urban-based SACCOS, it is also evident among the larger rural-based SACCOS whose loan amounts range from as little as TZS 5,000 to a ceiling of as much as TZS 30 million in some instances. This suggests a possible tension in the way funds are allocated within these institutions. It also suggests that although SACCOS are indeed better suited to provide services to low income groups, they may also be addressing to some extent the financing needs of a segment of the market that may not be adequately served by the banking sector, particularly (informal) SMEs. (See: Oxford Policy Management (2009): Tanzania: Developing a Strategy for Rural Financial Services.)*

Discussions carried out with a focus group of SME clients at CRDB revealed some of the prevailing challenges and issues that need to be addressed.[66]

- Access to services is still constrained. Clients have pointed out that CRDB's policies with regard to the collateral to be pledged for loans are prohibiting them from accessing loans – and for some, from accessing the full loan amounts they have applied for, given the way collateral is assessed by the bank. This is a difficult area for both the bank and its clients. While CRDB has indeed expanded the range of acceptable collateral for its SME loans, it still prioritizes the use of property and fixed assets. And as property ownership is difficult to formally establish in Tanzania (given the existing legal framework and the lack of capacity of the Land Registry), both the bank and SME clients therefore bear significant transaction costs. The evaluation was told, however, that the constraints are not mainly of CRDB's making, but arise from the collateral recommendations made by BoT, which are expressed as recommendations but often treated by supervisors as if they were regulatory requirements.

- Clients have also pointed out that it still takes a considerable amount of time (as much as three months) before loan funds are disbursed, which acts as a deterrent for them to access loans from CRDB. This delay is partly explained by the legal requirement to ascertain the status of the collateral being pledged (which CRDB undertakes and involves the Registry). However, there are also certain steps in the process that may indeed be further streamlined to help decrease the time it takes to process loan applications. For example, the SME Department has noted that the loan review and appraisal which the department carries out can be made relatively quickly (especially if clients are able to provide the documentation required). However, there seems to be a time lag once these loan applications are passed onto the Risk Department – which tends to be critical about the risk profile of SME clients being provided loans to. Both the SME Department and the Risk Department acknowledge that further work is needed in order to bridge this gap in understanding about this particular market segment, which could help decrease the loan processing time.

- Relevant to these two points, it will be crucial for CRDB to consider the emerging role being played by new entrants in the market (such as AccessBank and other larger microfinance institutions) that are able to employ even more innovative approaches to deliver financial services to the MSME market.[67] The clients who have participated in the focus group discussion have admitted that indeed these institutions are employing aggressive techniques to extend their services. Some of these institutions employ cash flow-based lending approaches and accept non-traditional forms of security such as stock of goods (for traders) and household assets. Interestingly, many of these institutions tend to operate at the lower end of MSME market, but allow the graduation of clients into further cycles of increasing loan amounts – which serves as a sorting mechanism for these institutions and helps to contain the risk, while at the same time providing an incentive for borrowers to repay their loans.

66) *A focus group discussion was held on 1 June 2009, which was attended by a total of 18 individuals, representing a mix of CRDB SME borrowers and non-borrowers.*

67) *AccesBank, for example, told the evaluation that for their SMR loans, the time from loan application to approval is one or two weeks, and from approval to disbursement less than a week – a claim supported by the experience clients interviewed during the evaluation.*

In light of these foregoing observations, it is important to assess the role that has been played (and will continue to be played) by the availability of credit guarantees to support SME lending within CRDB. The evidence suggests that indeed it has facilitated the bank to enter into this new market with some degree of comfort knowing that it will be cushioned in the event of default on the loans. It has allowed the bank to become more familiar with the market segment, as evidenced by the effort that has been made by the bank in terms of making some adjustments in its policies and practices when dealing with this group of clients.[68]

However, it will be important to see whether CRDB will be able to initiate further necessary changes and innovations in order to grow its SME portfolio and become a significant player in this particular market segment. The key questions that need to be addressed here are: To what extent will the availability of credit guarantee funds help encourage the bank to explore new mechanisms to better serve this market – especially as other forms of Danish support (e.g. technical assistance) is expected to be no longer available? On the other hand, could the availability of credit guarantee funds (to some extent) keep the bank from going beyond its comfort zone – especially in terms of adopting more effective methodologies and practices? The second question considers the possibility of how the guarantee may to some extent act as a disincentive to truly seek out methods that work – which might only be entirely expected of an institution that knows it does not have anything to fall back on, and therefore, would be keen to discover and employ methods that truly work. Ultimately, it will be meaningful to recognise how the experience of other institutions globally demonstrates the limitations in the role of credit guarantees – essentially, that these guarantees could not help institutions that were not developing their own institutional strength.

4.3 Private Agricultural Sector Support

Background

Small- and medium-sized farmers in Tanzania have, for many decades, encountered major obstacles in accessing finance to enable their businesses to grow. The situation worsened further in the 1980s with liberalisation and the dismantling of crop boards. In order to address this issue PASS was created in 2000 as a project by the GoT under the Danish-funded ASPS. During ASPS, PASS surpassed all its targets and demonstrated that there was strong demand for its services. PASS then came under ASPS II and in 2007 became an autonomous legal trust and started to move away from being a development activity managed by the Tanzanian and Danish governments. At the end of ASPS II, PASS was transferred to BSPS III.

PASS's main products are BDS and the provision of credit guarantees through the CGF. Banks in Tanzania have traditionally been reluctant to lend to the agricultural sector but six cooperating banks[69] are now willing to do so as a result of the business plans and feasibility studies and the credit guarantee offered by PASS. PASS physically deposits an amount corresponding to the full value or part of the value of its guarantee with the banks. The size of the CGF has increased from TZS 1.4 billion (DKK 6 million) in 2003

68) *This is consistent with the purpose often cited for setting up credit guarantee schemes: it helps to overcome problems of asymmetric information by demonstrating the real risk to lenders who may perceive the risk to be higher than what it is – in this case, the risk associated with lending to SMEs.*

69) *CRDB, ABC (African Banking Corporation), EXIM Bank, FBME (Federal Bank of the Middle East), NMB, TIB.*

to TZS 16.8 billion (DKK 72.1 million) in 2008. In April 2009, the volume of the credit guarantee portfolio was TZS 18.5 billion (DKK 79.4 million). By 2013, it is expected that PASS will support a loan portfolio of TZS 100 to 125 billion (DKK 430 million to DKK 536 million).

Danida has been the sole funding agency for PASS,[70] and has also provided technical assistance. DKK 20 million was spent on PASS in ASPS and DKK 40.2 million in ASPS II. The projected funding for PASS under BSPS III is DKK 140 million. Two Danida advisers were also allocated to PASS in ASPS, and a further two during ASPS II. During BSPS III, Danida is providing PASS with an Agribusiness Adviser.

Key Achievements

PASS met or surpassed all its objectives in ASPS II, as shown in Table 4.4. The development objective of PASS under ASPS II was 'increased growth of private commercial farming and agribusiness' and the development objective of PASS under BSPS III is 'Acceleration of investments, financing and growth of commercial agriculture, agribusiness and agro-processing'. Since BSPS III implementation began very recently it is too early to assess achievement against this objective and related outputs.

PASS is now very well regarded and positioned as a knowledgeable and efficient facilitator in rural finance. One of its key success factors is that it offers a variety of complementary services to agribusinesses 'under one roof'. It has also built strong links with key stakeholders in the agricultural sector and with financial institutions. It has earned the trust and respect of banks and government. The PASS model has already been replicated in Kenya, Uganda and Mozambique and it is hoped that it will be replicated further in Africa.

70) Which has included providing 100% funding of the CGF.

Table 4.4 Analysis of progress against objectives for ASPS II Component F (PASS)

Original Objective	Progress against objective	Original Outputs	Progress against outputs
By 2005, PASS is a self-sustaining private entity	PASS Trust established in 2007 – technical review of PASS in 2005 recommended that, due to lack of income, date for fulfilment of objective be revised to 2007	Business Development Plan (BDP) for PASS approved by Board of Directors. New, profitable BDS introduced	BDP approved New BDS introduced (agreement to help farmers finance agro equipment, promotion of small scale vegetable oil mill crushing plant, PASS approached by banks to analyse Business plans submitted by non-PASS clients)
By 2007, 150 agribusiness enterprises, 115 individual commercial farming businesses, and five contract-farming businesses, with a total of 500 contract-farmers, are implementing investments financed by loans, which are backed by the PASS CGF	144 agribusiness enterprises, 205 individual commercial farming businesses, and 351 contract-farming businesses, with a total of 14,098 contract-farmers	PASS has prepared 360 feasibility studies for clients from within the commercial farming and agribusiness sectors.[71] 270 business plans for clients are approved by CGF participating institutions for loan funding being backed by the CGF	979 business plans prepared and submitted to CGF participating institutions, of which 360 were for individuals, 619 were for groups. 700 business plans approved by participating institutions
By 2007, PASS is co-operating with at least two CGF participating institutions on credit guarantees	By 2007, PASS was co-operating with four banks (CRDB, EXIM Bank, ABC, FBME)	Participating CGF institutions selected. Annually negotiated agreements with the CGF participating institutions on refilling of CGF. Final ownership of CG funds determined	Four institutions selected. Decision that Danida would continue to be sole provider as PASS to be included in BSPS III. Decision that ownership of CG funds will go to PASS Trust (handover of assets accumulated from the ASPS support was made effective from November 2008)

71) It is assumed that some 75% of the feasibility studies (270 in number) will conclude that the investment is viable and therefore should receive support and proceed to preparation of business plans and loan financing. However, some 25% of the feasibility studies (90 in number) are assumed to conclude that the investment is not viable and therefore does not qualify for further support.

PASS has had some success in creating synergies with other components in ASPS II and BSPS III. PASS has collaborated with the District Agricultural Development Support (DADS) component, CRDB, and the SME Competitiveness Facility (SCF).

PASS has been able to reach an impressive number of SME farmers and agribusinesses, both directly and through SACCOS. PASS has facilitated investment worth TZS 58 billion (DKK 248 million) and reached over 1,800 clients directly which has benefited over 20,000 farmers/agribusiness owners. PASS has also reached clients across a variety of agricultural sub-sectors.

PASS has been able to track increases in clients' profitability and productivity. Most clients have experienced an increase in production and sales volume. Through PASS support many clients have reported greatly increased yields, as follows:

Table 4.5 Comparison of agricultural yields

Sub-sector	Pre 2003 yield	Post 2007 yield
Sugarcane	10 MT/ha[72]	40-60 MT/ha
Coffee	2kg/tree	6kg/tree
Poultry	Laying percentage: 50%	Laying percentage: 75%

Source: 'Strengthening the Position of Tanzanian Farmers in Domestic and Global Value Chains: The Private Agricultural Sector Support (PASS) Trust, Andrew E. Temu.

Furthermore, PASS's beneficiary dairy farmers report an average yield of 8-9 litres of milk per day, compared to an average of 3-5 litres per day throughout Tanzania. PASS clients also report improved quality of produce. Although other factors may have contributed to the increases in productivity and quality, there does seem to be a clear link between PASS's services and increased agricultural output. Other noticeable impacts amongst PASS clients are strengthened bargaining power of farmers through the formation of groups and an increase in employment along nodes of value chains.

PASS has a specific mandate to address gender issues within its work through enhancing outreach to women. PASS has organisational gender policies in place, takes gender issues into consideration whilst preparing business plans, aims to promote women's employment, and PASS generally offers a higher level of credit guarantee to women.[73] Since 2003, 58% of PASS' total clientele have been female: this is particularly impressive in a business environment where men are usually heads of households and key decision makers and women do not tend to own enterprises.

PASS has been successful in facilitating financial services to agribusiness and building strong links between banks and agribusiness clients. Since its establishment in 2000, PASS has worked closely with CRDB and has now developed relationships with five other banks, who have agreed to disburse funds to agribusinesses through the CGF.

72) Metric tons per hectare.
73) Up to 80%, compared to a maximum of 60% for male clients.

PASS has therefore been able to bring banks into rural areas to lend to businesses in the agricultural sector, a sector to which Tanzanian banks have traditionally been reluctant to lend. The idea is to facilitate the creation of long-term relationships between banks and the target market. It is PASS's hope that the increase in the number of partner banks will also serve to enhance competition and therefore provide a better service for PASS clients at a lower cost. PASS hopes to gradually increase the leverage ratio of the loans – to at least 1:2 with all banks, and even up to 1:4. This would enable the CGF to reach a growing number of clients, but will depend on the banks continuing to have positive experiences with CGF-supported loans.

The role of PASS as a facilitator has been an important factor in the success of the CGF. Many general loan guarantee schemes are entirely reliant on the banks to appraise the loans. That may be appropriate in a market where the key requirement is to change the behaviour of bank credit officers. The issues in agricultural and rural finance, however, are far more complex and subtle, which is why many rural loan guarantee schemes fail. PASS's solution was to support both the banks and the borrowers at every stage in their role as facilitator, conducing parallel appraisals of businesses and their plans as well as providing BDS services to the borrowers, so that they could act as a true facilitator, a bridge between the bank and the borrower, overcoming misapprehensions on both sides. This has led to more rational, better informed credit decisions by the banks, and greater understanding by the agro-enterprises of how to manage their debts.

The role of Danish support

Danida's support has been instrumental in the establishment and development of PASS. In PASS's establishment and ongoing programme design, Danida has ensured that PASS is aligned with the GoT's development objectives. The PASS initiative directly supported the government's objectives articulated in MKUKUTA. This direct alignment to the country's development goals has also fostered a strong feeling of ownership among the GoT and other stakeholders. The move to establish PASS in order to enhance access to finance for the agriculture sector was brave and well thought out. Danida has also supported PASS to develop and sustain a long-term vision. It has committed to supporting PASS both financially and technically over 13 years and has adapted its support as PASS has evolved. Danida has also whenever required, provided the project and the Trust with technical assistance and consultancy services. Danida has been proactive without being unduly interfering in the running of PASS when it was a project and has continued to be positively supportive after its transformation.

Key challenges

Sustainability

Having evolved from a donor-funded project to an autonomous trust, one of PASS's key objectives has been to achieve operational and financial sustainability. PASS obtains income from the fees and commissions it charges for its services and, since ownership of the CGF accumulated under ASPS I and ASPS II was transferred from the RDE to the PASS Trust in February 2009,[74] from the interest gained from the CGF. Under BSPS III, the RDE continues to contribute to the enhancement of the CGF.

The PASS business model is, after the initial capitalisation of the CGF, self-sustaining. Such sustainability derives from the fact that all three stakeholder groups (banks, PASS,

74) The actual transfer took place in February 2009 but the transfer became effective from November 2008.

There are some risks involved in the planned expansion. Firstly, in such a large country, it is questionable whether just four branches will be able to cover seven zones. However, PASS management is committed to adding more branches later if feasible and there is sufficient demand. Even if more branches were established there is a risk that PASS would be stretching itself too thin. There is also a risk of dilution of capacity especially if the Trust expands too widely too quickly. In order to mitigate this, all new staff will receive intensive training and coaching at the Morogoro office before being posted to the zonal offices. The management of PASS is very aware of the need to carefully plan and implement its expansion. It might be prudent for PASS to consider ensuring its financial sustainability by consolidating its current operations and spread its expansion plans over a much longer period.

4.4 Financial Sector Deepening Trust, Tanzania

Background
As described in Section 3.1, FSDT is a joint donor basket fund that provides a combination of technical assistance and direct funding to enhance the capacity of the financial sector to provide services for MSMEs and poor households. The development partners of FSDT are Danida, Sida, DFID, CIDA, EKN and the GoT.

- The Goal of FSDT is to develop a deeper financial system providing greater access to sustainable financial services for more people and businesses.
- The Purpose is to achieve improved capacity of Tanzania's financial sector to meet the needs of MSMEs and poor rural and urban people and to contribute to economic growth.

Cumulative expenditure to March 2009 was USD 23.7 million, and for the period from April 2009 to June 2012, FSDT's weighted forecast of project expenditure is USD 46 million, as described in Section E.2 of Annex E. Danida committed DKK 7.5 million (USD 1.4 million) to FSDT under BSPS II and has committed a further DKK 30 million (USD 5.6 million) under BSPS III.

As a Trust under Tanzanian law, the key powers of the FSDT are broad and allow it to grant, lend or invest funds as well as accept donations or other investments, borrow funds, and conduct or own businesses, including commercial enterprises. In other words, the FSDT is a very flexible legal form conducive to both for-profit and non-profit activities.

Key achievements
The evaluation concurred with the conclusions of reviews of FSDT for 2006-07 finalised in March 2008 and for 2008 issued in March 2009. The conclusions, summarised in Section E.3 of Annex E, endorsed the goal, purpose and overall direction of FSDT. Excellent progress had been made towards achieving the purpose of FSDT, and the programme was on track to achieve the Objectively Verifiable Indicators (OVIs) for most of the goals, though progress was slow on Output 1 (the enabling environment) and Output 4 (services to MSMEs). Project management and governance arrangements are largely satisfactory, and the 2008-12 strategy is being implemented.

The end-beneficiaries for Outputs 4 and 5 are not the institutions that FSDT is supporting, but their clients. The evaluation supported the conclusion of the 2008 OPR that in

terms of the breadth of outreach to the end-beneficiaries, FSDT is on track largely to achieve its targets in making more financial services available to households and individuals (Output 5), though not as advanced in making the services available to MSMEs. To test the conclusions of the OPR on the depth of the services provided to households and MSMEs, and the different that the availability of services had made to end-beneficiaries, the evaluation included visits to a selection of clients of BRAC, AccessBank, SELFINA and CARE.[77] The visits are summarised in Section E.4 of Annex E. They support the conclusion that the institutions to which FSDT has provided assistance have significantly increased the range and depth of services available to end-beneficiaries, who have derived considerable benefit from those services. Those benefits include empowerment and self-esteem as well as financial benefits.

In the four years of its operations, FSDT has established itself as a central player in financial sector development in Tanzania. The programme is well ahead of targets for numbers of people served by FSDT supported projects, and for the range of new financial services introduced, as evidenced by the results of the 2008 OPR.

The programme has fostered significant innovations in the financial sector, such as BRAC, AccesBank and SELFINA.

Projects sponsored by the Trust have also made an important contribution to government strategies and policies, including the funding of the consultancy study that informed the Rural Financial Services Strategy (RFSS). There is strong evidence of FSDT's compliance with the Paris Declaration principles of alignment and ownership. For example, the newly established Monetary and Financial Policy Unit in the Ministry of Finance and Economic Affairs asked for training and mentoring support from FSDT, and the FSDT was invited to participate in the elaboration of Kilimo Kwanza ('Agriculture First'), a major agricultural development initiative launched in May 2009.

Compliance with the Paris Declaration principle of managing for results is illustrated by the testimony of AccessBank and BRAC, both of whom said that they found FSDT's appraisal techniques very rigorous – indeed in both cases they at first thought that FSDT was excessively rigorous. But in both cases they benefited from the appraisal, which covered risks that each of them had underestimated (for example, the likelihood of rapid staff turnover in the case of BRAC and the value of real estate in the case of AccessBank). An additional benefit was that FSDT, while thorough, were also relatively quick to make decisions and once FSDT had agreed to support the institutions, it encouraged others (who were aware of FSDT's high standards) to provide funds.

It is clear from the various reviews and interviews with members of the PIC that FSDT has achieved a high standard of management and governance, and a coherent strategy to 2012 and beyond, including a strategy for the evolution of Tanzanian ownership and management of the programme.

The role of Danish support

Danida has been an important financial contributor to FSDT and an active member of the Project Implementation Committee. Danida commitments of DKK 37.5 million

77) The evaluation also included a visit to the TUR SACCO in Turiani, which is supported by CRDB under and FSDT grant, but this is also a client of PASS and CRDB and is covered under Annex C.

represent 9% of total funds committed so far for the period from 2005 to 2012 (about 7% of funds committed to end 2008 and 10% of funds so far committed for 2008-12). According to FSDT management, Danida has also been exceptionally prompt and efficient in disbursing funds, thus making an important contribution to the Trust's cash flow management.

As explained in Section E.2 of Annex E, however, the Danida five year programme financing cycle – despite its undoubted benefits in facilitating effective long-term project planning and implementation – has had one unfortunate consequence, which is to restrict the ability of RDE to increase funding for FSDT, at least for the time being. Because of the timing of the appraisal of BSPS III and the rules governing the use of the funds, decisions on funding for FSDT had to be made before the success or the strategy of the programme were clear, and it is virtually impossible to alter those decisions until a relatively late stage in the programme.

It should also be noted, however, that the long-term programming approach to development taken by Danida, as incorporated in the various phases of BSPS and ASPS, has also been beneficial to FSDT. As a member of the PIC, Danida has from the outset supported the role of FSDT as a continuing programme rather than a limited project – reflecting Danida's long-term approach to financial sector development in all three channels. This has enabled the Trust to take a pro-active strategic position rather than a demand-led approach merely filling the gaps left by other programmes. The RDE has also supported management in arguing for a broad range of interventions, striking an appropriate balance between growth and poverty reduction, again making a positive contribution to the balance of FSDT's portfolio.

Key challenges

FSDT's approach and its mandate place a very heavy focus on the numbers of people reached by assisted institutions. The evaluation does not question this focus, since extending outreach to large numbers of people is undoubtedly a major objective of the programme. There is a risk, however, that too heavy a focus on client numbers may be detrimental to a more strategic approach to the transformation of the sector as a whole and its political economy. This risk has already been recognised by the PIC and FSDT management, both of whom acknowledge that FSDT needs to make more of an impact on the enabling environment (at the macro and meso levels) as well as on financial service providers (at the micro level), and this has been reflected in the 2008-12 strategy. That strategy proposes that the balance of resources devoted to access to financial services and the deepening of the financial sector respectively should move from about 80:20 in 2008-10 to about 60:40 in 2011-12.[78]

The focus on achieving high numbers also necessitates FSDT working through relatively large scale institutions with a significant foreign input (such as Dunduliza, BRAC and CRDB). There is therefore a danger of creating the impression that FSDT may be something of an expatriates' club. The management of FSDT fully acknowledges the problem, but argue that it is very difficult to deal with the problem: even if there were a thousand SELFINAs in Tanzania, which there are not, finding and reaching them could be prohibitively resource-intensive.

78) FSDT, Revised Strategy Paper, February 2008.

The problem is, however, exacerbated by FSDT's relatively poor record in communications, both with the public and with key stakeholders and groups. FSDT does not devote as much resources to communications as would be expected from an organisation designed to become embedded as a central player in financial sector development in Tanzania. Some opportunities to create useful forums for dialogue have been missed. For example, for various reasons the Bankers Association in Tanzania is relatively ineffective; several financial institutions told the evaluation that they were surprised that FSDT had not used its position to establish a regular bankers' forum at which issues of banking sector capacity building and development could be addressed. The need to improve communications was noted in previous reviews and has been acknowledged by the PIC and the management of FSDT, and a new emphasis on communications has been included in the Trust's 2008-12 strategy.

Given the above developments, FSDT is now positioned to be a long-term player in financial sector development in Tanzania. Unfortunately, there are doubts about the availability of funding to enable FSDT to function in the long term. Commitments by current development partners amount to less than half the USD 50 million forecast pipeline of commitments to 2012. The PIC is fully aware of the issue, and is working to attract new funds and co-funding opportunities.

There is a further problem related to the focus on numbers mentioned at the beginning of this section. The 2008 OPR noted that there appeared to be anomalies in the numbers reported under several of the OVIs in the logical framework. The evaluation established that there were indeed flaws in the calculation of several of the indicators, which resulted in exaggeration of the numbers of people reached.[79]

Finally FSDT has been particularly proactive in targeting its work on financial access for women. Some of its beneficiary organizations, such as BRAC and SELFINA, cater exclusively for women, while others, like CARE and AccessBank, have been remarkably successful in reaching women microentrepreneurs and entrepreneurs. Almost two thirds of the increase in MFI clients resulting from new products supported by FSDT were women. FSDT is nevertheless behind its ambitious targets for women as a proportion of supported microentrepreneurs: the targets and the strategy for achieving them will be reviewed in the light of an upcoming small business survey.[80]

9) The evaluation team is has been given the underlying figures by FSDT management and will be providing them with suggestions by the end of August 2009 on how to correct the errors.

80) Stone, Losse, Duhu, and Carlsson, (2009) 'FSDT, 2008 Output to Purpose Review, Final Draft'.

5 Conclusions, lessons learnt and recommendations

The overall conclusion of the evaluation is that Danida support for financial services in Tanzania has been remarkably successful in promoting broader and deeper access to finance and thereby made a significant contribution to economic growth and poverty reduction in the country. The support has been delivered through three high quality channels – CRDB, PASS and FSDT – that have worked well together and with Danida and GoT to achieve, to a significant extent, the objectives of the programme.

As indicated in this chapter and in the rest of the evaluation, the programme has not been without its problems and shortfalls. That is not surprising; indeed, it could be argued that a programme that did not encounter obstacles was not being sufficiently innovative or adventurous. But the evaluation concludes that the major problems were dealt with effectively once identified, and that lessons were learnt and applied as appropriate.

5.1 Conclusions

This section sets out the conclusions of the evaluation in response to the key evaluation questions set out Annex B. The questions and conclusions are set out under the headings used in Annex B, which conform to the evaluation criteria recommended by OECD/DAC.[81]

Relevance

As indicated at the beginning of Section 4.1 above, Danish support for the financial sector in Tanzania has been very well aligned with the policy and priorities of the GoT with regard to the development of an enabling financial sector environment. The programme documents, particularly the joint reviews of ASPS and BSPS by the two governments, indicate that Danida support has represented a coherent and (within the limited resources available to Danida) a comprehensive response to the priorities and needs of the development of the sector. The coherence of the response – effectively combining support for a single bank., a specialist agricultural finance trust and a sector-wide multi-donor trust fund – has enabled the Denmark to draw upon the strengths of Danida to make a significant contribution to the development of overall financial sector in Tanzania.

The three partner institutions selected for Danida support – PASS, CRDB and FSDT – have enabled Danida to ensure the relevance of its support to both poverty reduction and private sector growth, given the complementary objectives of the three channels. The primary focus of PASS is on business services in the agricultural sector; that of CRDB on the provision of the full range of financial services, including to SMEs and SACCOS; and that of FSDT on access to finance by MSMEs and poor urban and rural households. Between the three of them, therefore, Danida support has impacted on both of the key dimensions of financial sector development – growth and poverty reduction.

81) DAC Criteria for Evaluating Development Assistance (www.oecd.org/dac.evaluation), which are incorporated in the Danish MFA Evaluation Guidelines (November 2006).

In terms of geographical focus, both FSDT and CRDB operate across the whole country, while PASS is in the process of expanding beyond its pilot base in Morogoro. PASS is by its very nature primarily a rural and agricultural agency, while the other two also place considerable emphasis on rural and agricultural finance. This means that the three channels have also enabled Danida support to impact upon rural as well as urban areas.

The internal documents of the partner institutions and interviews with them during the evaluation confirm that Danida support has been entirely consistent with the business priorities and objectives of the partner institutions. In all three cases, Danida has facilitated the formulation of those priorities and objectives, helping to ensure a rigorous approach to the work of the institutions, an approach which Danida was well suited to support. In the case of CRDB, Danida as a key partner in the shareholder, DIF, was in a position to influence the formulation of business priorities and objectives, as they were for FSDT as a member of the PIC. In the case of PASS, Danida supported the management in realigning the priorities and objectives of the Trust at a crucial point in its development, when a more disciplined approach to financial management and sustainability needed to be formulated in 2006-07. The site visits, interviews and focus groups confirmed that the activities of the partner institutions were, in turn, consistent with the priorities and objectives of the beneficiaries and end-beneficiaries of the partner institutions, as illustrated in Box D.2 in Annex D and Boxes E.1 to E.4 of Annex E.[82]

The final issue to be addressed under the heading of relevance is that of trade-offs between reaching the poor, achieving private sector development and ensuring financial sustainability. The time scale of a programme is a key factor to be taken into account in addressing this issue, since the time scale for achieving each of these three objectives is different. There are likely, for example, to be phases in a programme where it is reaching the poor but not achieving financial sustainability. The need to take a long-term approach to financial sector development has been a strong and constant theme in Danida assistance to Tanzania. Many donors acknowledge the need for a long-term approach, but in the case of Danida the recognition goes well beyond rhetoric: it has been an intrinsic element in the design of BSPS and ASPS. Danida has supported CRDB since 1994, initiating a pragmatic and long-term exit strategy in 2008; PASS has been supported since 2000, and continued support for the PASS Trust is envisaged in BSPS III until at least 2013; having envisaged support for FSDT since 2003 and provided funds in Phase I, Danida was the first bilateral donor to commit funds to the trust for Phase II, from 2008 to 2012.[83] This long-term approach has enabled Danida to ensure that its interventions at various stages in the development of the three channels contribute to the achievement of all three objectives – reaching the poor, achieving private sector development and ensuring financial sustainability – ensuring that any 'trade-offs' there may be at a specific stage in the cycle are balanced as the channel matures.

There is obviously no 'right' formula for the balance between poverty reduction, private sector development and financial stability – this not a technical but a policy issue that needs to be addressed from GoT's perspective as well as from Danida's. The evaluation

82) In all three cases, a distinction needs to be made between beneficiaries and end-beneficiaries. Where Danida support relates to a service provided by one of the three channels to an institution, then the institution is described as the beneficiary and the institution's client as the end-beneficiary. Thus, for example, AccessBank, which receives a grant from FSDT, is the beneficiary, while the MSMEs benefitting from the programme are the end-beneficiaries.

83) Danida's agreement with FSDT runs up to 2013 although disbursements are expected to be completed in 2008.

found that Danida approach described above was welcomed by GoT. Any Government obviously has to face a range of short term and long term problems, and it is often difficult to find mutually compatible the solutions to the two types of problem. In that context GoT officials work with a range of development partners with different perspectives, and they reported that the Danida approach plays a very constructive role in helping the Government to establish a coherent pattern.

Efficiency

The analysis of the three support channels in Chapter 4 and Annexes C to E demonstrates that the targeted number of end beneficiaries has been reached through PASS, CRDB and FSDT, and that synergies between the channels have been exploited. There was no evidence of dysfunctional overlaps in target beneficiaries and services; quite the reverse, the three institutions have worked closely together. This is illustrated by the case of the TUR SACCOS in Turiani, mentioned in Section 4.1 above, a SACCOS supported by CRDB Microfinance Services under their FSDT grant, to which CRDB was also lending under a guarantee by PASS.

There is less evidence of synergies being exploited between the three channels and other elements of Danida programmes, particularly BSPS II, such as Sub-component 2.3 (SME Competitiveness) and Component III (improved labour market). Indeed, the component description for Component II of BSPS (improved access to markets), mentions synergies with other donor programmes but not synergies with other components of BSPS or with ASPS; while for Component III synergies are mentioned with other parts of BSPS II, but not with PASS, CRDB or FSDT. There is no mention at all of any of these three channels, nor indeed of ASPS, in either of the component description documents.[84] While it is difficult to prove a negative, the evaluation concluded from interviews with relevant GoT and Danida officials, that these potential synergies were also relatively neglected in practice compared to the synergies between the channels themselves, at least for the first three years of BSPS II. The situation changed in 2006-07, however, with the introduction of Regular quarterly meetings between CRDB, PASS and SCF (it should be noted, however, that SCF was not established until mid-2005, so it could not have been involved in the co-ordination before that. The meetings be continued under BSPS III, but without CRDB, because PASS is now cooperating with several banks. There has also been a good cooperation between CRDB and the Faculty of Commerce and Management at the University of Dar es Salaam, which has been useful in many ways in relation to the Danish support to the faculty. CRDB has, for example, provided a loan to the faculty to finance the construction of needed new facilities at the faculty.

84) *MFA: (i) Component Description: Improved Access to Markets, Component Two of Business Sector Programme Support II Tanzania, April 2003; and (ii) Component Description: Improved Labour Market, Component Three of Business Sector Programme Support II Tanzania, April 2003. RDE have pointed that the prospects for developing synergies between the three channels and most of the other programme sub-components were small. The 'Access to Market' component under BSPS II had three sub-components: support to international trade negotiations, support to Tanzania Bureau of Standard and support to the SME Competitiveness Facility. The two first sub-components had very little in common with CRDB, PASS and FSDT. The 'Improved Labour Market' component, comprised institutional support to the public labour market institutions, the Association of Tanzanian Employers and the Trade Union Congress of Tanzania. There may, therefore, be no obvious potentials for the development of synergies between these institutions and CRDB, PASS and FSDT, but it is symptomatic of the relative lack of attention to issues of synergies in the transition from BSSP to BSPS II that the issue was not even discussed in the BSPS II programme document.*

The final issue of efficiency raised in Annex B is the use of joint arrangements with other partners. From the outset, FSDT was envisaged as an institution that would enable partners working in the financial sector to pool their resources and work through a joint arrangement. It is clear from the analysis in Section 4.4 above and in Annex E that the evaluation concludes that the joint arrangement represented by FSDT has been very efficient not only in implementing financial sector projects, but also in becoming a respected and effective interlocutor for counterpart institutions, including GoT and BoT. In a similar way, PASS has worked closely with relevant agricultural and business sector programmes like SIDO support for small business development and World Bank agricultural sector and business sector programmes, while great care has been taken to ensure that Danida support for CRDB enhanced the impact of wider World Bank financial and private sector development efforts. In other words, the evaluation concluded that possibilities were fully exploited for enhancing aid effectiveness by co-operating with other partners in financial, agricultural and private sector development.

Effectiveness

Donor support often has a tendency to be prescriptive and to be driven by the priorities of donor agencies, rather than being fully responsive to the needs and preferences of (national and local) partner institutions. Programmes and interventions can be designed with a strong emphasis on delivering visible results – sometimes as rapidly as possible, even, in extreme cases, within unrealistic timeframes. This often undermines the effectiveness of donor interventions.

Danida support for financial services has succeeded totally in avoiding this danger. The evaluation found that Danida's partner institutions consider the specific interventions by Danida to have been responsive to their needs and priorities. The institutions reported that even at those times, mentioned under Relevance above, when Danida were working with the channels in defining their objectives and priorities, RDE did not attempt to impose Danish priorities, but rather sought alignment in objectives and priorities. Both PASS and CRDB acknowledge that the relationship between them and Danida has enabled them to articulate and make proposals on what areas need further support (e.g. in terms of technical assistance). FSDT also considers that Danida has been a responsive and effective partner. At the general level, this success may be attributed to Danida's overall approach when working with partner institutions: institutions are provided the opportunity to identify how support may be utilised rather than being presented with a standard set of possible interventions. At the specific level, the open communication between Danida and its partner institutions in Tanzania also reflects the nature of the institutions that Danida has chosen to work with and the support that Danida has given to their institutional development. Over the course of Danida's engagement with both PASS and CRDB, for example, both institutions have developed internal leadership and management capacities, grounded on a solid understanding of the markets within which they operate and guided by a strong sense of ownership.[85] FSDT management testified that as a member of the PIC, the RDE has also made a significant contribution to the development of the institution.

Moreover, the longer term view taken by Danida in supporting its partner institutions in Tanzania has also enabled RDE to better understand the organisations and the market/

85) When shortcomings were identified in PASS management, as described in Section D.1.1 of Annex D, Danida worked closely with GoT representatives on the Board of PASS to ensure that the efficiency of PASS was restored.

environment in which they operate. For example: to complement its equity stake in CRDB, the capacity building support included two Danida long-term (resident) advisers. The provision of these advisers evidently addressed the need to strengthen specific functions within the bank (e.g. credit management); but the advisers also helped ensure that the support extended to CRDB as a whole was integrated into CRDB's overall business strategy. With the help of the long-term advisers, detailed work plans and budgets for Danida's support have been formulated and implemented accordingly.

The performance of the partner institutions had undoubtedly improved as a result of the support. The Co-operative and Rural Development bank was a classic moribund and insolvent public sector bank when Danida rescued it in 1994; it is now vigorous and profitable, one of the most successful banks in the county, and a significant force in business and personal finance in urban and rural areas. PASS has now achieved operational sustainability, and is likely to achieve financial stability by 2012, a remarkable achievement for an institution that acts as a facilitator rather than a provider of finance, particularly in the agricultural sector. FSDT is an efficient and effective development organization, and while it has not yet secured sufficient funding to finance its full business plan to 2012 and beyond, enough contributions have been committed to enable the Trust to continue to make a significant contribution to financial sector development in Tanzania.

There is no doubt that microfinance and other first floor institutions have improved their capacity as a result of the support of Danida for CRDB, PASS and FSDT: many examples are given in Annexes C, D and E of institutions whose capacity has significantly increased as a direct result of the work of the three channels, from BRAC and AccessBank, through SELFINA and the TUR SACCOS in Turiani, to the CARE VSLAs in Kisarawe. In these cases, and many others, the financial service facilities and business support services have been using approaches that are clearly highly effective, and that appear to be sustainable.

In terms of the contribution of the support to greater equality between women and men and responsiveness to the specific needs, priorities and circumstances of women and men in access to financial services, gender issues were addressed as cross-cutting issues in ASPS II, BSPS II and BSPS III. The performance of the specific channels has been mixed, but on the whole encouraging.

- FSDT has been particularly proactive in targeting its work on financial access for women. Some of its beneficiary organizations, such as BRAC and SELFINA, cater exclusively for women, while others, like CARE and AccessBank, have been remarkably successful in reaching women microentrepreneurs and entrepreneurs. Almost two thirds of the increase in MFI clients resulting from new products supported by FSDT was accounted for by women. FSDT is nevertheless behind its ambitious targets for women as a proportion of supported microentrepreneurs: the targets and the strategy for achieving them will be reviewed in the light of an upcoming small business survey.

- PASS has organisational gender policies in place, takes gender issues into consideration whilst preparing business plans, aims to promote women's employment, and generally offers a higher level of credit guarantee to women. Since 2003, 58% of PASS's total clientele have been female: this is particularly impressive in a business environment where men are usually heads of households and key decision makers, and women do not tend to own enterprises.

With Danida support, CRDB Bank has introduced personnel management policies and programmes that are supportive of women and their role in the work place. Despite this, however, women continue to be under-represented, especially in management positions of the bank: certain socio-structural barriers persist that make it difficult for women to have a more significant representation in the bank's workforce, as explained in Section C.3.2 of Annex C.

Impact
It was acknowledged from the outset that the evaluation did not have sufficient resources to carry out an independent impact evaluation, but needed to rely on existing assessment, reviews and evaluations, secondary data, key informant interviews and focus group discussion (FGD) to carry out the assessment.

That evidence, however, is sufficient to give strong support to the conclusion of the evaluation that Danida support to financial services in Tanzania achieved its outcomes at beneficiary (and end-beneficiary) level in terms of increased earnings, income and/or employment generation among the target groups, including the SACCOS (and to a lesser extent the SMEs) supported by CRDB, the agricultural enterprises supported by PASS and the end-beneficiaries supported by FSDT.

To cite just one example for FSDT, the Trust was one of the earliest supporters of BRAC Tanzania, which, having started operations only in June 2006, had already become by the end of 2007 the second largest MFI in Tanzania reporting on MIX Market, in terms of numbers of active borrowers – a position that it maintained in 2008 among the four MFIs that had reported for that year by July 2009.[86] It also served clients who were much poorer than those served by most other MIX Market MFIs, as evidenced by the 27% ratio of loans per borrower to GNI per capita, the second lowest in Tanzania.[87]

It is more difficult to judge with any certainty at this stage whether economic growth and employment generated by MSMEs, private commercial farming and agribusiness have increased as a result of Danida support. There are, however, strong indications that this is indeed the case, both in existing assessments, reviews and evaluations of the three channels and in the site visits, interviews and FGDs undertaken during the evaluation. The improvements in the productivity of the sugar farmers in the TUR SACCOS in Turiani and the rice farmers in the Dakawa Farmers Cooperative Union in Dakawa are but two clear examples of PASS's contribution to economic growth in the Morogoro region. PASS has also provided a credit guarantee to UNNAT, an industrial juice processing plant which is supplied with fruit by several thousand small farmers: this will clearly have a very positive impact on employment and growth in the region. Similar examples of the contributions of CRDB and FSDT beneficiaries to growth and employment can be found in Annex C and Annex E respectively.

86) *BRAC Tanzania reported 57,343 borrowers in 2007 compared to 82,596 for PRIDE Tanzania. In terms of loan portfolio, BRAC was third with a portfolio of USD 6.3 million compared to USD 25.3 million for PRIDE and USD 21.6 million for Akiba Bank. But Akiba Bank had far fewer active borrowers (19,603), which meant that its average loan size was USD 1,104 or borrower, or 269% of per capita GNI, whereas BRAC's average loan size was USD 109 per borrower, or 27% of per capita GNI. Average loan size is a reasonable proxy for poverty outreach, so these figures mean that BRAC was serving much poorer clients than BRAC and PRIDE (the latter having an average loan size per borrower of USD 307, or 75% of per capita GNI, still much higher than BRAC's). (http://beta.mixmarket.org/mfi/indicators)*

87) *Iringa Development of Youth, Disabled and Children Care (IDYDC), with 9,634 active borrowers had an average loan size of USD 29 per borrower, 7.3% of per capita GNI in 2007 (loc. cit). BRAC retained the position of second lowest to IDYDC among MFIs that had reported for 2008 by June 2009.*

Finally, as reported in Section 4.1, the evaluation concluded that Danish support had a significant impact on the overall development of the financial sector in Tanzania. The three channels, separately and collectively, have played an important role in mitigating imperfections in the financial market, while the combination of the three has enabled Denmark to draw on the strengths of Danida in co-operative and rural banking and finance and in private sector development and to deploy those strengths in activities which are aligned with the financial sector development efforts of the Government and of other development partners. This has ensured that the programme has impacted significantly on the development of the financial sector and on its role in poverty reduction and the promotion of growth.

Sustainability
The approach and methods utilised by the partner institutions were those that were seen as having the potential to help achieve the broad objective of improving access to financial services for the poor and MSMEs on a sustainable basis. Identifying the right business models to pursue this objective needed to take account of: (i) the kinds of organisations involved, their characteristics and their comparative advantages in delivering products and services that are needed by the market; (ii) the nature of the gaps in the market that these institutions sought to address through their services; (iii) the existence of other potential partners; and (iv) the risks associated with establishing new markets.

In the case of CRDB, the microfinance business model chosen took account of the fact that CRDB would not be able to sustainably support the provision of services directly to low-income (and especially rural-based) retail clients. It therefore built upon the existence of community-based organisations (SACCOS) that were already present or were known to the people, and had the potential to work together and link with mainstream institutions like commercial banks. Interestingly, in the course of developing the microfinance approach, CRDB recognised that in order to help improve financial access to financial services by individuals and enterprises, it was also necessary to help build the capacity of these community-based organisations, which tend to be most accessible to those who are among the unbanked in the country. The relationship between CRDB and its partner SACCOS, therefore, needed to go beyond a straight-forward wholesale lending /linkage banking model.

In other words, CRDB needed partner institutions to enable it to reach unbanked markets (though indirectly), but the capacities of SACCOS needed to be strengthened, without which it would not be possible for them to deliver financial services to the target market on a sustained basis. Moreover, addressing the gap (in terms of the institutional capacity that needed to be built) required a considerable amount of resources on the part of CRDB. This was an area of market failure: not only was the environment characterised by significant transaction costs but helping build the capacities of the institutions that could bridge some of the gaps also proved to have the attributes of a public good. In order to ensure that there would indeed be an increasing number of better performing SACCOS, the use of a subsidy – at first by Danida directly and then by FSDT – was therefore justified. And this is where Danida's contribution became an even more significant piece in the puzzle. Danida's contribution, especially in terms of helping to finance the training and support extended to SACCOS by CRDB, meant that it has facilitated an undertaking that would not have otherwise been possible for a purely commercial organisation. Such an organisation would have to recover the costs by passing the burden onto the consumers.

In relation to CRDB Bank Limited as a bank, staff and management capacity have been enhanced through institutionalised forms of training; and partnerships with training facilities and institutions have been duly established, which help to ensure sustained efforts in improving the capacity of bank management and staff. Further development of the bank's training and personnel development programmes is expected to have a substantial impact on the bank's overall performance and competitiveness in the long term: this is an important mechanism to help ensure continuity in building skills and knowledge within the bank – enabling the transfer of know-how to new and junior staff as well as constantly improving on the skills of higher management (in order for the bank to remain competitive).

The evaluation therefore concludes that Danish support has enabled CRDB Bank to become a profitable bank, which is able to maintain its sustainability while expanding its services to MFIs, and, in due course, to SMEs.

In the case of PASS, the chosen approach has also been guided by the same set of considerations: Danida and GoT understood the market and what was lacking, recognized what PASS was as an institution (i.e. that it did not seek to be a financial service provider or a bank, but a facilitator); and built on the capacities of potential partners. Once again, there was a gap – in terms of convincing financial institutions that the risk profile of agricultural enterprises was not prohibitive. To be able to do this effectively, work was needed in terms of addressing the demand-side constraints (i.e. by assisting agri-enterprises in the development of business plans and providing support mechanisms and business support). In the process, PASS had to also build its own capacity (to learn about the different value chains). PASS is now widely recognised for its know-how and specialist skills. Nevertheless, even with coaching from PASS, banks continued to doubt whether borrowers would be able to service the loans for which they were applying. This was the reason why Credit Guarantees were required. Without the guarantee, the equation would be incomplete; relationships between borrowers (agri-enterprises, farmers) and banks would not be established.

As described in Section 4.3 above, PASS was able to overcome the all too common problems of rural finance by supporting both the banks and the borrowers at every stage in their role of facilitator, conducing parallel appraisals of businesses and their plans as well as providing BDS to the borrowers, so that they could act as a true facilitator, a bridge between the bank and the borrower, overcoming misapprehensions on both sides.

This service has clearly been valued by the banks and the borrowers, who are willing to pay economic fees for PASS's services, to the extent that PASS became operationally sustainable by 2007. The Trust's plans envisage it becoming financially sustainable by 2012. It is argued in Section 4.3 above that it will be necessary for the new Trust accounting system to be more fully integrated into the management process for this to happen: this requirement was fully acknowledged by PASS managers.

Provided that these technical issues are resolved, the evaluation concludes that PASS has achieved sustainability, a remarkable achievement for an institution that acts as a facilitator rather than a provider of financial services, particularly in the financial sector.

Although FSDT was designed to be a permanent provider of services in support of the financial sector in Tanzania, it was never intended to be a self-sustaining institution, unlike CRDB and PASS. It was planned as a Trust supported by donors and GoT. The

Trust secured sufficient funding from donors and GoT for its first phase, 2005-08, and has already secured provisional commitments of USD 24 million for the second phase. This is about half the funds required to finance the current pipeline of potential projects, as explained in Section E.1.2 of Annex E. FSDT is seeking further funding from new donors and through co-funding possibilities. In the absence of significant further funding, FSDT will have to reduce its level of support for the sector below that envisaged in the 2008-12 strategy, but the Trust will nevertheless be in a position to make a significant contribution to financial sector development in Tanzania.

5.2 Key lessons learnt

The key lessons learnt in the course of the evaluation are summarised here for ease of reference. Many of the lessons can be applied in replicating some of the successful techniques adopted in Tanzania in the design of financial sector development programmes in other countries.

- The combination of support for a single bank (CRDB), a specialist agricultural finance trust (PASS) and a sector-wide multi-donor trust fund (FSDT) has been very potent. It has enabled Denmark to draw on the strengths of Danida in co-operative and rural banking and finance and in private sector development; to deploy those strengths in activities which are aligned with the financial sector development efforts of the Government and of other development partners; and therefore to make a significant contribution to overall financial sector development in Tanzania. To a certain extent, this three-pronged approach was a result of serendipity rather than planning: assistance to CRDB began in 1994, long before it was possible even to conceive of programmes like PASS and FSDT. When these opportunities arose in the context of ASPS I and BSPS II and III, however, the combined impact of the assistance on overall financial sector development was a factor taken into account in planning and implementation. A key lesson for future financial sector interventions, therefore, is that the success of the Danida programme was built upon a sector-wide perspective which nevertheless accommodated a responsive approach to the identification of specific interventions as opportunities arose, particularly in response to evolving GoT strategies and policies.

- Danida was able to achieve this flexible combination partly because Denmark consistently took a long-term view of financial sector development. Not only did that long-term perspective enable the programme to be adjusted in the light of changes in circumstances and/or in the priorities of GoT, Danida and the international community; it also facilitated the introduction of new initiatives alongside established interventions.

- Taking a long-term view of financial sector development also greatly enhanced the success of the Danida programme in achieving a satisfactory balance between the objectives of economic growth, poverty reduction and sustainability;

- The use of a five year integrated programme cycle, as with ASPS and BSPS, while facilitating this long-term view, also introduced a certain degree of inflexibility in the allocation of funds, which had some negative consequences. This was particularly the case when there was a mismatch between the planning cycle of a partner institution and that of the Danida programme, as occurred in 2007 between FSDT and BSPS III;

- The combined approach also enabled Denmark to draw on the specific strengths of Danida in co-operative and rural banking and finance and in private sector development. The Danida programme was thus able to avoid common pitfalls in financial sector development: in the case of CRDB, for example, Danida support did not merely restore the bank to solvency, but assisted the bank in making the cultural change that enabled extend its services to MFIs; in the case of PASS, Danida technical support ensured that the credit guarantee facility has managed to avoid the common pitfalls of credit guarantee schemes, including the dangers that they distort the credit market and/or foster lazy credit assessment procedures in the banks.

- All three channels showed the benefits of adherence to the Paris Declaration principles of alignment and ownership: because of the approach taken by RDE to the operation of the DIF, CRDB is widely recognised within the country as a Tanzanian bank, in a context in which it is important for national champions to be operating in the sector alongside foreign banks; the alignment of PASS with GoT strategies in the agricultural sector has enabled PASS to take a very proactive role as a facilitator between banks and agri-enterprise borrowers, thus avoiding the failures that very often plague rural finance programmes and guarantee funds; and the evaluation concurs with the findings of FSDT reviews that the Trust, in addition to being and effective development institution, also acts as a useful conduit between the international community and GoT in relation to financial sector development.

- At the planning stage of BSPS II, relatively little attention was paid to the identification and exploitation of synergies between the three channels of support and other programme sub-components (in particular the SME competitiveness sub-component of BSPS). This could have led to missed opportunities, but around 2006, new co-ordination arrangements were put in place that improved the co-operation between sub-components. The design fault was therefore corrected, but it would have been better had the fault been avoided in the first place. The lesson for the future, therefore, is that attention needs to be paid at the design stage to the identification of specific potential synergies between the sub-components of the programmes and the design of mechanisms to ensure that the potential is realized.

- The use of five-year sectoral programmes like BSPS and ASPS inevitably means that the programmes are very complex, covering a wide range of interventions within the sector. In the case of these two programmes, the effectiveness of the different approaches to management, coordination and monitoring has been mixed. The evaluation concludes that while the management and monitoring of the programmes were generally very effective, a consistent approach was not always taken to recording the follow up to the findings and recommendations of progress reports and annual reviews, particularly in the early stages of BSPS II and ASPS II. The evaluation concludes that in some case a more systematic recording of follow-up of recommendations could have been useful, to ensure that comprehensive evidence was available for future policy decisions.

- The decentralisation formula as applied by Danida is tried and well tested. The formula involves a combination of: using international guidelines rather than specific Danida ones; technical assistance staff at MFA headquarters being thinly stretched; and programme managers at country level who are not always specialists in the relevant sectors. The formula gives the RDE the authority to ensure that the country programmes are run in accordance with Paris Declaration principles. There

were, however, some cases in the early stages of ASPS II in which technical flaws in the implementation of the programme were not identified at an early stage. It is possible that this might have been avoided if the resources of technical assistance staff at MFA headquarters could have been brought more effectively to bear in the early stages of implementation of the programmes. The evaluation concludes that it would be advisable, when Danida enters complex programmes like support for financial services, to ensure that sufficient technical capacity is available at the Embassies or easily accessible from headquarters. This may require a strengthening of the capacity of technical assistance staff within MFA.

5.3 Key recommendations

A number of key recommendations emerge from the evaluation, some of which have a general application and some of which are specific to the programmes being evaluated. The key general recommendations are as follows.

- Taking a sector-wide perspective on the financial services industry is important to ensure that a financial sector programme maximises its impact on growth and poverty reduction; such a perspective, however, is particularly effective if combined with a responsive approach to identification of specific interventions as opportunities arise, particularly in response to evolving partner strategies and policies. Effectiveness is also increased, of course, when a donor is playing to its strengths – as in Tanzania, where the programme drew on the specific strengths of Danida in co-operative and rural banking and finance and in private sector development.

- Danida should continue to take a long-term view of financial sector development, as it has successfully done in Tanzania. A long-term perspective facilitates the integration of specific interventions into the sectoral approach; enables the programme to be adjusted in the light of changes in circumstances and/or in the priorities of GoT, Danida and the international community; and facilitates the introduction of new initiatives alongside established interventions.

- It would be useful if the lessons learnt in this programme about the benefits of adherence to the Paris Declaration principles of alignment and ownership were widely disseminated. Denmark's adherence to those principles in Tanzania has, for example, enabled CRDB to be widely recognised within the country as a Tanzanian bank, in a context in which it is important for national champions to be operating in the sector alongside foreign banks; it has enabled PASS to take a very proactive role as a highly effective facilitator between banks and agri-enterprise borrowers; and it has supported FSDT's role as a useful conduit between the international community and GoT in relation to financial sector development.

- Whenever programme reviews take place, there needs to be a systematic recording of the follow up to their findings and recommendations. Specifically, it would be useful if subsequent reviews systematically record the findings of the pervious review, and what was done to follow up those findings. The monitoring of the Tanzania programme improved in the second half of BSPS II and ASPS II, which was facilitated by more consistent recording of follow up, even though there were still cases in which follow up was not recorded.

- In designing sectoral programmes, it is important to do more than pay lip-service to synergies between components and sub-components of the programme. Close attention needs to be paid at the design stage to the identification of specific potential synergies between components and sub-components and to the design of mechanisms to ensure that the potential is realized, while maintaining the alignment of each component and sub-component with partner requirements. Such synergies need to be built into the design of the programme, including the logical framework; to be clearly specified in the ToR for the managers of the programme; and to be closely monitored during implementation.

- It would be advisable for the MFA to consider whether there is a need to strengthen the capacity of the technical assistance staff in order to ensure that programme managers can be drawn from the cadre of technical assistance or, in the case of non-specialist programme managers, can get easy access to technical assistance at MFA headquarters.

The key specific recommendations are as follows:

- Given the long and successful history of Danida support for CRDB, in difficult circumstances, it might be useful to undertake a specific case study covering the whole history of Danish involvement in the recovery of the bank (i.e. covering a longer period and in more depth than in the current evaluation), so that the benefits of the approach can be disseminated.

- Perhaps as part of that study, it would be very useful to seek to ascertain the extent of the public good attributable to the development of the CRDB SACCOS programme. There are many similar situations in which it is difficult to ascertain the right balance between the contribution made by donors (the subsidy element) and those that should be made by banks (the commercial element), so the exercise could have wider application.

- It is important for CRDB to ensure that its support for SACCOS promotes a culture of savings alongside its lending programme, given that savings mobilization is a crucial founding principle of SACCOS. Using SACCOS mainly as a delegated channel for lending to small, often informal, enterprises could have negative consequences for the SACCOS movement and for CRDB.

- There remain significant challenges to CRDB in providing services to SMEs in terms of access to services and the processing and disbursement of loans. CRDB could learn something from the new entrants to the market in this respect.

- CRDB might also consider working with other banks to find a way of introducing greater rationality and transparency in the regulatory requirements for collateral in lending to SMEs.

- In dealing with those challenges, it will also be necessary to take a critical look at the impact of the credit guarantee fund, to ensure that it continues to address a genuine market failure.

- As it expands, PASS needs ensure that it continues to maintain the key elements of its success: that it offers a variety of complementary services to agribusinesses 'under one roof;' that it has strong links with key stakeholders in the agricultural sector and with financial institutions; and that it has the trust and respect of banks and government.

- PASS needs in particular to maintain its role as true facilitator, a bridge between the bank and the borrower, overcoming misapprehensions on both sides between banks and borrowers, which has been an important factor in the success of the CGF. This has led to more rational, better informed credit decisions by the banks, and greater understanding by the agro-enterprises of how to manage their debts.

- Moving from operational to financial sustainability will not be easy for PASS. A necessary condition for its achievement will be for senior management as a whole to take full account of the implications of Trust status.

- In relation to portfolio management, there is a need for greater harmonisation between PASS and its partner financial institutions especially in the area of mutual appreciation of the needs and risks.

- PASS needs to increase its efforts to support credible external suppliers of extension, consultancy and counselling services in order to effectively support their clients to further develop their businesses after the loan has been granted. PASS should continue to promote and support BDS services outside of the Trust as PASS is unlikely to be able to build up sufficient in-house capacity to offer the full range of BDS services required.

- There are some risks involved in the planned geographical expansion of PASS, of which management and Trustees of PASS are very aware. It might be prudent for PASS to consider ensuring its financial sustainability by consolidating its current operations and spread its expansion plans over a much longer period.

- Danida should continue, as member of the PIC, to ensure that FSDT maintains the high standard of management and governance that it has achieved, and a coherent strategy to 2012 and beyond, including a strategy for the evolution of Tanzanian ownership and management of the programme.

- FSDT needs to make more of an impact on the enabling environment (at the macro and meso levels) as well as on financial service providers (at the micro level). There has hitherto been a great deal of emphasis on the micro-level; the implementation of plans in the 2008-12 strategy to achieve more balance needs to be closely monitored.

- FSDT needs to improve its communications, both with the public and with key stakeholders and groups. This need has already been acknowledged by the PIC and the management of FSDT, which now needs to implement the increased emphasis on communications in the Trust's 2008-12 strategy.

- There are flaws in the calculation of several of the indicators in FSDT's logical framework, which resulted in exaggeration of the numbers of people reached. The FSDT management is already working on the construction of the indicators in order to correct the errors.

- New donors and sources of funds will need to be found to enable FSDT to fulfil its promise as a long-term player in financial sector development in Tanzania.

References and Bibliography

References cited in the text

AccessBank Tanzania (2008): *Annual Report 2008*

BRAC Tanzania (2008): *Empowering Women and Girls in Tanzania: Annual Report 2008*

Bruett, T. (ACT) and Culverwell, M. (DFID) (2006): *Strategic Review of the Financial Sector Deepening Trust of Tanzania*

Consultative Group for Assistance to the Poor (CGAP) (2006): *Good Practice Guidelines for Funders of Microfinance, 2nd Edition (the 'Pink Book')*

Danish Ministry of Foreign Affairs (1996): *Policy for Support to the Agricultural Sector*

Danish Ministry of Foreign Affairs (2000): *Denmark's Development Policy – Strategy*

Danish Ministry of Foreign Affairs (2002a): *Country Strategy for Tanzania (2001 to 2005)*

Danish Ministry of Foreign Affairs (2002b): *Evaluation Report: Business Sector Support Programme Tanzania (Evaluation 2002/6)*

Danish Ministry of Foreign Affairs (2003): *Tanzania – Denmark Annual Sector Review Agreement, Agricultural Sector Programme Support*

Danish Ministry of Foreign Affairs (2004a): *Review Aide Memoire, Review of Business Sector Programme Support (BSPS) II*

Danish Ministry of Foreign Affairs (2004b): *Tanzania – Denmark Annual Sector Review Agreement, Agricultural Sector Programme Support*

Danish Ministry of Foreign Affairs (2005a): *Africa – Development and Security: The Governments priorities for Danish cooperation with Africa 2005-09*

Danish Ministry of Foreign Affairs (2005b): *Review Aide Memoire, Review of Business Sector Programme Support (BSPS) II*

Danish Ministry of Foreign Affairs (2005c): *Tanzania – Denmark Annual Sector Review Agreement, Agricultural Sector Programme Support*

Danish Ministry of Foreign Affairs (2005d): *Trade, Growth and Development – policy outline*

Danish Ministry of Foreign Affairs (2005e): *Trade, Growth and Development: Strategy for Danish Support for the Promotion of Trade, Growth and Development in the World's Poorest Countries*

Danish Ministry of Foreign Affairs (2006a): *Business Growth and Development – Action Programme for Danish Support to Private Sector Development in Developing Countries*

Danish Ministry of Foreign Affairs (2006b): *Denmark's Development Cooperation with Tanzania (2007-11)*

Danish Ministry of Foreign Affairs (2006c): *Review Aide Memoire, Review of Business Sector Programme Support (BSPS) II*

Danish Ministry of Foreign Affairs (2006d): *Tanzania – Denmark Annual Sector Review Agreement, Agricultural Sector Programme Support*

Danish Ministry of Foreign Affairs (2007a): *Review Aide Memoire, Review of Business Sector Programme Support (BSPS) II*

Danish Ministry of Foreign Affairs (2007b): *Tanzania – Denmark Annual Sector Review Agreement, Agricultural Sector Programme Support*

Danish Ministry of Foreign Affairs (2008a): *A World for All: Priorities of the Danish Government for Danish Development Assistance 2008-12*

FSDT: *Review of Performance October 2006-September 2007*

Danish Ministry of Foreign Affairs (2008c): *Priorities of the Danish Government for Danish Development Assistance, Overview of the Development Assistance Budget, 2009-2013*
FSDT: *FSDT Quarterly Performance Reports, 2008/09*
Danish Ministry of Foreign Affairs (2009a): *BSPS II: Draft Component Four Completion Report*
Danish Ministry of Foreign Affairs (2009b): *Review Aide Memoire Business Sector Programme Support (BSPS) III*
Finscope (2006): *Key findings of the Finscope survey in Tanzania*
FSDT (2008): *Revised Strategy Paper*
Government of Tanzania (1998): *National Development Vision 2025*
Government of Tanzania (2000): *Poverty Reduction Strategy Paper (PRSP)*
Government of Tanzania (2001): *Agricultural Sector Development Strategy (ASDS)*
Government of Tanzania (2005): *National Strategy for Growth and Reduction of Poverty (NSGRP)/ MKUKUTA*
Government of Tanzania (2006): *Second Generation Financial Sector Reform Programme (SGFSRP)*
Government of Tanzania and Danish Ministry of Foreign Affairs (2002a): *Agricultural Sector Programme Support Phase II – Sector Programme Support Document*
Government of Tanzania and Danish Ministry of Foreign Affairs (2002b): *ASPS II/ Private Agricultural Sector Support – Component Description*
Government of Tanzania and Danish Ministry of Foreign Affairs (2003a): *Component Description: Improved Access to Markets, Component Two of Business Sector Programme Support II Tanzania*
Government of Tanzania and Danish Ministry of Foreign Affairs (2003b): *Sector Programme Support Document for Business Sector Programme Support II*
Government of Tanzania and Danish Ministry of Foreign Affairs (2003c): *Component Description, Viable Banking and Financing, Component Four of Business Sector Programme Support II Tanzania*
Government of Tanzania and Danish Ministry of Foreign Affairs (2005): *Technical Review of the Private Agriculture Sector Support (PASS), Final Report*
Government of Tanzania and Danish Ministry of Foreign Affairs (2008a): *Component Description Document Component C Business Sector Programme Support – Phase III, 2008-13*
Government of Tanzania and Danish Ministry of Foreign Affairs (2008b): *Tanzania Business Sector Programme Support – Phase III, BSPS III, 2008-13, Programme Document*
Masanja, A. (2006): *Final report, Categorization and Socio-Economic Impact Analysis of the Pass Clients to Inform Policy and Managerial Decisions*
Matsaert, F., Odero, W. and Stone, R. (2007/08): *FSDT: Review of Performance, October 2006 – September 2007*
National Bureau of Statistics, Tanzania: *2007 Household Budget Survey*
OECD (n.d.): *'DAC Criteria for Evaluating Development Assistance,' at www.oecd.org/dac/evaluation*
Oxford Policy Management (2008): *'Tanzania: Developing a Strategy for Rural Financial Services'; report submitted to the Tanzania Financial Sector Deepening Trust and the Bank of Tanzania*
Private Agricultural Sector Support Trust (PASS) (2008): *Statement of Affairs*
Private Agricultural Sector Support Trust (PASS) (2009a): *Financial Management and Accounting Procedures (FMAP)*

Private Agricultural Sector Support (PASS) (2009b): *Monitoring Framework (draft – work in progress)*
Review Mission (2009): *Private Agricultural Sector Support Trust (PASS)*
Stone, A. (DFID), Losse, K. (GTZ), Duhu, J. (CIDA), Carlsson, E. (Sida) (2009): *FSDT, 2008 Output to Purpose Review, Final Draft*
Stone, R. (OPM) (2007): *Financial Sector Deepening Trust, Tanzania: Developing a Monitoring and Evaluation System – Draft Logical Framework and Monitoring and Evaluation Indicators*
Temu, A. (2008a): *Credit Guarantee and Business Development Services for Small and Medium Agro-Enterprises: A Case of the Private Agricultural Sector Support (PASS) Trust-Tanzania*
Temu, A. (2008b): *Private Agricultural Sector Support (PASS) Trust*
World Bank Group (2008): *Tanzania at a Glance (http://devdata.worldbank.org/AAG/tza_aag.pdf) [accessed 24th June 2009]*

Other documents consulted in the course of the evaluation

CRDB (2004): *Annual Report 2004*
CRDB (2005): *Annual Report 2005*
CRDB (2006a): *Annual Report 2006*
CRDB (2006b): *Greater Access to Finance for the Ordinary Tanzanian. The tale of a Microfinance Technology Developed by CRDB*
CRDB (2006c): Small and Medium Enterprises Toolkit
CRDB (2007): *Annual Report 2007*
CRDB (2008a): *Annual Report 2008*
CRDB (2008b): *Annual Report Microfinance Subsidiary Company*
CRDB (2009): *A Prospectus in Respect of a Public Offering and Offer for Sale*
Danish Ministry of Foreign Affairs (2002): *Feasibility and Formulation Study of Component Four of BSPS II – Viable Banking and Financing*
Danish Ministry of Foreign Affairs (2004): *Business Sector Support Programme II: Inception Report for Component 2 – Improved Access to Markets, Component 3 – Improved Labour Market, Component 4 – Viable Banking and Financing And CTI, Commercial Court and VETA*
Danish Ministry of Foreign Affairs (2005a): *BSPS II: Planning, Monitoring and Reporting Manual*
Danish Ministry of Foreign Affairs (2005b): *Business Sector Programme Support II – Final Work-Plan and Budget 2005 for Component 2 – Improved Access to Markets, Component 3 – Improved Labour Market, Component 4 – Viable Banking and Financing and CTI and VETA*
Danish Ministry of Foreign Affairs (2005c): *Business Sector Programme Support II – Progress Report 2004 for Component 2 – Improved Access to Markets, Component 3 – Improved Labour Market, Component 4 – Viable Banking and Financing and CTI and VETA*
FSDT: *FSDT(2006a) – Strategic Review of FSDT*
Danish Ministry of Foreign Affairs (2006b): *Business Sector Programme Support II – DRAFT Annual Report 2005 for Component 2 – Improved Access to Markets, Component 3 – Improved Labour Market, Component 4 – Viable Banking and Financing and CTI and VETA*

Danish Ministry of Foreign Affairs (2006c): *Business Sector Programme Support II – Final Work-Plan and Budget 2006 for Component 2 – Improved Access to Markets, Component 3 – Improved Labour Market, Component 4 – Viable Banking and Financing*
Danish Ministry of Foreign Affairs (2007a): *ASPS Component Completion Report: Private Agricultural Sector Support (PASS)*
Danish Ministry of Foreign Affairs (2007b): *ASPS II: Exit Strategy Document*
Danish Ministry of Foreign Affairs (2007c): *BSPS II: Annual Progress Report for Component 4*
Danish Ministry of Foreign Affairs (2007d): *Business Sector Programme Support II – Annual Report January to June 2007 for Component 2 – Improved Access to Markets, Component 3 – Improved Labour Market, Component 4 – Viable Banking and Financing*
Danish Ministry of Foreign Affairs (2007e): *Business Sector Programme Support II – Final Work-Plan and Budget January 2007 to June 2008 for Component 2 – Improved Access to Markets, Component 3 – Improved Labour Market, Component 4 – Viable Banking and Financing*
Danish Ministry of Foreign Affairs (2007f): *Business Sector Programme Support II – Progress Report 2006 for Component 2 – Improved Access to Markets, Component 3 – Improved Labour Market, Component 4 – Viable Banking and Financing*
Danish Ministry of Foreign Affairs (2008): *FSDT Grant Agreement*
Danish Ministry of Foreign Affairs (2009a): *Agricultural Sector Programme Support, Phase II – Transfer/ Hand over certificate (PASS Trust)*
Danish Ministry of Foreign Affairs (2009b): *BSPS II: Draft Component Four Completion Report*
DFID/ World Bank (2009): *Tanzania – Financial Sector Support Project (FSSP): DFID/World Bank Development Partnership Implementation Support Mission (March 23 to April 8, 2009) – Draft Aide-Memoire*
Financial Sector Deepening Trust (2006): *Quarterly Performance Report No. 2, November, 2005 – February, 2006*
Financial Sector Deepening Trust (2007a): *Quarterly Performance Report No. 4, September – December 2006*
Financial Sector Deepening Trust (2007b): *Quarterly Performance Report No. 5, January – March 2007*
Financial Sector Deepening Trust (2007c): *Quarterly Performance Report No. 6, April – June 2007*
Financial Sector Deepening Trust (2007d): *Quarterly Performance Report No. 7, July – September 2007*
Financial Sector Deepening Trust (2008a): *Business Plan 1 July 2008 – 30 June 2009*
Financial Sector Deepening Trust (2008b): *Quarterly Performance Report No 8, October – December 2007*
Financial Sector Deepening Trust (2008c): *Quarterly Performance Report No 10, April – June 2008*
Financial Sector Deepening Trust (2008d): *Quarterly Performance Report No 11, July – September 2008*
Financial Sector Deepening Trust (2009a): *Quarterly Performance Report No 12, October – December 2008*
Financial Sector Deepening Trust (2009b): *Quarterly Performance Report No 13, January – March 2009*
Government of Tanzania (1995): *National Land Policy*
Government of Tanzania (1996): *Community Development Policy*

Government of Tanzania (1997a): *Agricultural and Livestock Policy*
Government of Tanzania (1997b): *Cooperative Development Policy*
Government of Tanzania (1998): *National Poverty Eradication Strategy*
Government of Tanzania (2000a): *National Microfinance Policy*
Government of Tanzania (2000b): *National Employment Policy*
Government of Tanzania (2001a): *National Policy on HIV/AIDS*
Government of Tanzania (2001b): *Rural Development Strategy (RDS)*
Government of Tanzania (2002a): *Non-Governmental Organisation Policy*
Government of Tanzania (2002b): *Small and Medium Enterprise Development Policy*
Government of Tanzania (2006): *Joint Assistance Strategy for Tanzania (JAST)*
Government of Tanzania and Danish Ministry of Foreign Affairs (2002): *Fourth Annual Sector Review Agreement between the Government of Denmark and the Government of the United Republic of Tanzania on Business Sector Support Programme (BSSP)*
OECD (1986): *Glossary of Terms Used in Evaluation, in 'Methods and Procedures in Aid Evaluation*
OECD (1991): *DAC Principles for the Evaluation of Development Assistance.*
OECD (2000): *Glossary of Evaluation and Results Based Management (RBM) Terms*
PASS (2003): *Annual Progress Report 2003 (draft)*
PASS (2005): *Annual Progress Report 2004 (draft)*
PASS (2006): *Annual Report 2005*
PASS (2007): *Annual Report 2006*
PASS (2008a): *4th Quarter Progress and Annual Report 2007*
PASS (2008b): *4th Quarter Progress and Annual Report 2008*
PASS Trust (2009): *Draft Summary Report on Test Phase of Clients Satisfaction Questionnaire in PASS Trust: Methodology, Preliminary Results and Format Questionnaire to measure PASS Clients Satisfaction about PASS Services and Services of External BDS and Services from Co-operating banks*
Stone, R. (OPM) (2007): *Financial Sector Deepening Trust, Tanzania: Monitoring and Evaluation Manual*
United Republic of Tanzania, Ministry of Finance and Economic Affairs (2009): *Rural Financial Service Delivery – Policy Framework*

Annex A Terms of Reference

Evaluation of Danish Support to Financial Services in Tanzania

1 Introduction

Denmark has supported access to financial services and financial sector strengthening for micro, small and medium scale entrepreneurs in Tanzania for more than one decade. Since 2003 approximately DKK 80 million have been allocated in support of access to financial services under two earlier programmes, Business Sector Programme (BSPS II) 2003-08 and Agricultural Sector Programme (ASPS II) 2003-08, while the financial service support will reach DKK 170 million under the present Business Sector Programme (BSPS III) 2008-13.

Moreover recently there has been heightened attention among development partners to the key role of economic growth for achieving poverty reduction and of the private sector as the main generator of growth, as exemplified by OECD/DAC's 'Promoting Pro-poor Growth' (2007) or the Commission on Growth and Development's report on 'Strategies for Sustained Growth and Inclusive Development' (2008)[88]. Similarly the Danish supported Africa Commission with its emphasis on youth, employment and economic growth is a major initiative to put growth and private sector development on the agenda for Africa. Access to financial services for the poor and micro, small and medium enterprises is a key element for achieving pro-poor economic growth and employment generation. In this respect Danida's engagement in the financial service sector in Tanzania can offer potentially valuable lessons that can inform the larger discussions on modalities for support to growth through financial service access. It is therefore relevant and timely to undertake an evaluation of the Danish support to financial services in Tanzania with a view to document achievements in terms of outcomes and gather lessons on approaches and strategies.

Danida's Evaluation Department (EVAL) has therefore decided to carry out an evaluation of the Danish support to financial services in Tanzania within the major programmes BSPS II and BSPS III as well as ASPS II. The evaluation will cover the following components within the two programmes: (a) Component 4 ('Viable Banking and Financing') under BSPS II; (b) Component F ('Private Agricultural Sector Support (PASS)') under ASPS II; and Components C1(PASS) and C3 ('Financial Sector Deepening Trust') under BSPS III.

ASPS has not been evaluated before while BSPS I was evaluated in 2002[89]. With regard to the financial service support the evaluation concluded (among others) that the main objectives had been achieved and that preconditions had been identified for a financial service delivery system that might be viable and sustainable in the long run. The microfinance model tested as part of the support was found to have great potential despite the challenges of achieving sustainability of the financial services which – in accordance with the poverty focus – were targeted at a few and remote rural communities. The evaluation recommended that the microfinance activities should be continued but with an increased

88) Supported by a number of bilateral and multilateral donors and the private sector
89) Evaluation 2002/6. Business Sector Support Programme. Ministry of Foreign Affairs, Denmark.

focus on obtaining sustainability without compromising the Danida objective of poverty reduction. More broadly it was recommended that the (then) new BSPS II should have clear descriptions of objectives and targets as well as indicators and systems to collect data for verification.

Background

The Danish support to financial services in Tanzania has generally been divided between a focus on (i) agricultural enterprises and (ii) microfinance, including micro, small and medium enterprise clients. While the overall objectives and partners have remained broadly unchanged, the specific focus and approaches of the programme have evolved during the evaluation period.

The financial service support targeting agricultural sector activities started with PASS as a pilot project in 2000 during the first phase of Danida's Agricultural Sector Programme Support (ASPS I). The support was continued in the second phase (ASPS II, 2003-08) as component F: Private Agricultural Sector Support (DKK 43 million). Its objective was 'increased growth of private commercial farming and agribusiness' and the support was aimed at providing guarantees through the Credit Guarantee Fund to back loans for agribusiness enterprises and individual commercial farming businesses, and assisting commercial farmers and agribusinesses with feasibility studies and business plans. The aim was to establish PASS as a self-sustaining private entity.

Under ASPS II, PASS was located in Morogoro and concentrated its activities in this region as well as in Iringa and Mbeya Regions. Its main clients have comprised individuals, farmers' groups, and business firms. An impact study, undertaken in 2006, found that income had increased in the target group and that PASS had generally met the targets for business development services and credit guarantees defined in ASPS II. The institutionalisation of PASS was achieved in 2007 with its establishment as a trust, and the proceeds generated from the interest are proving sufficient to ensure its financial sustainability. Generally the demand for PASS services has been increasing rapidly without PASS being able to fully respond due to limited guarantee funds.

The Danish support to Cooperative and Rural Development Bank (CRDB) started in 1994 when the Governments of Tanzania and Denmark agreed that Denmark should provide a grant of DKK 45 million for the reconstruction of CRDB which at that time was insolvent and almost bankrupt. The agreement stated that Tanzania could allocate up to DKK 20 million of the grant to a Tanzanian trust, Danida Investment Fund (DIF), established with the objective to own shares in CRDB and follow the development of the bank until the DIF shares could be sold to the private sector. Danida's support to microfinance has for most of the evaluation period been based on its long-standing relationship with the CRDB which initially started its microfinance activities with Danish support. Danida has under BSPS I provided support for management functions and microfinance activities. The support continued under BSPS II, component 4: Viable Banking and Financing, (DKK 34.7 million). The objective was 'to support poverty alleviation in Tanzania through establishing financially viable and commercially sustainable national financial institutions capable of servicing segments of the Tanzanian population that were previously neglected access to financial services, in particular micro and small enterprises, with special attention to women-owned enterprises'. The focus was on promoting the development of the micro, small and medium enterprise sector and increasing employment and income opportunities in both rural and urban areas.

To this end BSPS II provided support to 1) strengthen the CRDB management team and functions, increase its operational efficiency, and strengthen credit management to ensure financial sustainability, 2) establish wholesale microfinancing as a core activity of the CRDB and capacity development of microfinance institutions, and 3) small and medium enterprise lending – those that do not qualify for commercial lending – by developing new banking products at CRDB, business development plans and services to support small and medium enterprise lending, and establishment of a credit guarantee fund for small and medium enterprise lending.

With the present BSPS III (2008-13) all Danida's financial service support has been gathered in one programme with the development objective 'accelerated and more equitable, broad-based and export-oriented growth in Tanzania's business sector'. The entire financial service support is covered by component C in support of the immediate objective 'enhanced contribution of micro-, small and medium enterprises and commercial agriculture to equitable growth, exports, employment and government revenue'.

The financial service support targeted at agricultural enterprises continues to be supported through PASS, now a separate sub-component C1: Private Agricultural Sector Support (DKK 140 million). During BSPS III the PASS Trust will expand its geographical coverage and aim to assist not only commercial farmers but also agro-industries and agribusinesses with access to business development services and short, medium and long term loans for working capital and investments. The aim is to cover the entire agricultural value chain, including agro-processing and agribusiness. The PASS headquarters will be moved from Morogoro to Dar es Salaam and by the end of BSPS III four zonal branches (including Morogoro) will be in operation. PASS also expects to invest in developing new guarantee and BDS products. Overall a considerable increase in the guarantee funds will be required. The budgeted increase in the Credit Guarantee Fund will allow the Trust to support a total agricultural loan portfolio of – potentially – DKK 400 to DKK 500 million by the end of the third phase. The programme will support capacity development of the new PASS Trust Agency with a main focus on developing a strong management team. The Trust will be directed by a national Managing Director supported by an internationally recruited Deputy Managing Director.

The support to the micro, small and medium enterprise and micro finance area, covered by sub-component C3: Financial Sector Deepening Programme (DKK 30 million), is now based on Danish participation in the Financial Sector Deepening Programme (FSDP), a basket which through the Financial Sector Deepening Trust (FSDT) since 2005 has provided matching grants to enhance the capacity of financial institutions to provide services for micro, small and medium enterprises and poor households. Besides Danida, the basket is supported by DFID, CIDA, the Netherlands, Sida, and the World Bank with the aim to support development of pro-poor financial markets in response to the Government's National Microfinance Policy and National Strategy for Growth and Poverty Reduction ('MKUKUTA').

Through its contribution to the Financial Sector Deepening Programme, Danida will support the objective 'expansion of private sector financial services for micro, small and medium enterprises and poor rural and urban households'. An important intention of the Financial Sector Deepening Programme is to harmonise efforts towards financial sector deepening and to provide a single partner for the Government of Tanzania, beneficiaries of Financial Sector Deepening Trust funding and other donors.

The Danish contribution to the basket under BSPS III is DKK 30 million, and the total Danish contribution to FSDT from 2004-10 is expected to constitute 7-10% of the total Development Partner and Government of Tanzania contributions to FSDT during that period.

The shift from direct Danida engagement with the CRDB was based on the rationale that Financial Sector Deepening Trust, now fully operational, would be a more appropriate mechanism for supporting financial institutions including CRDB. FSDT has allocated a grant to CRDB to support the continued capacity building of SACCOS. During the BSPSIII period Danida Investment Fund is expected to gradually sell its shares in CRDB to private investors, but in order to maintain stability the financing of the Danida adviser position as Deputy Manager will be continued for an additional three years period.

2 Objectives

The overall objectives of the evaluation are to assess the outcomes achieved from the Danish support to financial services in Tanzania since 2003 and to distil key lessons from the Danish support with regard to strategies and approaches to support to financial services.

The evaluation is expected to assess the support provided with regards to its relevance, effectiveness, efficiency, impact and sustainability, and in view of the objectives focus on evaluating the strategies, approaches and methods used for achieving the objectives and assess the performance of the implementing partners.

3 Key evaluation questions

Relevance

- How well aligned has the support been with the policy and priorities of Government of Tanzania with regard to development of an enabling financial sector environment? To what extent is it a coherent and comprehensive response to the priorities and needs relating to the development Tanzanian financial service sector?
- Has the support to financial services in terms of choice of partner institutions and geographical focus areas been relevant in relation to poverty reduction and private sector growth?
- Has the support been consistent with the business priorities and objectives of the partner institutions and their beneficiaries?
- Has the support been confronted with trade-offs between reaching the poor, achieving private sector development and ensuring financial sustainability and has such trade-offs been addressed in a way that is consistent with the desired balance between these objectives?

Efficiency

- Has the maximum number of the target beneficiaries been reached through the support channels used (PASS, CRDB, FSDT)? Have synergies between the different support channels (PASS, CRDB, FSDT) been adequately exploited and overlaps avoided in target beneficiaries and services?

- Has the capacity development support addressed the needs and priorities of the partner institutions? Have the approaches been effective, have interventions been timely, and has the level and quality of the capacity support been adequate and in line with the partner needs and priorities?
- Have possibilities for enhancing aid effectiveness by working through joint arrangements with other partners been fully exploited across the areas supported?

Effectiveness

- To what extent has the support to financial services achieved its outcomes at beneficiary level in terms of increased earnings, income and/or employment generation among the target groups?
- To what extent and in what areas has the performance of the main partner institutions (CRDB, PASS etc.) improved as a result of the support? To what extent have PASS and FSDT become financially viable and commercially sustainable financial institutions capable of servicing segments of the Tanzanian population that were previously neglected access to financial services, in particular micro and small enterprises?
- To what extent have the microfinance and other first-floor institutions improved their capacity as a result of the support?
- To what extent are the financial service facilities (agricultural enterprise lending, microfinance, SMSE lending) and business support services offered by the partner institutions using effective and sustainable approaches?
- To what extent has the support contributed to greater equality between women and men and responded to the specific needs, priorities and circumstances of women and men in the access to financial services?

Impacts

- Are there indications that economic growth and employment generated by micro, small and medium enterprises, private commercial farming and agribusiness have increased in the target locations as a result of the support?

Sustainability

- Are the key institutions directly supported by Danida institutionally and financially sustainable (especially CRDB, PASS trust, Financial Sector Deepening Trust)? Emphasis should be on the specific functions and business-lines of the institutions which in particular have been targeted by the Danida support (guarantee funds, business development services, training, etc.)
- What is the financial and economic sustainability of the investments and business activities undertaken by the beneficiaries based on the financial services received from the Danida-supported institutions?

4 Approach and methodology

The Evaluation is required to base its conclusions and recommendations in a credible way on reliable evidence, in accordance with good development evaluation practice and sound professional methods and criteria. The Evaluation must be independent and external and recognized as such by Danida, the partners and beneficiaries in Tanzania, the international development community and the general public.

The consultant will specify the detailed approach and methodology for the Evaluation in the Inception note to be presented for discussion and approval by the Evaluation Department before embarking on the main part of the assignment. The Inception note will at least outline following:

- Preliminary findings from the desk review in so far as they affect the focus and approach of the Evaluation
- Detailed approach, including evaluation framework and outline evaluation tools designed to address the Evaluation objective and key evaluation questions
- Detailed methodology
- Detailed timeline
- Needs with regard to meetings/interviews/stakeholders to consult

The approach and methodology should be designed to take into account the resources and time available for the Evaluation. It is presently envisaged that a team of 2-3 international/local consultants will form the core team of the Evaluation with possible, limited, support from local enumerators. The Evaluation will be staged in a I) home-based inception/desk review phase, II) a two-week mission to Tanzania, which will include field visits, followed by III) a home-based phase for analysis and Evaluation report drafting, and IV) finally, a tele- or videoconference(-s) will be organised with relevant stakeholders in Tanzania after which the final report will be prepared.

With regard to methodology the consultant must use a variety of instruments and techniques adapted to the specific requirements of the Evaluation and in conformity with good development evaluation practices and criteria. In particular, a mix of quantitative and qualitative methods should be used. In view of the time allocated for the Evaluation the quantitative part will be based on secondary data mainly, i.e. no survey will be undertaken. Qualitative methods will be used to validate or substantiate findings based on the quantitative analysis, both at beneficiary and institutional levels. The consultant's detailed proposal on methodology will specify how to address the counterfactual question.

5 Outputs and milestones

The outputs shall include the following:

- Draft Inception note (max. 20 pages, excluding annexes) specifying the analytical framework, approach and methodology, submitted to the Evaluation Department three weeks after commencing the assignment and a Final Inception note one week after receiving comments from the stakeholders.
- Debriefing note with preliminary findings and key issues for presentation and discussion at the end of the mission
- Draft Evaluation report submitted to the Evaluation Department of Danida not later than one month after completing the mission
- Tele- or videoconferences with relevant stakeholders in Tanzania, where comments to draft evaluation report will be discussed.
- Final Evaluation report submitted to the Evaluation Department two weeks after receiving comments to the draft Evaluation Report from the Evaluation Department. The Final Evaluation report should be no more than 40 pages, excluding a 4-page summary with main conclusions and recommendations. Detailed data and information is to be presented in annexes.

Outputs/milestones	Date
Draft inception report	April 28
Final inception report	May 12
Fieldwork in Tanzania	May 27 – June 8
Debriefing note	June 8
Draft Evaluation report	July 6
Tele- or videoconferences	Week of August 3-7
Final Evaluation Report	August 21

6 Documents and websites

(Will be provided by Danida's Evaluation Department. A full list of documentation will be included in the final evaluation report).

Annex B Revised evaluation questions

– all of which have contributed to the harmonisation of activities undertaken within the bank. Moreover, staff and management capacity have been enhanced through institutionalised forms of training; and partnerships with training facilities and institutions have been duly established, which help ensure sustained efforts in improving the capacity of bank management and staff.

'Microfinance operations' have also been established within the bank, founded on adequate human resource capacity and knowledge of the sector – which are essential in ensuring sustainability of the microfinance operations of the bank. Significantly, the work of CRDB in the microfinance sector is viewed as an important contribution to overall market development, as the capacity of an increasing number of institutions (SACCOS) is being developed and strengthened through partnerships with CRDB Bank.

SME lending capacity is another functional area that has continued to be strengthened within CRDB. SME products have been developed, and policies and processes have been adjusted to reflect a greater understanding by the bank of the SME sector and its financing needs. The provision of BDS to SME clients has been facilitated through the development of an SME toolkit. Adjustments have also been made to the banking software to support particular needs in monitoring the SME loan portfolio.

The table below shows the bank's performance as at June 2008 using a set of indicators identified at the programme's inception phase. The indicators include standard measurements of profitability, portfolio quality, scale and efficiency. Moreover, a further set of indicators (presented in the latter half of the table below) tracks the bank's progress in relation to the objectives set for overall capacity building (e.g. in terms of staff training). The results show that CRDB has met, and at times even surpassed expectations – especially in terms of profitability and efficiency.

It is important to recognise that these achievements have been made possible given the commitment of the bank's management and staff. This level of commitment and the work delivered by everyone involved have, at the same time, been significantly supported by Danida. CRDB management acknowledges that the most significant aspect of Danida's support has been in enabling a shift in the overall culture of the organisation – from being a parastatal entity to an institution that operates according to market-based approaches and performance standards.[92] Moreover, Danish support is also viewed as being instrumental in facilitating CRDB's involvement in the microfinance sector: Danida helped generate interest within the bank (and the sector), at a time when the microfinance sector in Tanzania was practically non-existent and hardly any financial institution paid attention to the need to reach the unbanked market. Furthermore, funding from RDE proved to be necessary to support the business model in place (i.e. wholesale lending through SACCOS/MFIs). Danish support has also facilitated the introduction of changes in the bank's policy with regard to SME banking: the CGF allowed CRDB to learn about the SME market and to slowly widen the range of acceptable security, even while it continues to operate in an SME market that is characterised by market imperfections and very high transaction costs.

92) *CRDB management has noted that during the initiation of reforms in the late 1990s, the retrenchment process sent a very strong signal across the organisation about the seriousness of the intention to overhaul the bank. Significantly, the staff witnessed that the first set of bank employees to be let go actually consisted of incumbent managers and directors of the bank – an act which underscored zero tolerance for inefficiency and unsatisfactory performance.*

Table C.2 Performance against targets made at programme inception

	Targets (for June 2008)	Actual performance (as of June 2008)
Profitability: Pre-tax profit (in TZS)	27.8 million	28.5 million
Return on Equity (%)		30%
Portfolio at risk (%)	5.0%	6.2%
Number of outlets in operation (including branches, SACCOS, Automated Teller Machines (ATMs) and Point of Sale Terminals)	1,590	1,587
Number of accounts		716,466
Efficiency ratio (%)	45%	58%
Number of direct reports made to the CEO	5-6	12
Retention rate (training programme)		
Short course	90%	95%
Long courses	95%	99%
Retention rate (traineeship programme)		
Short course	90%	95%
Long courses	95%	99%
Employee compliance with performance standards measured	100%	100%
Proportion of staff having been rated satisfactory (or better)	90%	95%
Number of candidates to assume key positions	11 out of 11	3

Source: CRDB Presentation of implementation status by Dorah H. Ngaliga, CRDB Director of Human Resources (May 2009).

This long standing partnership between Danida and CRDB has enabled the bank to test and further refine new approaches to effectively reach unserved or under-served market segments in Tanzania. There are already indications of these approaches being replicated by other financial service providers in the country – which suggests that market players perceive CRDB's approach as effective in expanding outreach.

The following sections elaborate on the evaluation findings grouped into: (i) overall bank capacity building; (ii) support to microfinance operations; and (iii) support to SME lending.

C.3.2 Overall bank capacity building

In order to effectively execute its business strategy and meet the performance targets, a re-engineering of the bank's business processes was needed to enhance the effectiveness and efficiency of operations, strengthen the management of the bank, improve staff performance, and strengthen the management of the bank's credit portfolio.

Output 1.1: Business processes and organisational structure of CRDB Bank aligned with service demand

At the start of BSPS II, the organisational structure of the bank was seen as not entirely adequate to face foreseen challenges. CRDB needed to streamline operations and functions, improve reporting systems, have a staff structure that matches processes and functions more adequately, implement decentralised decision-making where feasible, and improve communication channels and make full use of existing technologies. Danida assisted the bank's efforts to rationalise business processes and to adjust internal and external processes and relations to services required, with the aim of increasing productivity and profitability and ensure effective service delivery.

The bank's achievements have been satisfactory. Reorganisation of head office departments and establishment of important functional units, such as SME, Treasury Back Office and International Payments have all been made. Significantly, two other important departments have also been set up: the Department of Alternative Business Channels, which is responsible for overseeing all non-traditional service delivery channels (i.e. ATMs, electronic banking, mobile banking and cards); and the Risk Department, which is responsible for bank-wide risk management.

The branch structure was also reorganised (completed in 2005) with the aim of enhancing service delivery processes.[93] Process mapping has also been carried out, with seven of the nine processes already fully reviewed. These include loan processing, account opening, signature capture, etc. Moreover, Branch Director and Security Coordinator positions have also been introduced.

Output 1.2: Effectiveness and efficiency of staff performance improved

Along with the need to improve on the bank's organisational structure and business processes, poor staff performance at head office and particularly at branch level was also considered a major impediment to the bank's further development. Among the problems noted were the lack of clarity with regard to some staff roles and responsibilities; the lack of accountability, effective participation and involvement of the staff in the affairs of the bank; and the lack of technical skills and knowledge among staff members. To address these problems, CRDB needed to look into and improve its remuneration policy and incentive systems, clarify and define career paths within the organisation, and introduce effective staff evaluation systems. Danida provided assistance in establishing and implementing an appropriate staff management system to address the aforementioned challenges.

The bank has since been successful in putting a performance management system in place, which is now fully operational. This system covers: revised orientation and induction processes; enhanced training programmes for staff; staff participation in annual salary surveys; implementation of a bonus scheme; revision of the Scheme of Service;

93) *The old branch structure mainly focused on the division between individual and corporate accounts, and did not adequately match the processes that support the delivery of services to the clientele.*

development of a code of ethics for all bank staff; and revision of human resource management policies to include health and safety, HIV/AIDS, and succession planning.[94] Moreover, the banks' Strategic Development Plan includes plans for staffing and personnel development.

In line with these reforms, CRDB Bank also began to pay closer attention to its role as an equal opportunity employer for men and women. With Danida's support, the bank has introduced personnel management policies and programmes that are supportive of women and their role in the work place. Despite this, however, women continue to be under-represented, especially in management positions of the bank. As of December 2008, women represented only 37% of the entire CRDB workforce; and women occupied only 20% of the total managerial and directorial positions within the bank. Similar proportions (i.e. less than 25%) are also being observed in the number of traineeship positions occupied by women. While the bank continues to strengthen its efforts to attract more women into professional staff positions and increase career opportunities for female employees, there are certain socio-structural barriers that make it difficult for women to have a more significant representation in the bank's workforce. Certain key positions, for example, require a degree of mobility and flexibility, which women (in Tanzania) may not typically be willing or able to offer their employers. Young women would be especially concerned about leaving their husbands or families, if they were to be assigned to the bank's branches outside Dar es Salaam.

Output 1.3: Performance of bank management improved
Previous assessments made on CRDB Bank suggested that the bank's management structure had a number of weaknesses, including unclear roles, functions and decision-making procedures, and in some cases, insufficient managerial skills. To address these weaknesses, effective performance evaluation, coaching and mentoring systems, a code of ethics for management staff and succession plans were needed. Furthermore, a performance-based pay scheme and pay differentiations were also identified as necessary. Significantly, the bank also recognised that its management staff lacked exposure to good working practices, which was a disadvantage of CRDB when compared to other commercial and foreign owned banks operating in Tanzania, whose management staff were exposed to regional and international best practice in banking. Danida assisted in the improvement of the management system through provision of technical expertise.

The bank's key achievements in this area include:

- Setting up of a Risk and Governance Committee within the Board to oversee risk management issues and matters related to staff management;
- Implementation of the management information system (MIS) to enhance decision making capabilities within the bank and increase operational efficiency – the MIS specific to treasury, trade finance and human resources management are all fully operational. The bank is also currently in the process of upgrading its core banking software;

94) CRDB Bank is proactive in pursuing activities to address the threat of HIV/AIDS among its staff and its clients. Activities include campaigns where condoms are distributed free of charge, and a medical treatment policy for infected staff members.

- Implementation of the Management Development Programme – including the New Managers Programme and the Executive Management Programme, to address the need for continuous development of competencies of both management and support staff as they move into new roles of responsibility within the bank's hierarchy; and
- Formation of a Customer Service Improvement Team – this team worked together with MICROSAVE to conduct a Customer Satisfaction Survey, a key step in understanding clients' needs and the determinants of satisfactory provision of services to customers.

Output 1.4: Trainee programme for junior professional staff established
One of the major challenges financial institutions in Tanzania face is a lack of adequately trained staff, particularly at management level.[95] This problem becomes even more relevant for banks like CRDB, which aims to strengthen its position as an institution rooted in strong local ownership.

To address this need, CRDB Bank recognised that it will need to establish partnerships with training facilities and/or develop strong in-house training capacity. While national training facilities exist in Tanzania (such as, for example, the Tanzania Institute of Bankers), these facilities were then viewed as unable to deliver adequate numbers of well qualified banking professionals to support the needs of the industry. In response to this dearth in professional capacity, it is therefore quite common to find other large commercial banks operating in Tanzania choosing to recruit foreign staff especially for senior management posts. Complementarily, they also choose to build their internal capacities using facilities and schemes handed down by their mother institutions abroad.

Even at the start of the programme, CRDB already maintained a training department. However, the training programmes offered were relatively ad hoc in nature and not embedded in a more systematic training and career building strategy. Danida therefore supported the development of a traineeship scheme through the provision of technical expertise that helped to identify institutional training needs and developed a traineeship programme in accordance with international best practice. CRDB Bank covered the actual cost of implementation through its training budget.

Notwithstanding the delays related to the establishment of partnerships with other institutions, the achievements of the bank in this respect are remarkable. The University of Dar es Salaam Business School (UDBS) and Damelin School of Banking and Insurance have since been contracted to design a programme on Professional Banking through Distance Learning. Within this partnership, UDBS conducted a training needs assessment survey and reported on the bank's training needs. Currently, permission is being sought by the UDBS (from the University Senate) to run the programme.

Further development of this and other training programmes within the bank is expected to have a substantial impact on the bank's overall performance and competitiveness in the long term: this is an important mechanism that will help ensure continuity in building skills and knowledge within the bank – enabling the transfer of know-how to new and junior staff as well as constantly improving on the skills of higher management (in order for the bank to remain competitive). The traineeship programme, in particular, will be an

95) It is not uncommon to find higher management positions in other commercial banks in Tanzania being occupied by expatriates.

incentive for junior staff and enable them to acquire further qualifications, which is in the bank's interest. There are indications that the traineeship programme offered does not lead to an exodus of trained staff: the bank is able to retain approximately 90% of those who have been trained – which is impressive considering the increasing level of competitiveness in the Tanzanian banking sector.

C.3.3 Support to microfinance operations

CRDB linkage banking approach to microfinance

Following the implementation of the bank's restructuring programme in the late 1990s, CRDB recognised that the institutional reforms it implemented have led to a situation where the bank's services alienated the majority of Tanzanians, and especially those in the low-income segment (e.g. through the consolidation of branch operations). CRDB could have opted to 'remain safe' by only providing services to the clientele that banks traditionally served – i.e. the upper-end market segment. But the bank's venture into microfinance services reflects the value it has always placed on its broader social goals, which the institution seeks to balance alongside its commercial interests.

This has led to the birth of a linkage banking model that the bank deemed as the most appropriate approach to reach unbanked market segments. This model recognized the potentially significant role to be played by MFIs, and specifically of community-based financial institutions – such as SACCOS – that could act as intermediaries and help in mobilising deposits. Moreover, the bank believed that there was a high level of demand for financial services (that could not be met directly by banks) that community-based financial institutions are in a more advantageous position to meet, especially if these institutions' institutional capacity is enhanced and they are provided access to capital.

In 2001, the first linkages or partnerships with SACCOS were formalised in four pilot regions, namely: Dodoma, Iringa, Mbeya and Morogoro. During the initial pilot phase, the Microfinance Unit operated as a division of CRDB Bank. By the end of 2004, the CRDB Microfinance Company Limited (CRDB MFSC) was then registered as a separate company (i.e. as a financial subsidiary). However, operating as a financial subsidiary meant that the CRDB MFSC was operating in a regulatory vacuum: the establishment of microfinance subsidiaries by banks have not been taken into account in the new regulations. The 2005 microfinance regulations, for example, did not have provisions tackling wholesale funding to SACCOS or MFIs, and certain provisions (e.g. on how the loan concentration ratio is limited to 1% of core capital) proved to be restricting to entities such as the CRDB MFSC .

Thus, in 2008, CRBD MFSC was transformed into a service subsidiary, providing services related to the wholesale microfinance activities of CRDB Bank. In this arrangement, CRBD MFSC undertakes all the essential non-bank business activities and collects commissions for the deposits it is able to mobilise within the scope of these microfinance operations. This transformation is perceived as an opportunity for microfinance knowledge and best practice to be better integrated within the bank as a whole. Moreover, it also helps to ensures that the provision of microfinance services draws from the specialist functions and skilled manpower of the bank, and therefore also presents certain efficiency advantages.

The implementation of this linkage approach followed two paths: (i) an existing SACCOS may be identified and recruited to participate in the linkage scheme, following an assessment of its current capacity, potential for development and the review of other eligibility criteria; or (ii) in potential geographic areas that have no institutions that deliver financial services, CRDB may then assist with the formation of a SACCOS. The process that ensued would require building relationships with the SACCOS over time, guided by mutually negotiated agreements. The initial assessments were carried out through multiple field visits by CRDB microfinance staff. Specialist technical assistance was provided at certain stages to assist in the selection of the SACCOS and to help develop a training curriculum tailored to the needs of SACCOS.

Once the partnership has been established, support is provided to the partner SACCOS; this support ranges from assisting a community in the formation and registration of a SACCOS, to capacity building – which includes training of SACCOS members, staff and board, as well as helping SACCOS in setting up their systems and reporting.

A SACCOS must meet certain basic requirements to qualify for a loan under the wholesale lending facility. Emphasis is placed on the quality of the SACCOS' portfolios, their management capacity, and profitability. CRDB Bank funds are used in this on-lending facility, with guarantees provided by Danida. The loans are also backed by deposits that SACCOS are required to place as loan security – which ranges from 10-25% of the loan amounts.

Performance assessment
The key objective is to mainstream 'the micro-finance project' (under BSPS I) within CRDB Bank and to achieve financial viability and commercial sustainability of wholesale micro-financing. By the end of the programme phase, MFIs were expected to be able to deliver services to people without access to financial services and CRDB was expected to become a second tier financial institution capable of reaching its intended groups through a network of intermediary MFIs.[96]

Output 2.1: Wholesale micro financing established as a core business activity of CRDB
Activities were undertaken by CRDB that built on the experience and lessons drawn from the pilot phase. The success of the microfinance wholesale microfinance activity to SACCOS has been remarkable: CRDB now has a total of almost 400 partner institutions that are providing services to more than 500,000 individual clients. Its microfinance operations started with only a very small team (seven staff members in 2003) that has now evolved into a team of 43 staff members. Since 2007, operations are carried out in all 21 regions of the country, and total deposits mobilised since 2007 fall within the range of TZS 9-10 billion (DKK 39-43 million).

96) *Government of Tanzania and Danish Ministry of Foreign Affairs (2003) 'Component Description, Viable Banking and Financing, Component Four of Business Sector Programme Support II Tanzania'.*

Table C.3 Performance results: CRDB microfinance operations (wholesale operations with SACCOS)

	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Mar 09
Regions covered	4	5	10	16	21	21	21
Districts covered	21	26	60	77	105	109	109
Number of microfinance staff	7	8	12	29	35	42	43
Pre-tax profit (billion TZS)	0.187	0.281	0.380	0.956	4.341	0.240	0.079
Total number of partner institutions (MFIs)	76	109	171	227	354	376	389
Total number of clients (by MFIs)	32,036	47,007	88,109	159,990	369,850	498,030	500,008
Total volume of MFI deposits (billion TZS)	0.80	2.20	2.80	7.16	10.87	9.50	9.26
No. of institutions with loans	--	46	83	129	268	251	254
Outstanding loan portfolio (billion TZS)	2.92	7.21	9.11	27.03	72.03	58.80	55.40
Loan repayment rate (%)	100	100	100	100	99	93.2	98.48

Source: CRDB Presentation of implementation status by 8. Sebastian Masaki – General Manager, CRDB Microfinance Services Co, (May 2009).

Initially, the regions that were targeted during the pilot phase were selected with the intention of enhancing synergy with other Danida activities. The expansion into new regions, however, was an integral part of the overall business strategy and grounded upon the aim of developing sustainable activities. The core business plan of CRDB Bank included a comprehensive plan for the expansion of its microfinance activities.

Technical assistance was provided in building human resource capacity within the bank. Moreover, to facilitate the increase in the volume of loans extended to MFIs, the guarantee fund was increased (while at the same time CRDB Bank was also expected to bear part of the risk).

The main activities undertaken included:

- The integration of 'microfinance operations' into the bank's processes, including accounting, monitoring and follow-up of repayment – MFIs (i.e. SACCOS) are monitored monthly through on-site visits and off-site reporting that form part of the partnership agreements. According to the CRDB MFSC, the performance and progress of SACCOS provides the basis for delivery of technical assistance;

- Establishment of the process of service delivery – the process has been made clear to both CRDB and partner-SACCOS. This consists of intake assessment, partnership agreement, technical assistance and training, delivery of financial services and monitoring and risk management and
- Capacity building within the credit department, and further recruitment and training of microfinance officers.

Output 2.2: An increasing number of MFIs capacitated to provide effective, efficient and viable financial services to members
Capacity building support consisted of extensive training of the management and members of the partner SACCOS. Comprehensive training manuals were developed during the pilot phase, and microfinance officers underwent training in order to provide capacity building support to the partner SACCOS. Moreover, support also included investments in physical assets – such as safes and refurbishment of the offices of the partner institutions.[97]

The main activities undertaken in this area included the identification and development of appropriate and cost-effective delivery structures for capacity building of participating institutions. Both Danida and CRDB recognised (following the pilot phase) that these capacity building activities provided to partner SACCOS required a considerable amount of resources (in terms of time as well as the quality of human resource), which has implications on the profitability that may be expected of the microfinance wholesale lending activity. To better identify and assign the costs related to the delivery of capacity building services and to address the issues related to the regulation of microfinance activities as they are undertaken by CRDB (through its subsidiary), the CRDB MFSC was transformed into a service subsidiary. As described in the background, in this arrangement, CRDB MFSC undertakes all the essential non-bank business activities and collects commissions for the deposits it is able to mobilise within the scope of these microfinance operations. CRDB MFSC has also recently set up a consulting unit within its organisation, which it views as having the potential to generate additional business for the company – in terms of providing capacity building and technical advisory services to outsiders.

Overall the success of CRDB's microfinance operations has been remarkable. The road to success has not, however, been without challenges. In Tanzania, the cooperative movement suffers from a problematic legacy left by SACCOS that were formed and used by a number of individuals to advance their own personal interests. There have been significant numbers of SACCOS collapsing in the last ten years, with ordinary members losing their hard-earned savings in the process. This has been attributable to a lack of awareness among people in villages and communities about their rights and obligations as members of SACCOS, and the historically poor quality of management and governance among many of these community-based organisations. It has therefore not been surprising to find many people still reluctant to join and keep their valuable savings in these institutions.

Building the capacity of SACCOS and their members takes a long time. And as CRDB was operating in an environment where trust towards these institutions was lacking or deficient, the bank saw that it also had a role in helping to rebuild this relationship: by investing in the capacity of these institutions, CRDB was sending a signal to the target market (i.e. the users of SACCOS services) that indeed it believes in the potential of these organisations and in the promise that SACCOS can play a positive and more signif

97) The latter typically took the form of setting up counters for tellers and other front-office personnel.

icant role in the provision of financial services – especially to the unbanked. The investments made in capacity building and contributions towards the purchase of important assets such as computers and teller counters, given the grants provided by Danida, are all part of the strategy to market these institutions more effectively and establish their credibility. In a number of extreme cases, signs that bear the name of the SACCOS (posted in front of the SACCOS office/branch) also include the CRDB logo and brand.[98]

C.3.4 Support to SME lending

Background: motivations for entering the SME lending market
Private sector growth in Tanzania, and in particular the growth of the SME sector, is expected to increase the demand for financial services among enterprise clients.[99] In theory, this increase in the demand for financial services by the enterprise sector – which the banking sector considers a 'new target group' – is expected to increase opportunities for banks to break even or generate profits. As institutions like CRDB Bank face fierce competition from foreign banks operating in the profitable and established corporate market segment, expansion and diversification can create opportunities to generate better sales and income. Thus, given the recognition that the corporate market segment is already saturated, CRDB Bank's business strategy has been restructured with a market segmentation approach in mind, whereby services are pro-actively designed to reach the microfinance and SME customers.

There are, however, significant barriers for banks to reach the SME market in Tanzania, including the following.

- There are demand-driven constraints such as the inability of SMEs to provide verifiable information on their financial situation (such as records of sales and other important transactions); their lack of traditional collateral that can be pledged in order to access loans; and the lack of proper business plans to demonstrate the viability of planned investments.
- There is also a perception of bad repayment culture among this group of enterprises – especially among those that tend to operate informally. Moreover, bank staff usually do not have the skills and bank policies lack the flexibility to effectively provide services to this market segment. The experience of other successful providers (in other countries), for example, shows that this market segment requires the use of new methods to assess creditworthiness.

98) The evaluation put it to CRDB that while the intention behind using the name and logo of CRDB on the SACCOS signage is meant to inform the market of the SACCOS' affiliation with CRDB and that therefore that it is an institution they can trust and bank with, this does run the risk that members and potential members might interpret this message to mean that CRDB stands behind the SACCOS. In other words, it might give the impression that people's savings are insured by the bank – which is not the case. While the act of branding the SACCOS is done with the intention of generating greater trust in a market that is characterized by severe imperfections, CRDB also needs to be cautious about the implications of the message it conveys: it must ensure that members are aware of the extent of CRDB's relationship with and support to SACCOS and what this means in terms of the risk that members need to bear in the event of a SACCOS' failure. The evaluation was told that this issue is currently under discussion between CRDB and the BoT.

99) CRDB Bank defines SMEs as those with: (i) staff numbers of 1-100, which may include relatives of the entrepreneur; (ii) capital of TZS 5 million-500 million; (c) annual sales turnover of TZS 20 million-1 billion; and (d) business loan requirements of TZS 1 million-200 million.

- There are also significant barriers in the legal and regulatory framework, especially with respect to property ownership, and regulatory requirements and practices on securing loans – which affect the behaviour of banks and imposes high transaction costs for both banks and SME clients.

Performance assessment
With Danish support (under BSPS II), CRDB Bank launched its SME operations in April 2005 by establishing a specialised unit within the Department of Retail Banking. The key objective of Danish support to SME lending at CRDB is to increase access to loan capital by SMEs that tend to be considered ineligible for commercial lending. Support has been extended to CRDB Bank in order to increase the share of this particular customer segment within the bank's retail loan portfolio.

For CRDB Bank to effectively reach this market segment appropriate banking products needed to be developed and the credit assessment system also needed to be refined and adjusted. Enhancing the capacity of the bank's core departments (retail and credit) were seen as necessary in order to integrate the new products and customer segments within the bank's business processes. While new products and services and innovations in terms of methods and procedures at CRDB Bank help to address the supply-driven constraints to SME lending, the bank recognised that important steps were likewise needed on the demand side to address such as issues as the poor business management skills among small entrepreneurs and the lack of appropriate collateral. Thus, the delivery of appropriate BDS to feasible SME projects was conceived of as a way to address these demand side issues. Furthermore, a CGF was also established in order to reduce the bank's risk as it enters this new market.

The figure below depicts this interplay between the different areas of intervention – i.e. capacity building of the staff, training of customers and the establishment of a guarantee fund – all serving an important function in an imperfect market and aimed at helping to effectively establish SME banking within CRDB Bank.

C.4 Support to SME lending: areas of intervention

Source: CRDB SME Department.

Output 3.1: Business plans for SME lending and support activities developed
Danida supported the process of developing an SME business plan at CRDB Bank. This included identifying and defining the market segment being targeted as well as developing the SME policy within the bank. Proposals were also prepared for setting up and clarifying the mode of operations of a guarantee fund for SME loans at CRDB. The strategic and business plan to develop SME banking was considered an integral part of the retail business plan of CRDB Bank.

Along with this, support was also provided in order to evaluate international best practice in SME lending – which included a study tour. The Danida long-term credit adviser played a central role in the implementation of activities in this sub-component along with key staff and management at the bank (who are now leading the SME department).

Output 3.2: New banking products for SMEs developed and introduced at CRDB Bank
In order to help develop new banking products and credit assessment systems, the bank drew lessons from experience in other countries (e.g. with respect to the use of credit scoring systems). The bank recognised that the rationalisation of the credit assessment system could help reduce costs when transacting with individual clients. Danida provided support in the development and implementation of capacity building activities and contributed to the purchase of additional equipment and software.

To design customised products for SMEs, the bank developed an SME credit product that addressed the working capital and investment needs of entrepreneurs, with loan amounts ranging from TZS 1 million to 100 million.[100] Moreover, prior to the implementation of the SME business plan, the bank used to require only traditional collateral. With the SME scheme, the range of collaterals accepted by the bank was also widened – e.g. through acceptance of residential licenses in lieu of property titles, as well as movable assets such as motor vehicles and machinery.

Output 3.3: SME activity line established by a business service provider
In order to effectively establish SME banking within CRDB, capacity building activities were carried out for CRDB staff. All recruited staff had to undergo intensive training (both classroom-based and field training). Account Managers have also undergone training in order to be able to develop financial statements from primary data submitted by prospective SME clients as part of the loan appraisal process. This was crucial as it has enabled CRDB Bank to relax the requirement of audited financial statements when applying for loans ranging from TZS 1 million to 50 million. The bank also had to recruit a total of 28 new staff who specifically dealt with SMEs at branch level and others at head office level. SME Account Managers have been introduced at the branch level; they are the key staff members responsible for the relationship between the bank and the SME client.

To complement these efforts, capacity building activities are also carried out for the SMEs. The training is organised into modules consisting of: legal and policy context of SMEs, securing business for prosperity, record keeping, marketing, human resource management, costing, buying, stock-taking and business planning. At the end of each training session, the trainees are issued with a copy of the 'SME Toolkit' for further reference. The materials are provided in Swahili.

100) The loan product carried the brand, 'Bidii Loans'.

Output 3.4: Credit guarantee fund for SME lending established and operational
To support the establishment and operationalisation of the SME credit guarantee facility, rules and procedures for the management of the fund were drafted and finalised, including details of fund management arrangements. Of the total DKK 15 million contribution to support SME lending at CRDB Bank, DKK 10.2 million have been placed as guarantee for loans under this scheme.

The SME portfolio at CRDB Bank has grown steadily over the years, as the performance results in Table C.4 show. A total of 3,136 loans have been processed, and loans approved had a value of TZS 68.8 billion (DKK 295 million) as at April 2009 – an increase of 100% from the previous year. The portfolio has also been performing well, with PAR well below 2%, which fares well when compared with the bank's overall average of roughly 5%.

Table C.4 Performance results: CRDB SME lending operations

	2006	2007	2008	April 2009
Number of loans processed	440	1,420	2,463	3,136
Value of loans approved (in TZS)	7.6 billion	30.2 billion	60.4 billion	68.8 billion
Number of customers trained	555	950	1,453	1,533
Portfolio at risk (PAR)	---	0.83%	0.88%	1.60%
Number of branches with SME operations	20	25	28	28
Value of the guarantee fund	2.5 billion	2.5 billion	2.5 billion	2.5 billion
Value of loans guaranteed	1.77 billion	5.78 billion	6.76 billion	

Source: CRDB Presentation of implementation status by Mussa Mwinyidaho, CRDB Bank Senior Relationship Manager for SME, (May 2009).

C.5 Prevailing challenges

As noted earlier, CRDB Bank has evolved into an important and credible player in the financial services sector in Tanzania. The preceding discussions underscore CRDB's achievements especially in terms of building its capacity to better meet the demands of its customers and to successfully enter new markets and establish new operations – such as in SME lending and microfinance.

Despite these achievements, there are prevailing issues that need to be addressed and key challenges confronting CRDB.

Sustainability of the microfinance operations
The approach and method chosen by CRDB Bank to reach microfinance clients – i.e. the linkage-wholesale lending model – was seen as the appropriate business model given:

(i) CRDB's characteristics and comparative advantages in delivering products and services that are needed by the market; (ii) the nature of the gaps in the market that it sought to address through its services; (iii) the existence of other potential partners; and (iv) the risk associated with establishing new markets. The microfinance business model chosen was cognisant of the fact that CRDB would not be able to sustainably support the provision of services directly to low income (and especially rural based) retail clients.

In the course of developing the microfinance approach, CRDB recognised that in order to help improve the financial access of individuals and enterprises, it was necessary to help build the capacity of partner institutions (SACCOS) – as they tend to be most accessible to those who are among the unbanked in the country. CRDB needed partner institutions to enable it to reach unbanked markets (albeit indirectly). However, the capacities of SACCOS needed to be strengthened – otherwise, it would not be possible to expect them to deliver financial services to the target market on a sustained basis.[101] The relationship between CRDB and its partner SACCOS, therefore, needed to go beyond a straight-forward wholesale lending /linkage banking model.

Addressing the gap in terms of the SACCOS' institutional capacity required a considerable amount of resources on the part of CRDB. This was an area of market failure: not only was the environment characterised by significant transaction costs; helping build the capacities of the institutions that could bridge some of the gaps proved to have public good attributes. Furthermore, in order to ensure that there would indeed be an increasing number of better performing SACCOS, the use of a subsidy was justified: this is where Danish support became an even more significant piece in the puzzle. Danida's contribution, especially in terms of helping to finance the training and support extended to SACCOS by CRDB, meant that it has facilitated an undertaking that would not otherwise have been possible to pursue by a purely commercial organisation. Such an organisation would have to recover the costs by passing the burden onto the consumers. Thus, the role played by the donor's 'contribution' or grant in this sense could be justified on the basis of wanting to ensure a socially optimal price for the services being provided.

As the approach requires a sizeable upfront investment, it is difficult to imagine the replicability of this model on a commercial basis (e.g. solely undertaken by other financial service providers). Moreover, 'building capacity' not only requires funding resources but also entails a longer term view as results take time to materialise.[102] While some commercial banks with relationships with other donors may have the means to pursue similar business models, it will be important for them to consider that this approach requires them not to be governed by the desire to reap immediate benefits.[103]

Over the long term, as the microfinance operations of CRDB evolves, it will be important for the bank to determine the extent of the benefits it is able to derive from its microfinance operations, given the investments made by CRDB and Danida. Within this, it will be meaningful to ascertain – as far as possible – the extent of the public good

101) And in some cases, SACCOS did not even exist – which meant that CRDB had to intervene and encourage the formation of SACCOS.

102) For example, according to CRDB, it has taken them as much as three years to train some SACCOS before any considerable degree of confidence is built between them and these partner institutions.

103) The importance of this message can not be over emphasised, especially considering that a number of financial institutions (in Tanzania) have already started replicating and adopting the wholesale banking model. These institutions include NMB Bank Ltd, FBME, Akiba Commercial Bank, Commercial Bank of Africa, Tanzania Postal Bank, Okio Credit and Pride Tanzania.

attribute in this approach, especially considering the perceived long-term benefits to CRDB, such as those benefits which may arise from building SACCOS' loyalty towards CRDB and its brand. The wholesale model envisages CRDB Bank using strong intermediary MFIs as an alternative channel for some CRDB Bank products to reach bank customers. As the Bank foresees strong SACCOS mobilizing large amount of deposits, CRDB will also assist them in placements in money markets, linking them in payments systems and facilitating international money transfers and foreign exchange payments. There is also a possibility that some MFIs may eventually be transformed into branches that operate as part of CRDB's network. The benefits to CRDB Bank are an issue that seem to be vaguely assumed in the business plan and other relevant project documents, underlying the assumption that sustainability of the approach can be achieved. So far, the CRDB MFSC – which now operates as a service subsidiary – charges the mother company (CRDB Bank) commissions for the loans and other services rendered to the bank (which accounts for the cost of the non-financial services CRDB MFSC delivers). This income that the CRDB MFSC generates, however, does not cover the full cost of capital and investments needed to support capacity building activities for SACCOS. Indeed, it has recently sought and received grant funding from FSDT, in view of the exit of Danish support from CRDB.

Furthermore, at the current stage of its development, the wholesale microfinance model tends to place emphasis on 'loans' and less on 'savings'. This seems to be a consequence of the way the incentive structure for establishing partnerships between CRDB and SACCOS has been framed and received by the SACCOS and their members. As has been pointed out earlier, the underlying theory of change guiding the model is that client households and their enterprises – after having accessed needed loans – will then be able to generate greater incomes to help them to meet domestic obligations and also register surplus that can then be saved. And it is at this point that savings balances in SACCOS can be observed to rise at a much higher rate compared to demand for credit. While this may be true in certain cases, it will be crucial for CRDB to recognise the importance of promoting a culture of savings in the communities where it operates and that SACCOS are institutions founded on savings mobilisation. There is a growing amount of evidence showing that, especially for low-income households, credit and savings are used interchangeably, and access to savings facilities tend to be more important especially in addressing consumption needs (food, education, basic services, etc.).

Related to this, it will be meaningful to revisit the intent of the wholesale microfinance activity by CRDB to its partner SACCOS. There is considerable degree of overlap between the markets served by certain large SACCOS (especially in the urban and peri-urban areas) and those of banks, when we take account of the range of products offered

by SACCOS as well as the kinds of clients that such SACCOS tend to reach.[104] This suggests that although the wholesale lending scheme may have originally been conceived as a mechanism for reaching micro-clients indirectly, especially those in the rural areas, the emerging arrangement may actually be functioning more as a delegated form of banking services for small (often informal) enterprises.[105] This outcome reveals the magnitude of the unmet demand for financial services in the country and explains the degree of constraint faced by various users.

SME lending capacity: Remaining gaps to address

As has been highlighted in the previous discussions, CRDB achievements with respect to SME lending has been significant – especially considering its history as a bank that only used to deal with corporate clients. With the support of Danida, the bank has demonstrated flexibility in terms of adjusting its policies and practices in order to better meet the needs of the SME market segment.

It is, however, important to look at these achievements as part of CRDB's early stage of entering a new market segment; there are still important lessons to be learned and areas where further enhancement of its capacity will need to be made so that it can grow its SME business in the coming years.

104) *For example, available supply-side data collected by OPM in 2008 (to help develop the Rural Financial Services Strategy) show that while SACCOS tend to offer loans in amounts that range from TZS 50,000-100,000, the maximum amount of loans available for a single borrower can reach up to TZS 30-45 million. The high upper limit is indicative of the range in clients being served by SACCOS. This is also consistent with the 2006 FinScope survey results, which show that of the rural population with access to banking services, about 44% are also using the services of SACCOS, ASCAs and other informal sources. The overlap between those who are banked and still take out loans from SACCOS is about 19%. Thus, while SACCOS do indeed provide access to services to those falling within the lower income groups, a considerable proportion of their portfolio is channelled towards those that may be considered 'bankable' (given these client-members' income and asset profiles). While this pattern has been observed to be more pronounced among the urban-based SACCOS, it is also evident among the larger rural-based SACCOS whose loan amounts range from as little as TZS 5,000 to a ceiling of as much as TZS 30 million in some instances. This suggests a possible tension in the way funds are allocated within these institutions. It also suggests that although SACCOS are indeed better suited to provide services to low income groups, they may also be addressing to some extent the financing needs of a segment of the market that may not be adequately served by the banking sector, particularly (informal) SMEs. (See: Oxford Policy Management (2009): Tanzania: Developing a Strategy for Rural Financial Services.)*

105) *A considerable proportion of the funds mobilised at SACCOS seems to be directed towards small-scale entrepreneurs. This is not so surprising, given that SME financing is only starting to emerge as an area of business among financial institutions in Tanzania. Current banking regulations make it very difficult for banks to lend to SMEs, mainly because requirements on collateral are unsuitable for the largely informal nature of these enterprises. Moreover, information on the sector is lacking and banks are not willing to bear the costs, and do not have the skills, to identify the credit-worthy within this segment. The lending behaviour of banks towards SMEs is therefore often marked with caution and at best collateral driven. Thus, SACCOS tend to be in an advantageous position to fill this void left by the banking sector. SME clients are able access SACCOS services more easily, because of their flexibility in entry and collateral requirements, even though loans are extended at interest rates that are higher than they would be if SMEs were to directly access these loans from banks. This therefore creates a situation where the funds at some SACCOS are channelled significantly towards a market that may be considered bankable under normal circumstances (at least in terms of income standards). This was a key finding within the supply side study undertaken in the course of developing the Rural Financial Service Strategy (an assignment that was carried out by OPM, commissioned by the FSDT). Similar findings also emerged from the visits made by the Evaluation Team to a number of CRDB partner SACCOS namely: TEWO SACCOS and WANAMA SACCOS.*

Discussions carried out with a focus group of SME clients at CRDB revealed some of the prevailing challenges and issues that need to be addressed.[106]

Access to services is still constrained – Clients have pointed out that CRDB's policies with regard to the collateral to be pledged for loans are prohibiting them from accessing loans – and for some, from accessing the full loan amounts they have applied for, given the way collateral is assessed by the bank. This is a difficult area for both the bank and its clients. While CRDB has indeed expanded the range of acceptable collateral for its SME loans, it still prioritises the use of property and fixed assets. And as property ownership is difficult to formally establish in Tanzania (given the existing legal framework and the lack of capacity of the Land Registry), both the bank and SME clients therefore bear significant transaction costs;

Clients have also pointed out that it still takes a considerable amount of time (as much as three months) before loan funds are disbursed, which acts as a deterrent for them to access loans from CRDB. This delay is partly explained by the legal requirement to ascertain the status of the collateral being pledged (which CRDB undertakes and involves the Registry).[107] However, there are also certain steps in the process that may indeed be further streamlined to help decrease the time it takes to process loan applications. For example, the SME Department has noted that the loan review and appraisal which the department carries out can be made relatively quickly (especially if clients are able to provide the documentation required). However, there seems to be a time lag once these loan applications are passed onto the Risk Department – which, by virtue of the function it fulfils within the organisation, tends to be critical about the risk profile of SME clients to whom loans are being provided. Both the SME Department and the Risk Department acknowledge that further work is needed in order to bridge this gap in understanding about this particular market segment, which could help decrease the loan processing time;[108] and

Relevant to the above points, it will be crucial for CRDB to consider the emerging role being played by new entrants in the market (such as AccessBank and other larger MFIs) that are able to employ even more innovative approaches to deliver financial services to the MSME market. The clients who have participated in the FGD have admitted that indeed these institutions are employing aggressive techniques to extend their services. Some of these institutions employ cash flow-based lending approaches and accept non-traditional forms of security such as stock of goods (for traders) and household assets. Interestingly, many of these institutions tend to operate at the lower end of MSME market, but allow the graduation of clients into further cycles of increasing loan amounts – which serves as a sorting mechanism for these institutions and helps to contain the risk, while at the same time providing an incentive for borrowers to repay their loans.

106) An FGD was held on 1 June 2009, which was attended by a total of 18 individuals, representing a mix of CRDB SME borrowers and non-borrowers.

107) CRDB have pointed out that it is the Bank's experience that up country land registries (Mbeya, Moshi and Dodoma) complete mortgage procedures faster than the Dar es Salaam land registry. Therefore, it is common for Dar es Salaam to take up to three months to effect security perfection and registration but the same is not true for upcountry registries. This is mainly because the Dar es Salaam land registry is much more busy compared to upcountry registries.

108) CRDB has also pointed out that that the Bank has delegated loan approving authority to branches. CRDB Bank branches can now approve SME loans ranging from TZS 1 million to TZS 50 Million. This will enable the Bank to shorten the loan processing time and make the Bank more competitive in serving SMEs.

In light of the above observations, it is important to assess the role that has been played (and will continue to be played) by the availability of credit guarantees to support SME lending within CRDB. The evidence suggests that it has indeed facilitated the bank entering into this new market with some degree of comfort knowing that it will be cushioned in the event of default on the loans. It has allowed the bank to become more familiar with the market segment, as evidenced by the effort that has been made by the bank in terms of making some adjustments in its policies and practices when dealing with this group of clients.[109]

However, it will be important to see whether CRDB will be able to initiate further necessary changes and innovations in order to grow its SME portfolio and become a significant player in this particular market segment. The key questions that need to be addressed here are: To what extent will the availability of CGF help encourage the bank to explore new mechanisms to better serve this market – especially as other forms of Danish support (e.g. technical assistance) are expected to no longer be available? On the other hand, could the availability of CGF (to some extent) keep the bank from going beyond its comfort zone – especially in terms of adopting more effective methodologies and practices? The second question considers the possibility of how the guarantee may to some extent act as a disincentive to truly seek out methods that work – which might be entirely expected of an institution that knows it does not have anything to fall back on, and therefore, would be keen to discover and employ methods that truly work. Ultimately, it will be meaningful to recognise how the experience of other institutions globally demonstrates the limitations in the role of credit guarantees – essentially, that these guarantees could not help institutions that were not also developing their own institutional strength.

109) This is consistent with the purpose often cited for setting up credit guarantee schemes: it helps to overcome problems of asymmetric information by demonstrating the real risk to lenders who may perceive the risk to be higher than what it is – in this case, the risk associated with lending to SMEs.

Annex D Private Agricultural Sector Support

D.1 Background

Small- and medium-sized farmers in Tanzania have, for many decades, encountered major obstacles in accessing finance to enable their businesses to grow. The situation worsened further in the 1980s with liberalisation and the dismantling of crop boards. The constraints faced by the agricultural sector were driven by the operations and eventual collapse of the agricultural marketing parastatals, a highly fragmented financial sector with very dominant state players, and state-directed agricultural cooperatives, which also led to disruption of linkages between primary production and processing/marketing. Since then, there have been some improvements as driven by the emergence of a private banking sector and private processing/marketing firms, as well as new forms of organisations, such as outgrower schemes and small farmer organisations, such as SACCOS.

Furthermore, banks in Tanzania have traditionally been reluctant to lend to the agricultural sector due to the high risks involved in agricultural lending and the sector's vulnerability in terms of crop failure, unpredictable climatic conditions and price fluctuations. The lack of access to financial services in rural areas is highlighted by the results of the 2006 FinScope survey, which show that 57% of the rural adult population in Tanzania is excluded from any kind of financial service, compared to 45% of the urban adult population.[110] In Tanzania, almost 80% of the country's population live in rural areas and an estimated 85% of the country's poor people live in rural villages and rely on agriculture as their main source of income and livelihood.[111] These individuals and households operate under severe constraints and are subject to frequent shocks. Their situation is often complicated by poor market linkages, limited access to productive assets such as land and livestock, poor access to water, electricity etc. and poor access to services such as education and training as well as financial services.

PASS was created specifically to address this constrained level of access to finance by small- and medium-sized farmers. It was established in 2000 as a project by the GoT under ASPS as a pilot intervention to improve the access of commercial farmers to finance. PASS's main activities were, and still are, BDS and provision of credit, through guaranteeing bank loans. Its objective was to 'promote and facilitate investments in the primary agricultural sector and agro-businesses in Tanzania'. During ASPS, PASS surpassed all its targets and clearly demonstrated that there was strong demand for its services. RDE therefore decided to continue to support PASS under ASPS II,[112] with the development objective of 'increased growth of private commercial farming and agribusiness'.

During this period, problems were identified with the management of PASS, particularly in terms of the financial management. While the technical foundations of the work were considered sound, the operation was working on the basis of poor financial strategies and operations, and without an adequate MIS. For example, it was symptomatic of the management problems that although a fee was payable by banks for PASS credit guarantees,

110) Summary of findings at: http://www.finscope.co.za/tanzania.html

111) Tanzania is still a predominantly agriculture-based economy. In 2006, the agricultural sector contributed almost 45.3% to the country's GDP (World Bank Group, Tanzania at a Glance, 2008).

112) PASS was Component F of the programme.

the fees were not being collected by PASS management. In 2007, therefore, the contracts of two senior managers were terminated and new temporary management arrangements were put in place during the transition to Trust status and the recruitment of new management, both of which were successfully completed in 2008.

In May 2007, PASS became an autonomous legal trust[113] and started to move away from being a development activity managed by the Tanzanian and Danish governments into an independent, self-sustaining body. At the end of ASPS II, PASS was transferred to BSPS III[114] with the development objective of 'accelerating investments, financing and growth of commercial agriculture, agribusiness and agro-processing'.

Box D.1 PASS's Vision and Mission

PASS's vision is to 'become a leading institution in providing capacity building to develop entrepreneurial/ business skills for the agricultural sector and in providing a comprehensive package of business development services to small and medium enterprises nation-wide'.

PASS's mission is to 'become a credible, customer oriented institution, providing high quality capacity building of entrepreneurial/ business skills and business development services to small and medium scale agricultural sector enterprises in a customer service, convenient and confidential manner'.

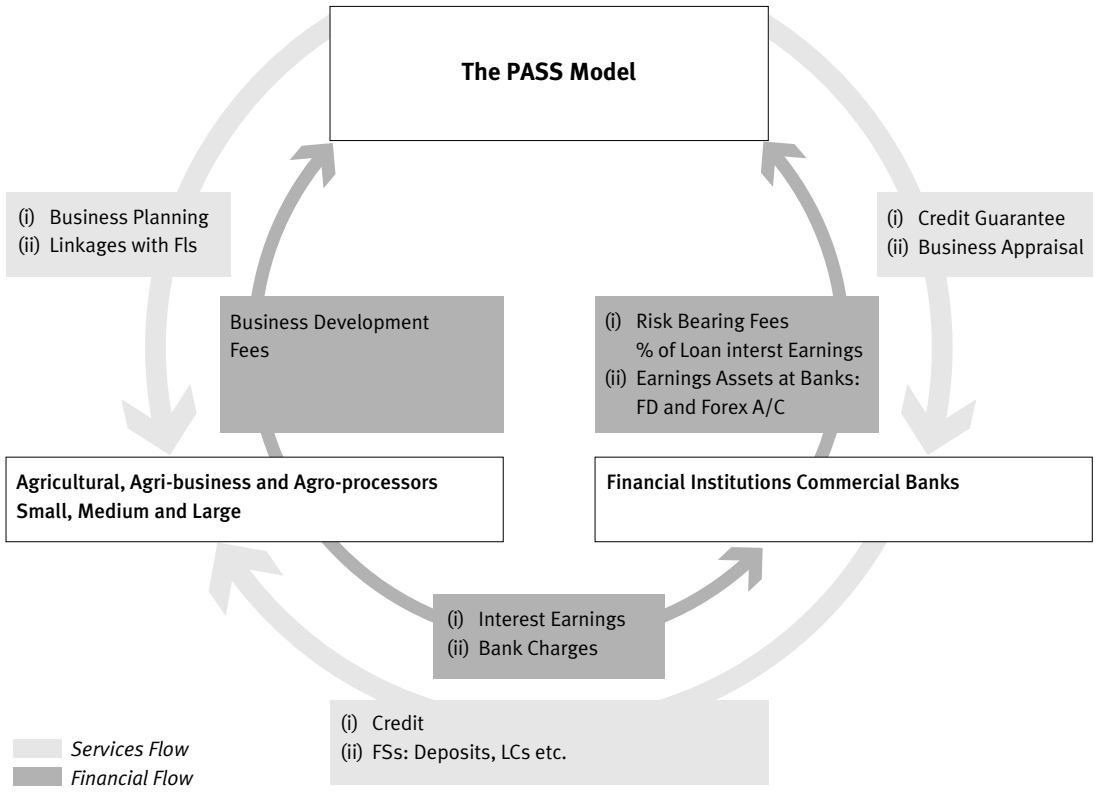
PASS initially provided its services in 10 regions but now has clients throughout Tanzania. It started with one office in Morogoro, has recently opened a further branch office in Mbeya and plans to open branch offices in Moshi and Mwanza and a head office in Dar es Salaam. PASS currently has 15 employees but this is projected to increase to 19-20 employees in 2009. PASS's clients comprise individuals (41%, of which 88% are male and 12% female), farmers' groups (32%), business firms (24%), SACCOS (2%) and cooperatives (1%).[115] Demand for PASS's services has risen considerably: by the end of 2008, PASS had provided 1024 clients with BDS and loan guarantees, and the total value of business plans approved (and therefore loans released) was TZS 54.2 billion (DKK 233 million).

D.1.2 PASS business model

PASS's main products are BDS (predominantly business plans and feasibility studies) and the provision of credit guarantee through the CGF. It also enhances access to finance through providing links with banks and helps to develop farmer organisations and facilitate contract farming. PASS's BDOs work closely with their clients to prepare business plans and feasibility studies. The process involves making an assessment of financial and technical viability of the proposed projects, as well as attempting to estimate developmental indicators related to income and employment generation, poverty reduction, gender, HIV/AIDS and the environment. Figure D.1 depicts the PASS business model.

113) PASS Trust: registered as a non-profit making and non governmental organisation (NGO) under the Trustees Incorporation Ordinance (Cap 375).
114) BSPS III will run from 2008 to 2013. PASS was Component C.1 of the programme.
115) BSPS III, Appendix C, Component Description – Component C, p. 9.

Figure D.1 PASS business model



Source: Credit Guarantee and Business Development Services for Small and Medium Agro-Enterprises: A Case of the Private Agricultural Sector Support (PASS) Trust-Tanzania, Andrew E. Temu.

While PASS started working with only one partner bank, its number of partner banks has now grown to six, namely: CRDB Bank Ltd, the African Banking Corporation (ABC), EXIM Bank, the Federal Bank of the Middle East (FBME), the NMB, and the Tanzania Investment Bank (TIB). In this arrangement, PASS endorses the business plans and feasibility studies it helps to develop with clients and agrees to guarantee the loan of the client, following further negotiations with the partner bank. BoT regulations require that loans are supported by collateral worth 125% of the value of the loan, which few farmers and emerging agribusinesses can provide. PASS deposits an amount corresponding to the full value or part of the value of its guarantee with the banks: this raises the liquidity of the banks and their trust in the guarantee. PASS currently has a guarantee to loan leverage ratio of 1:2 with CRDB and 1:1 with the other collaborating banks. PASS is trying to negotiate a leverage of at least 1:2 with all collaborating banks, which it deems feasible over time, as the relationship with the other banks evolves and a greater degree of trust is established.

Clients with bankable business plans and good business track records are the most likely to be approved for loans backed by the CGF, but clients with relatively new businesses may also be considered if they can demonstrate good ownership and management and a commitment to meet their financial responsibilities. The different partner banks require different levels of guarantee: for example, CRDB requires 30%-100%,[116] EXIM Bank

and ABC require at least 50%. Currently, the average credit guarantee which PASS offers its clients is 50%. In the past, PASS offered 100% credit guarantee to some clients but it was recommended that this should no longer be offered and that the credit guarantee should ideally be kept below 60%.[117]

The size of the CGF has increased from TZS 1.4 billion (DKK 0.6 million) in 2003 to TZS 16.8 billion (DKK 7.2 million) in 2008. The CGF doubled in size from 2007 to 2008: this was in response to the high demand for PASS services[118] and also to support the planned geographical expansion during BSPS III (see section D.3.4), to better serve agro-industries and agribusinesses, and to support longer term loans to finance the investments of commercial farmers. At the end of the first quarter of 2009, the volume of the credit guarantee portfolio was TZS 18.5 billion (DKK 7.9 million). PASS's target is to reach TZS 27 billion (DKK 11.5 million) in 2010 and TZS 39 billion (DKK 16.7 million) in 2013. By the end of BSPS III, it is expected that PASS will support an active agricultural sector loan portfolio of TZS 100 to 125 billion (DKK 429 to DKK 536 million).

D.1.3 Danish support to PASS

The RDE has contributed both financial and technical support to PASS. Danida has been the sole funding agency for PASS, has paid the salaries of the project staff and has also provided short and long term technical assistance. Danida's main contribution has been its 100% funding of the CGF. DKK 20 million was spent on PASS in ASPS and DKK 40.2 million in ASPS II. The projected funding for PASS under BSPS III is DKK 140 million, of which DKK 126 million is to enhance the CGF.[119] Two Danida advisers over three years were also allocated to PASS under ASPS, and a further two (one senior and one junior) during ASPS II. Table D.5 lists Danida's inputs to ASPS II, against the immediate objectives of the PASS component. During BSPS III, Danida is providing PASS with an Agribusiness Adviser and earmarked budget support to allow the Trust to contract an internationally recruited Deputy Manager to support the Tanzanian Managing Director and the development of corporate policies and systems.

116) This depends on the type of investment and the level of risk involved.

117) Aide Memoire – Review of Agriculture Sector Programme Support (ASPS II), 2006, p. 12.

118) There was a particular increase in demand in 2007/08 which PASS was unable to meet due to limited guarantee funds.

119) The remaining DKK 14,000,000 is allocated as follows: DKK 10,000,000 to pay for two international advisers and DKK 4,000,000 to cover an operational financing gap.

Table D.1 Danida inputs into Component F, ASPS II

Immediate objective	Input	Details
Immediate objective 1: By 2005, PASS is a self-sustaining private entity	Short term TA (international and local)	Business Development Planning, Legal aspects, BDS Market Analysis, pool to cover needs as determined by the business strategy planning process
	Seminars	Discussion of Business Development Plan
Immediate objective 2: By 2007, 150 agribusiness enterprises, 115 individual commercial farming businesses, and five contract-farming businesses, with a total of 500 contract-farmers, are implementing investments financed by loans, which are backed by the PASS Credit Guarantee Facility (CGF)	Danida advisers	Marketing, Deputy Manager
	Staff of PASS	Managerial, technical and support staff
	Operational support	Travel in Tanzania, vehicle operation, audit fee, printing, publicity, HIV/AIDS information, office operation
	Training	Of PASS staff in financial methodologies
	Office	Building of new PASS office
	Subsidies	Client feasibility study preparation, client management and marketing
	PASS windows	Operational costs of PASS windows in other institutions
	Short term TA	Component implementation monitoring, mentoring of PASS management
Immediate objective 3: By 2007, PASS is co-operating with at least two CGF participating institutions on credit guarantees	CGF Funding	For selected CGF participating institutions

Source: ASPS II – Component Description – Private Agricultural Sector Support

D.2 Key achievements

PASS met or surpassed all its objectives under ASPS II. The development objective of this component under ASPS II was 'increased growth of private commercial farming and agribusiness'. Table D.6 compares the original objectives and their related outputs to the actual achievements of PASS during ASPS II. The development objective of PASS under BSPS III is 'acceleration of investments, financing and growth of commercial agriculture, agribusiness and agro-processing' and the outputs related to this objective are:

- An efficient, effective, and sustainable PASS Trust;
- Enhanced geographical coverage;
- Expanded range of products and services; and
- Increased lending for commercial agriculture, agribusiness and agro-processing

Since BSPS III implementation began very recently (2008) it is too early to assess progress against this objective and related outputs.

PASS has had some success in creating synergies with other components in ASPS II and BSPS III. For example, in 2005, PASS collaborated with the District Agricultural Development Support (DADS) component, whereby DADS agreed to finance four BDOs from PASS, who in turn undertook a mapping of potential PASS clients in Iringa and Mbeya regions. In addition PASS has agreed to provide business advisory services to associations or farmers investment groups, farmers and agribusinesses. This gave PASS a 'no-cost' opportunity to expand its operations and reach new clients. PASS also has a long-standing relationship with CRDB, which also receives support through BSPS III. There have also been synergies with the SME Competitiveness Facility (SCF) another Danida-financed project, mainly through use of SCF BDS providers to assist PASS in the provision of those services. PASS and SCF have also jointly supported a few projects, where SCF has provided marketing capacity building through matching grants.

PASS is now very well regarded and positioned as a knowledgeable and efficient facilitator in rural finance. One of its key success factors is that it offers a variety of important and complementary services to agribusinesses 'under one roof'. It has also built strong links with key stakeholders in the agricultural sector and with financial institutions. It has earned the trust and respect of banks and of government in Tanzania. The PASS model is currently being replicated in Uganda and Mozambique and it is hoped that it will be replicated further in other parts of Africa.

Table D.2 Analysis of progress against objectives for ASPS II Component F (PASS)

Original Objective	Progress against objective	Original Outputs	Progress against outputs
By 2005, PASS is a self-sustaining private entity	PASS Trust established in 2007 – technical review of PASS in 2005 recommended that, due to lack of income, date for fulfilment of objective be revised to 2007	Business Development Plan (BDP) for PASS approved by Board of Directors. New, profitable BDS introduced	BDP approved New BDS introduced (agreement to help farmers finance agro equipment, promotion of small scale vegetable oil mill crushing plant, PASS approached by banks to analyse Business plans submitted by non-PASS clients)
By 2007, 150 agribusiness enterprises, 115 individual commercial farming businesses, and five contract-farming businesses, with a total of 500 contract-farmers, are implementing investments financed by loans, which are backed by the PASS CGF	144 agribusiness enterprises, 205 individual commercial farming businesses, and 351 contract-farming businesses, with a total of 14,098 contract-farmers	PASS has prepared 360 feasibility studies for clients from within the commercial farming and agribusiness sectors[120] 270 business plans for clients are approved by CGF participating institutions for loan funding being backed by the CGF	979 business plans prepared and submitted to CGF participating institutions, of which 360 were for individuals, 619 were for groups. 700 business plans approved by participating institutions
By 2007, PASS is co-operating with at least two CGF participating institutions on credit guarantees	By 2007, PASS was co-operating with four banks (CRDB, EXIM Bank, ABC, FBME)	Participating CGF institutions selected. Annually negotiated agreements with the CGF participating institutions on refilling of CGF. Final ownership of CG funds determined	Four institutions selected. Decision that Danida would continue to be sole provider as PASS to be included in BSPS III. Decision that ownership of CG funds will go to PASS Trust (handover took place in February 2009)

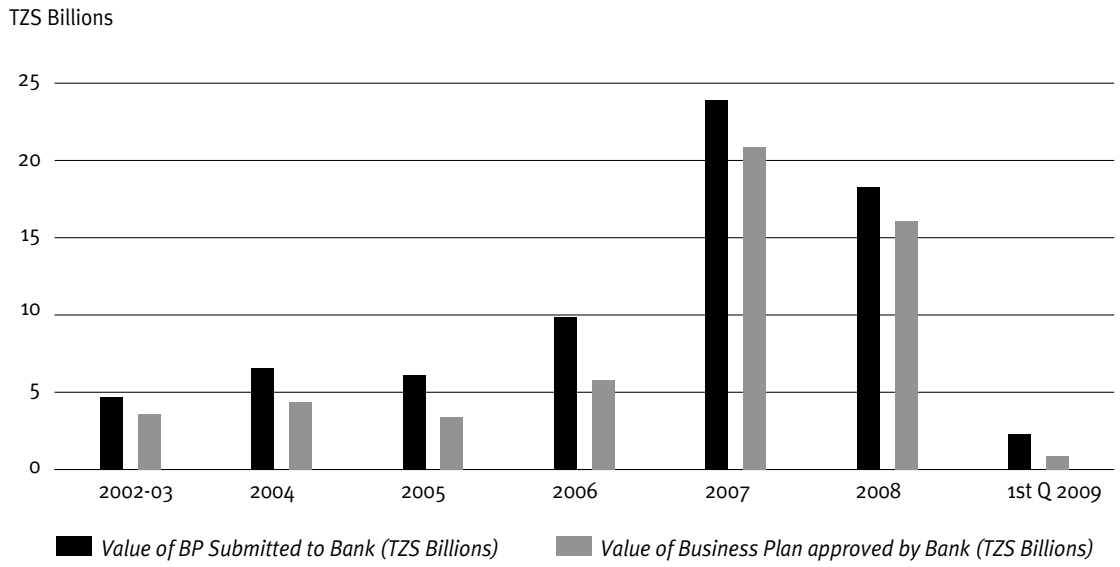
120) *It is assumed that some 75% of the feasibility studies (270 in number) will conclude that the investment is viable and therefore should receive support and proceed to preparation of business plans and loan financing. However, some 25% of the feasibility studies (90 in number) are assumed to conclude that the investment is not viable and therefore does not qualify for further support.*

D.2.1 Outreach

PASS has been able to reach an impressive number of SME farmers and agribusinesses, both directly and through SACCOS. PASS has facilitated investments worth 58 billion (DKK 249 million) and reached over 1,800 clients directly. [121] It estimates that over 20,000 farmers/agrobusiness owners have benefited as a result of this outreach. As shown in Figure D.2, PASS has considerably increased the value of business plans submitted to and approved by the banks since 2002. In 2003 the total value of business plans approved was TZS 3.6 billion (DKK 15.5 million), compared to TZS 16.1 billion (DKK 69 million) in 2008. By the end of 2008, a total of 1,024 clients have received business plan support and loans and the total value of business plans approved was estimated at TZS 54.2 billion (DKK 233 million).

PASS has also reached clients across a variety of agricultural sub-sectors, as shown in Table D.3. The dominant sub-sector is sugarcane with 31% of clients, followed by tea (19%), coffee (16%), agribusiness (9%), livestock keeping (7%), agro processing (7%), horticulture (1.5%), sisal (1.3%), cashew nuts (1%), sunflower (0.7%) and floriculture (0.4%).

Figure D.2 Value of Business Plans prepared



Source: Final report, Categorization and Socio-Economic Impact Analysis of the Pass Clients to Inform Policy and Managerial Decisions, 2006.

121) *Composed of 641 individual clients and 748 groups; Private Agricultural Sector Support Trust (PASS), review mission 18/3/09 (PowerPoint presentation).*

Table D.3 Distribution of PASS clients across agricultural sub-sectors

Sub-sector	Percentage (%)
Livestock	7.3
Cereal Crops	5.7
Cashew nuts	1
Agro processing	7.2
Agribusiness	9
Horticultural	1.5
Tea	19.6
Coffee	15.8
Sisal	1.3
Sugarcane	30.5
Flouriculture	0.4
Sunflower	0.7
Total	100

Source: Final report, Categorization and Socio-Economic Impact Analysis of the Pass Clients to Inform Policy and Managerial Decisions, 2006.

PASS has a specific mandate to address gender issues within its work through enhancing outreach to women. The BDOs take gender issues into account whilst preparing business plans: for example, PASS makes sure that the investment being supported will not adversely affect the welfare of women and aims to promote the employment of women. It aims to ensure that women equally benefit from the investments it supports and generally offers a higher level of credit guarantee to women (up to 80%, compared to a maximum of 60% for male clients). In future business plans, PASS is planning to show how investment projects can assist in creating greater gender awareness, provide higher quality employment for women and promote more gender balance in employment both in the enterprise and the wider community. Since 2003, 58% of PASS's total clientele have been female. This is impressive in a business environment where men are usually heads of households and key decision makers and women do not tend to own enterprises.[122] PASS also has its own internal gender policies, including the active recruitment of qualified female staff, and undertakes gender awareness raising activities amongst its staff and clients.[123]

122) *Final report, Categorization and Socio-Economic Impact Analysis of the Pass Clients to Inform Policy and Managerial Decisions, page ii.*

123) *It is, however, important to note that as in the experience of banks operating in Tanzania, it has been difficult for PASS to employ more women in its workforce. The work carried out especially by BDOs require mobility and entails significant travel around the countryside, which tends to be difficult for female employees.*

PASS has been successful in facilitating financial services to agribusiness and building strong links between banks and agribusiness clients. Since its establishment in 2000, PASS has worked closely with CRDB and has now developed relationships with five other banks, who have agreed to disburse funds to agribusinesses through the CGF. PASS has therefore been able to bring banks into rural areas to lend to businesses in the agricultural sector, a sector to which Tanzanian banks have traditionally been reluctant to lend. The idea is to facilitate the creation of long-term relationships between banks and the target market. It is PASS's hope that the increase in the number of partner banks will also serve to enhance competition and therefore provide a better service for PASS clients at a lower cost. PASS hopes to gradually increase the leverage ratio of the loans – to at least 1:2 with all banks, and even up to 1:4. This would enable the CGF to reach a growing number of clients and will depend on the banks continuing to have positive experiences with CGF-supported loans.

Due to the nature of its business model, particularly the fact that it tends to work with clients with bankable business plans and good business track records, PASS is generally not reaching, and therefore not having an impact upon, the poorest segments of the farming population. Given the requirement of TZS 30,000 (DKK 129) as an upfront fee, many poorer farmers (i.e. smallholders) cannot afford to pay such an amount and would therefore be precluded from accessing PASS services. Furthermore, PASS acknowledges that the majority of its clients live within 50 kilometres of district or regional capitals and peri-urban areas, which is also important to consider in determining the poverty profile of PASS' clients. The infrastructure in more remote rural areas is very poor – there is a lack of (or severely constrained) access to basic services, clients' title deeds or other securities are not generally readily available, and banks would also be more reluctant to work with clients in very remote (often sparsely populated) areas. PASS has mitigated this to some extent by offering subsidised services to some smaller farmers and encouraging the formation of farmers' groups. Groups of poorer farmers are much more likely to be able to mobilise the required funds for a business plan than if they were applying as individuals. It is, however, important to emphasise that PASS' main client group indeed consists of farmers and agribusinesses that do not belong to the poorest segments of the population. This is a conscious decision made by PASS. PASS management believes that working in this niche is an important contribution to private sector development and that this is a market segment that does face constraints in accessing capital needed by businesses to grow and become more productive. Moreover, PASS also recognises that working with this market segment makes it possible for the institution to recover the cost of its operations (through its current fee structure) and achieve financial sustainability in the long term.

Box D.2 A profile of PASS clients

PASS' clients are typically farmers and agro-business owners. Many of them augment their income by engaging in off-farm enterprises (such as trading of produce and other goods). The evaluation held meetings with a number of PASS' clients during the field visit to Morogoro in May 2009.

Client 1 (male, 51 years old) used to work full time in one of the parastatal tea companies. Even then, he engaged in farming for household consumption and kept three cows for domestic purposes. He has been a client of PASS for the last six years and is currently on his second loan cycle. He uses his loan proceeds to purchase chicks and feeds for his poultry business.

Client 2 (male, 48 years old) is currently the owner of a small milling company. He used to be employed as a civil servant but decided to run his own business for economic reasons, which he started in 1995. He considers the loan accessed with PASS assistance crucial to the functioning of his business, as he uses the loan proceeds for working capital – essentially to purchase maize.

Client 3 (female, 58 years old) is one of PASS' many female clients. She used to be a nursery teacher but now owns and runs a paddy farm. She also runs a restaurant, which she considers an important source of income and cash during lean seasons and especially as it takes time for her to generate profits out of her farming business.

Client 4 (male, 43 years old) purchased his tractor via a loan from CRDB that was facilitated through a PASS guarantee. His tractor business is now the main source of income for him and his family.

All four clients have savings accounts in banks (mostly with CRDB). Most of them have maintained these accounts for several years already, even before accessing PASS services. Interestingly, despite being account holders, they have found it difficult – and, in fact, impossible – to access loans from their banks. All of them have tried approaching banks for loans – but their applications were rejected after a long processing time. When they had heard about the services provided by PASS (whether from friends or from district agricultural officers), they immediately approached PASS in the hope that they would indeed be able to access the loans that they needed.

They consider the services provided by PASS important for them to secure their livelihoods. Client 1, for example, commented that 'without PASS, his business would have collapsed'. But through the loan, he was able to make the necessary investments which allowed him to generate a larger return from his business: he is proud to state that he has managed to build his house and pay for his children's schooling all the way to university. For Client 4, he thinks that he would have resorted to informal borrowing had PASS not been around to provided its services. And while loans from the informal sector can be accessed quickly, the terms would not have allowed him to engage in the tractor business and informal loans, given the way they are priced, would have likely put him in a never-ending cycle of indebtedness.

Sustainability

Having evolved from a donor funded project to an autonomous trust, one of PASS's key objectives has been to achieve operational and financial sustainability. PASS obtains income from the fees and commissions it charges for its services[124] and, since ownership of the CGF was transferred from the RDE to the PASS Trust in February 2009, PASS is also able to benefit from the interest gained from the CGF.[125] Since PASS is a non-profit organisation where no dividends are paid to shareholders, any surplus gained is added to the CGF in order to facilitate greater investment in agriculture.

The PASS business model, as shown in Figure D.1 is, after the initial capitalisation of the CGF, self-sustaining. Such sustainability derives from the fact that all three stakeholder groups – the banks, farmers/agribusinesses and PASS – are closely linked in a business relationship where each provides a service and earns an income. PASS provides business services to the producers and a credit guarantee to the bank, in return it earns fees from the producers and a risk bearing fee from the bank. The banks extend credit and other banking services to the farmers and earn interest. The farmers' investments in production and their accrual of profit from these activities are facilitated by the BDS they receive from PASS and the credit extended to them, made possible through PASS's credit guarantee. Thus, the PASS business model can sustain itself, so long as the economic environment (inflation, financial market regulatory systems, etc.) remains conducive.

PASS has achieved operational sustainability in 2007, enabling its work to continue indefinitely, subject to the achievement of financial sustainability. Table D.4 shows PASS's progress towards and beyond the achievement of operational sustainability.

Table D.4 PASS Trust's Summary of 2003-08 Accounts, TZS

	Operating Income	Operating Expenditure	Surplus/Loss
2003	78,790,889	264,603,085	(185,812,396)
2004	16,062,305	202,738,932	(186,676,627)
2005	198,470,558	255,327,442	(56,856,884)
2006	90,547,783	345,285,000	(254,737,721)
2007	740,682,096	461,073,744	279,608,352
2008	715,840,000	490,300,000	225,540,000
Q1 2009	296,953,107	204,085,481	92,867,626

Source: PASS Audited Accounts – various years.

124) Clients pay TZS 30,000 as commitment fee for BDS and/or financial services and 2% of the requested loan. Clients pay 10% of the actual cost for capacity building, business counselling or management support

125) The CGF currently earns 3% per annum on foreign exchange deposits and 11-12% per annum on deposits in Tanzanian Shillings: 2% of the CGF is used to cover defaulters so the income gained from interest exceeds this amount.

D.3.3 Business development services

A major factor in enabling PASS clients to access loans from banks is its provision of BDS.[128] PASS had originally planned to develop external BDS capacity due to a lack of effective BDS for the agricultural sector in Tanzania. However, PASS has generally found it more cost-effective to develop and use its own in-house capacity.[129] Furthermore, BDS provision has become PASS's second largest source of income[130] so it has become important to keep this in-house as much as possible. There are, however, risks involved in keeping BDS provision in-house:

- PASS is in danger of losing its trained BDS staff to other organisations (or staff setting up their own BDS outfits);
- PASS may be unable to effectively meet the demand for BDS services from its clients especially when it expands to other regions, potentially leading to a drop in quality; and
- PASS may have difficulty finding adequately qualified BDOs if there is a continuing dearth of technically strong BDS providers in the country.

While PASS should continue developing its own capacity in BDS provision it should also increase its efforts in developing external providers, especially as it moves towards further expansion and therefore increased demand for BDS. The evaluation recognises, however, that PASS does use external BDS as much as possible in areas where it does not have the ability to advise or is in need of very specific technical expertise. PASS's main BDS is business plan development but it also offers business linkages, through its development of contract farmers. Understandably, the majority of time and effort spent on BDS is currently on business plan development. However, PASS should put increased emphasis on extension, consultancy and counselling services in order to effectively support their clients to further develop their businesses after the loan has been granted. PASS is taking steps to encourage clients to source additional BDS after receiving a loan, for example, BDOs build this into clients' business plans and has (in conjunction with the Danida-supported SCF project) developed an extensive registry of BDS. Whilst PASS cannot develop external BDS directly, it attempts to support other institutions doing so (such as SNV and SIDO) through forum discussions, networking etc. The evaluation recommends that PASS continues to promote and support BDS services outside of the Trust as PASS is unlikely to be able to build up sufficient in-house capacity to offer the required fuller range of BDS services itself. It is important that PASS takes responsibility for ensuring that its clients have access to credible, quality BDS provision as this could eventually affect the businesses being supported and therefore loan servicing performance.

128) The other major element is the CGF but this is only used once an acceptable BP has been developed.

129) PASS does sometimes utilise the services of some other BDS providers such as Technoserve and SCF (the Danida-funded SME Competitiveness Facility) especially since the volume of business in this area of activity is increasing substantially.

130) After CGF income.

BDS can generally be considered to be any activity of a non-financial nature. It could include a wide range of activities, for example:

- Training
- Extension, consultancy and counselling
- Developing commercial entities
- Technology development and transfer
- Information sharing
- Business linkages

The main BDS provided by PASS is business plan development. PASS is also involved, to a lesser extent, in business linkages, through its development of contract farmers. PASS also claims to provide services in some of the other areas such as information sharing, even if only indirectly.

Understandably, since it is a pre-requisite for clients to be able to access credit from the partner banks, the majority of time and effort spent on BDS is on business plan development. However, since their clients then access loans and their businesses start to develop as a result, the evaluation recommends that PASS should consider ways in which they could facilitate the provision of more extension, consultancy and counselling services for businesses, defined as follows:

- **Extension:** Advice or material assistance, delivered to clients at their place of business;
- **Consultancy:** Advice on specialised technical and managerial issues, in order to appraise a situation and recommend a course of action; and
- **Counselling:** A guided process of self discovery which can also be described as 'coaching'. The counsellor helps the client to identify problems, opportunities and resources, define options and select a course of action

It is critical that support to PASS clients does not end when the client receives a loan from the bank. Further support is perhaps even more critical and needed during and after the loan servicing period. The increasing productivity demonstrated by several PASS clients also relates to the availability of extension services, facilitated by the advice provided by PASS or its ability to link certain clients to the relevant service providers.[131] It will, however, be desirable for PASS to be able to do this in a more structured manner and aim to provide more advice to clients that can help them better sustain business operations and trouble-shoot in times of crises. Considering, however, the wide range of commodities being grown and the variety of activities within the value chains that PASS' clients are engaged in, it will indeed be difficult for PASS to offer the necessary extension services competently. And as PASS management has pointed out, this may also run the risk of PASS over-stretching its (current) capacity, which may be detrimental to its ability to deliver on its core business. It will therefore be useful and meaningful for PASS to identify reputable external agents, such as Agricultural Training Institutes, for particular support; PASS might also work with other programmes and donors to find ways of increasing the provision of the necessary services especially for important sectors/commodities, and help to develop capacity for BDS services outside of the Trust as PASS is

131) *For example, PASS has provided advice to clients engaged in livestock raising to help control disease among the animals raised.*

unlikely to be able to build up sufficient in-house capacity to offer this fuller range of BDS services.

D.3.4 Geographical expansion

Between 2001 and 2007, PASS operated mainly in the ASDP priority regions of the Southern Highlands[132] but now has clients in 17 regions of Tanzania.[133] It has had an office in Morogoro since its establishment and has recently opened a further branch office in Mbeya. As PASS's services have tended to be demand driven, Morogoro is the region with the single highest percentage of clients (35%). However, PASS has been able to attract a large number of clients outside Morogoro region: these account for 65% of its clients. In order to further increase the number of clients outside Morogoro region and reach (and more effectively serve) all regions of Tanzania, PASS is following a plan for gradual expansion (from 2008 to 2013), using a zonal approach. It plans to open a head office in Dar es Salaam (in 2009) and further branch offices in Moshi (in 2010) and Mwanza (in 2011/12). Mainland Tanzania is divided into seven geographic zones and it is planned that the Morogoro, Mbeya, Mwanza and Moshi branches will cover these zones.

There are some risks involved in the planned expansion. Firstly, in such a large country, it is questionable whether just four branches will be able to cover seven zones which comprise 20 regions (excluding Dar es Salaam). However, PASS management are committed to adding more branches later if feasible and there is sufficient demand. Even if more branches were established (for example another three so that there would be a branch per zone) there is a risk that PASS would be stretching itself too thin. Secondly, there is a risk of dilution of capacity especially if the Trust expands too widely and too quickly. This concern is not only in terms of quantity of good BDS providers and other technical staff but also of the quality of such staff. The quality of its staff (especially its BDS staff) is a key reason for PASS's current success and this should not be diluted or compromised. In order to mitigate this, all new staff will receive intensive training and coaching at the Morogoro office before being posted to the zonal offices. While there is little doubt that there is a need and demand for its services throughout Tanzania, PASS management is very aware to the need to carefully plan and implement its expansion. It would be prudent for PASS to first ensure its financial sustainability by consolidating its current operations and spread its expansion plans over a much longer period.

D.4 Impact of PASS services on clients

A full analysis of the impact of PASS's services on clients was beyond the scope of this evaluation. PASS is currently in the process of developing a rigorous performance and impact monitoring system, as part of a wider MIS. To date, PASS has monitored its own loan facilitation activities, its partner banks loan processing, clients' repayments and has attempted to project its developmental impact but, in general, limited attention has been given to monitoring non-financial aspects. The proposed monitoring framework will examine both quantitative and qualitative aspects within the following three areas: (i) financial services, (ii) BDS, and (iii) socio-economic impact.[134] A (semi-) annual client

132) Morogoro, Iringa and Mbeya.

133) Morogoro, Iringa, Mbeya, Kilimanjaro, Tanga, Dar es Salaam, Singida, Kagera, Arusha, Ruvuma, Coast, Mwanza, Shinyanga,Tabora, Lindi, Rukwa and Dodoma.

134) PASS Trust – Monitoring Framework (draft), May 2009.

satisfaction survey will be introduced from July 2009 and a test survey was distributed to six clients across four regions in March 2009. A bi-annual Socio-Economic Impact Survey will also be introduced in 2010. This will attempt to capture the wider impact of PASS interventions on the economic situation of clients as well as their access to health services, education and water; food security and impact on gender equality, HIV/AIDS and environmental issues.

An attempt was made to assess the socio-economic impact of PASS in 2006.[135] A national consultant interviewed a sample of PASS clients, using the business plans/ feasibility studies as a baseline. Despite being unable to fully capture the long term dynamic multiplier effects or fully document before/after situations the study provided some useful insights into the evolution in the composition of PASS clients. For example, initially most clients were groups/associations but more recently these have been outnumbered by individuals/companies. The groups are often organised around outgrower schemes and many groups/associations comprise many smallholders of whom the majority are women and classified as 'poor', as compared to 'non-poor'.[136]

PASS has, however, been able to track increases in clients' profitability and productivity. Most clients have experienced an increase in production and sales volume. Through PASS support many clients have reported greatly increased yields, as follows:

Table D.5 Comparison of agricultural yields

Sub-sector	Pre 2003 yield	Post 2007 yield
Sugarcane	10 MT/ha[137]	40-60 MT/ha
Coffee	2kg/tree	6kg/tree
Poultry	Laying percentage: 50%	Laying percentage: 75%

Source: 'Strengthening the Position of Tanzanian Farmers in Domestic and Global Value Chains: The Private Agricultural Sector Support (PASS) Trust, Andrew E. Temu.

Furthermore, PASS's beneficiary dairy farmers report an average yield of 8-9 litres of milk per day, compared to an average of 3-5 litres per day throughout Tanzania. PASS clients also report improved quality of produce. Although other factors may have contributed to the increases in productivity and quality, there does seem to be a clear link between PASS's services and increased agricultural output. Other noticeable impacts amongst PASS clients are strengthened bargaining power of farmers through the formation of groups and an increase in employment along nodes of value chains.

135) *Final report, Categorization and Socio-Economic Impact Analysis of the Pass Clients to Inform Policy and Managerial Decisions, 2006.*
136) *Final report, Categorization and Socio-Economic Impact Analysis of the Pass Clients to Inform Policy and Managerial Decisions, 2006, p. 23.*
137) *Metric tons per hectare.*

D.5 The role of Danish support

In PASS's establishment and ongoing programme design, Danida has ensured that PASS is aligned with the GoT's development objectives. The PASS initiative directly supported the government's objectives articulated in MKUKUTA. Specifically, under Cluster 1 (Growth and Reduction of Income Poverty) the PASS initiative directly addressed several of the operational targets. For example, operational target 2[138] under Goal 2 and operational targets 3[139] & 6[140] under Goal 4. This direct alignment to the country's development goals also fostered a strong feeling of ownership among the GoT and other stakeholders.

Danida's support has been instrumental in the establishment and development of PASS. The move to establish PASS in order to enhance access to finance for the agriculture sector was brave and well thought out. The Tanzanian banking industry has traditionally been very wary of lending to agriculture, especially small and medium scale farmers. Danida's idea of using a credit guarantee was a major factor in the success of PASS. Danida has also developed and sustained a long term vision for PASS. It has committed to supporting PASS both financially and technically over 13 years and has adapted its support as PASS has evolved. This included developing an exit strategy which enabled a smooth transition from project to Trust and also gave PASS partners, especially banks, the comfort of knowing that the institution was here to stay.

Danida has also whenever required, provided the project and the Trust with technical assistance and consultancy services. Danida has provided capacity building support both internally (senior management staff and the TA Adviser) and externally (external trainers and courses).[141] In particular, PASS has appreciated and benefited from the in-house training provided through Danida's TA as this has been specifically tailored to staff needs.

In terms of its approach, Danida has been proactive without being unduly interfering in the running of PASS when it was a project and has continued to be positively supportive after its transformation. An example of its proactive approach was the action it initiated in 2006 which successfully addressed the growing problem of a significant slowdown in income to the project. PASS Trust management feels that Danida staff members have always consulted them on key decisions related to their management of PASS and regularly asked them what they think they need. PASS is very satisfied with the support the RDE has provided.

138) Operational target 2 of Goal 2: Scaled up participation of informal SMEs including Co-operatives.
139) Operational target 3 of Goal 4:Increased productivity and profitability both within agriculture and outside agriculture.
140) Operational target 6 of Goal 4:Transformed subsistence sector into smallholder commercial farming.
141) Capacity building and training has been provided in a variety of areas, including computerised accounting, preparation of feasibility studies, business plans, business counselling to agro-entrepreneurs, value chain development.

Annex E Financial Sector Deepening Trust, Tanzania

E.1 Background

In the early years of the current decade a number of bilateral donors, working with the World Bank and partner governments, developed financial sector deepening programmes in Uganda, Kenya and Tanzania.

FSDT evolved from a DFID funded Financial Sector Deepening Project as well as from some initiatives by the other founding partners: CIDA, EKN, and Sida. The FSD project was linked to DFID Financial Sector Deepening programmes in Kenya and Uganda through shared objectives, common design, a shared technical adviser (based in Kenya) and programme support to MicroSave. This collaboration continued in the FSDT. The original Financial Sector Deepening project originally extended from 2003 until 2006 and was staffed solely by a Grant Implementation Manager who was resident from 2002 to 2004 and part-time non-resident thereafter until May 2005.[142]

The Financial Sector Deepening Project became the Financial Sector Deepening Trust (FSDT) in 2004, a legally registered autonomous entity with the purpose of promoting the provision of financial services to low-income groups in order to alleviate poverty. FSDT become fully operational in the middle of 2005 with the hiring of a full-time on-site Technical Director (TD). Danida had taken a favourable view of the initiative from the outset, and a possible Danida contribution to the programme was envisaged and budgeted for in the BSPS II programme documents in 2003.[143] By mid-2006 Danida had agreed to become a donor and FSDT had secured funding from the five donor agencies and the GoT (using World Bank IDA funds) of a total of USD 46 million for the period to 2011.

At this time, the logical framework of FSDT was reviewed and revised, and a new Goal and Purpose were established.[144] They were reaffirmed in the Revised Strategy Paper issued in February 2008, following the 2006-07 Performance Review.[145]

- The **Goal** is to develop a deeper financial system providing greater access to sustainable financial services for more people and businesses.
- The **Purpose** is to achieve improved capacity of Tanzania's financial sector to meet the needs of MSMEs and poor rural and urban people and to contribute to economic growth.

142) Tillman Bruett (ACT) and Malaika Culverwell (DFID), Strategic Review of the Financial Sector Deepening Trust of Tanzania, October 2006.

143) Component Description: Viable Banking and Financing – Component Four of Business Sector Programme Support II Tanzania (Ref. No. 104.Tanzania.809), April 2003.

144) Robert Stone (OPM), Financial Sector Deepening Trust, Tanzania: Developing a Monitoring and Evaluation System – Draft Logical Framework and Monitoring and Evaluation Indicators, March 2007.

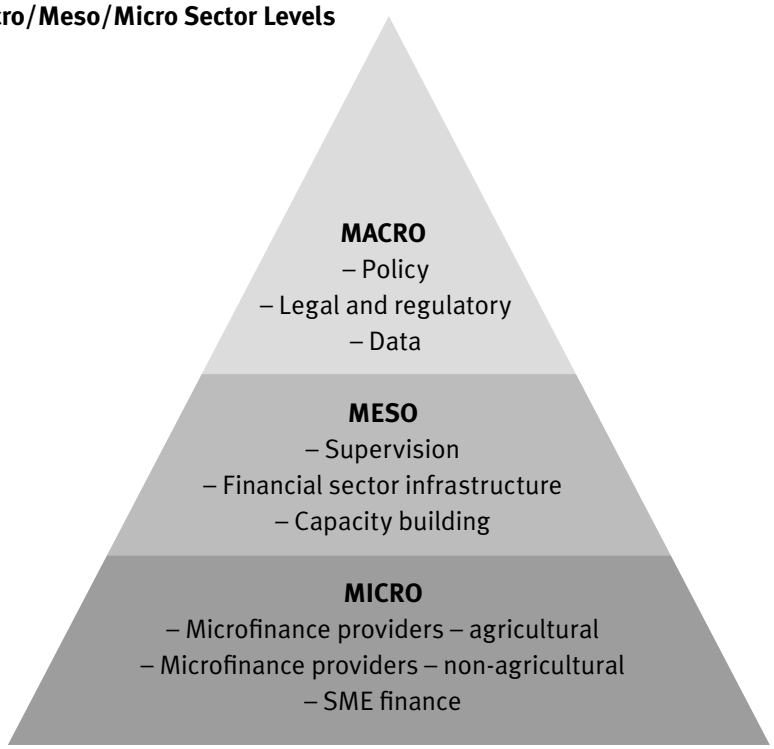
145) FSDT, Revised Strategy Paper, February 2008.

The logical framework specified five outputs designed to achieve the Purpose:

Output 1: Improved policy, institutional, legal and regulatory framework and data for delivery of financial services
Output 2: Increased wholesale financial service provision to support retail financial service providers
Output 3: Enhanced appropriate business services for SACCOS and MF providers
Output 4: More and better financial services available to meet the needs of urban and rural enterprises (MSMEs)
Output 5: More and better financial services available to meet the needs of poor urban and rural households and individuals.

The strategy of FSDT from the outset sought to address gaps and problems at all three sector levels in the financial arena, as illustrated in Figure E.1. It was envisaged, however, that most of FSDT's interventions would take place at the micro level, and to a lesser extent at the meso level. Assistance at the macro level was provided mainly by the IFIs, particularly the World Bank and the IMF, though FSDT was expected to provide some assistance in this area, particularly in the gathering and dissemination of sector data.

Figure E.1 Macro/Meso/Micro Sector Levels



Source: FSDT strategy documents.

E.1.2 Receipts, expenditure and projects financed by FSDT

By March 2009, the equivalent of USD 29.8 million had been received from or committed by development partners, as shown in Table E.1

Table E.1 FSDT development partner receipts/commitments at March 2009

	2004 – June 08	2008/09	Cumulative
	Previous	July 08-Mar. 09	To date
CIDA	8,680,337	3,875,205	12,555,542
Danida	1,408,014	536,629	1,944,643
DFID	4,424,892	3,075,564	7,500,456
Royal Netherlands Embassy	1,500,000	1,400,000	2,900,000
Sida	3,371,096	1,032,242	4,403,338
GoT / IDA	500,000	-	500,000
TOTAL	**19,884,339**	**9,919,640**	**29,803,979**

Table E.2 FSDT cumulative expenditure to March 2009

Output	Expenditure (USD)
1. Policy, institutional, legal, regulatory framework and data	1,653,436
2. Wholesale financial service provision to support retail financial service providers	2,100,934
3. Business services for SACCOS and MF providers	411,039
4. Financial services for urban and rural enterprises (MSMEs)	1,374,945
5. Financial services for poor urban and rural households and individuals.	18,011,195
FSDT management Tasks	106,716
TOTAL	**23,658,265**

Sources: FSDT Quarterly Performance Report, March 2009

Cumulative expenditure to March 2009 was USD 23.7 million, as shown in Table E.2, classified under the five outputs (together with FSDT management tasks). This represented expenditure of about 7% at the macro level, 11% at the meso level and 82% at the micro level. The PIC regards this as too heavily weighted towards the micro level and the strategy for 2008-12 is to rebalance the use to FSDT resources to reach 10% at the macro, 20% at the meso and 70% at the micro levels.

A selection of the larger projects financed by FSDT are listed in Table E.3, indicating the broad range and scope of the Trust's interventions.

Table E.3 A sample of larger FSDT projects

Project	Brief description	Funding and status (USD)
FinScope 2006	Nationally representative financial sector demand side survey Dissemination and manual to promote the use of the survey	359,000 – completed 63,000 – in progress
FinScope 2009	Nationally representative survey (to established changes since 2006)	405,000 – in progress
Microfinance Company regulations	Support to BOT in development of regulations	191,000 – completed
Rural Financial Services Strategy	Support to GoT for the development of an evidence-based strategy	242,000 – completed
Dunduliza	Support for the establishment and development of a network of SACCOS Support to DID for development of Dunduliza Further development of the network	354,000 – completed 3 million – completed 430,000 – in progress
Bank of Africa Tanzania	Training in SME banking	122,000 – completed
Akiba Commercial Bank	Funding of Technical Assistance (by ACCION) for development of SME banking	500,000 – completed
AccessBank Tanzania *	Technical Assistance (by LFS) for the establishment of a new SME bank	1,207,000 – in progress
CRDB capacity building *	Capacity building for CRDB Bank and CRDB Microfinance to improve support for SACCOS	629,000 – in progress
SELFINA *	Loan guarantee to company providing lease financing for women micro-entrepreneurs	963,000 – in progress
BRAC *	Support for development of BRAC microfinance services Phase 2 loan to BRAC	1,025,000 – completed 2,500,000 – in progress
FINCA	Support for the introduction and development of microfinance services	225,000 – completed
FERT	Support for the development of networks of SACCOS	416,000 – in progress
CARE VSLAs *	Support to CARE for the development of Village Savings and Loans Associations	2,500,000 – in progress
VICOBAs	Support for the establishment of Village Community Banks	1,524,000 – in progress

Source: FSDT Reports. Note: Those marked with an asterisk (*) are projects whose end-beneficiaries were visited in the course of the evaluation

For the period from April 2009 to June 2012, FSDT's weighted forecast of project expenditure was USD 46 million, which together with programme costs of USD 4 million means total forecast expenditure of USD 50 million on the current pipeline of contracts.[146] This is considerably more than current commitments by development partners for the same period of USD 24 million (including USD 5.6 million from Danida and USD 12 million from GoT IDA funds).[147] FSDT is currently seeking other development partners and co-funding opportunities.

E.1.3 The status, governance and management of FSDT

As a Trust under Tanzanian law, the key powers of the FSDT are broad and allow it to grant, lend or invest funds as well as accept donations or other investments, borrow funds, and conduct or own businesses, including commercial enterprises. In other words, the FSDT is a very flexible legal form conducive to both for-profit and non-profit activities. The primary limitation is that the FSDT does not have beneficial ownership; it does not pay dividends and upon roll-up, any net assets must go to a similar organisation or to further the purposes of the FSDT. The FSDT as an entity may be liable for its own actions, but the liability of the Trustee is limited to losses to the value of the FSDT in the case of 'fraud, recklessness, wilful misconduct or negligence.' The Trustee is also not responsible for liability arising from the actions of those who primarily govern and operate the FSDT, including the PIC, the third-party Finance Manager, or the Technical Director.[148] Changes to the Trust Deed (i.e. the FSDT's purpose of powers) can only be made with the *no objection* of the PIC.

Unlike a typical trust, governance of the FSDT is divided between a single Trustee and the PIC. The use of the PIC rather than a board of Trustees was designed to create an advisory role for donor members to participate in the FSDT and, in the long-term, to replace them with qualified Tanzanians. As the 2006 strategic review put it, 'Experience shows that in a young, nascent sector it is difficult to find the right people at the beginning to play the role of the PIC. The use of donors on the PIC is to allow a graduated transition to this structure.' The *no objection* mechanism was deliberately crafted to make clear that the PIC is an advisory body. It also eliminates liability to members of the PIC and helps them avoid direct decision-making, several members not being, under their own rules, allowed to participate in the management or oversight of projects that they fund.[149]

An important step in devolving authority from the donors was taken in 2008 with the expansion of the membership and delegated authority of InvCom, a sub-committee delegated by the PIC to consider project proposals and make recommendations to the PIC. Following the recommendations of the 2006-07 Review of Performance, InvCom was given both an enhanced role and an expanded membership. InvCom took on four additional functions:

146) FSDT management produce a weighted forecast by taking the estimated cost of each potential project in the pipeline and weighting it according to their estimate of the probability of the product being approved and implemented (thus a project estimated at USD 500,000 with a 50% probability is included in the forecast at USD 250,000). This sum is added to commitments on current projects to produce the weighted forecast.

147) FSDT March 2009 Cash Flow (USD) – Excel Appendix to FSDT Quarterly Performance Report, March 2009.

148) The Trustee would be liable for the Financial Manager's conduct if he were a direct employee of the Trust, rather than a third-party contractor (i.e. EYAS). Although the Trustee directly employs the TD, the Trust Deed explicitly exempts the Trustee from liability arising from the TD's actions or lack thereof.

149) Bruett and Culverwell, op. cit.

- More detailed oversight of the quarterly performance and financial reports (QPFRs) and providing comments on these to the PIC
- More detailed technical review of proposals than is possible at PIC level
- Greater oversight of the work of the Technical Director and offer a 'sounding board' for the TD
- 'No objections' on projects with budgets between USD 100,001 and USD 2 million.[150]

Its membership was expanded to 10 members, all of whom are Tanzanian citizens, and eight of whom are outside members, not on the PIC.

At the time of the evaluation, the core professional staff of FSDT consisted of the Technical Director, the Technical Manager, two agricultural specialists, an SME specialist, an administrator and an office manager. A second SME specialist was being recruited. The Technical Director, the lead agricultural specialist and the SME specialist are international consultants. The evaluation concluded, however, that the training of the Tanzanian members of the staff is proceeding at a satisfactory rate, and that it should be possible FSDT to meet its aspiration for the key posts to be occupied by Tanzanian citizens in the next couple of years.

E.2 Danish support to FSDT

As mentioned in Section E.1 above, a possible Danida contribution to the programme was envisaged and budgeted for in the BSPS II programme documents in 2003, and Danida agreed to become a development partner of FSDT in 2004, with an original commitment of DKK 7.5 million (USD 1.4 million) under BSPS II, disbursed between 2004 and June 2008. A further DKK 30 million (USD 5.6 million) was committed under BSPS III to be disbursed from July 2008 to 2012, making a total of DKK 37.5 million (USD 7 million). This represented 7% of the total funds committed to FSDT to 2008, and 10% of the funds so far committed for the current phase of FSDT.

According to FSDT management, Danida has been very prompt and efficient in disbursing funds. In particular, the management appreciates the speed with which a disbursement is made after a contribution has been agreed. Thus, for example, Danida is the only development partner expected to disburse in the July-September 2009 period (apart from GoT disbursement of IDA funds), because other donors have not succeeded in matching their commitment and disbursement cycle to the FSDT programme cycle.

The Danida programme financing cycle has, however, had one unfortunate consequence, which is to restrict the ability of RDE to increase funding for FSDT, at least for the time being. BSPS was appraised in 2007, at which time FSDT was less than two years old, the likely pace of its development was uncertain, and the 2008-12 strategy had not yet been drafted. It was therefore extremely difficult to forecast the financing requirement. Some of those involved thought that a commitment of DKK 50 million could be justified, but the conclusion was that this would be too much, and that the commitment should be 10% of the likely requirement of USD 50 million, which at that time amounted to DKK 30 million (USD 5.6 million). The way programmes like BSPS III are financed means that the RDE is not in a position to increase that amount unless and until savings can be

150) The Technical Director has discretion to invest up to USD 100,000 in any one project.

found in other sub-components of BSPS III. The programme includes unallocated funds of DKK 30 million, but that can be used only for entirely new activities that were not envisaged at the time of the appraisal. It cannot be used for existing components, which can only be increased, therefore, by transfers (with the permission of the relevant partners) from sub-components that are going to under-spend. Likely under-spends, however, rarely become evident until late in the five year period of a programme, and BSPS III is only one year old. So even if RDE was convinced that a greater contribution to FSDT was fully justified, they are not going to be able to commit more funds to it unless and until it becomes clear that other sub-components are going to fail to spend their allocation, which even if it happens is unlikely to be clear until 2010 or 2011.

It would not of course be appropriate for this evaluation to challenge the principles of the Danida programme budgeting cycle, which are part of a much broader policy and budgetary framework. The benefits of a five year integrated programme cycle are in general more significant than the potential disadvantages. A five years integrated programme cycle provides, for example, a sound basis for a good long-term cooperation with the partner organisations, and it facilitates a good planning and preparation process and timely commitment of funds. A five year planning cycle, however, may in some cases challenge the fine-tuning of commitments in relation to specific sub-components. RDE acknowledges that more funds most likely would have been allocated to FSDT had the preparation of BSPS III only been completed in 2008. The problem was largely one of timing. BSPS III is a five year programme, and the appraisal happened to take place a year before FSDT issued its five year strategy. Had the appraisal happened six months later, it is possible that the Danida contribution might have been greater. Because of the lack of flexibility in allocating unallocated funds to existing parts of the programme, however, it will be virtually impossible to adjust the Danida contribution until towards the end of the programme period.[151]

Finally, Danida has been a full and active member of the PIC, and will chair the PIC from 2009 to 2010.

E.3 Reviews of FSDT, 2006-08

The evaluation took account of the periodic reviews of FSDT, including the 2006 strategic review cited in Section E.1.

E.3.1 The 2006-07 Performance Review

The 2006-07 Performance Review, completed in March 2008, identified six key successes of FSDT to date and six key issues requiring attention, as follows:[152]

151) *Unutilized funds from a sub-component can be allocated to other parts of a component with the agreement of relevant stakeholders, but the likelihood of under-spending does not generally become clear until late in the programme, which in the case of BSPS III will not be until 2010 or 2011.*

152) *FSDT: Review of Performance, October 2006 – September 2007, Frank Matsaert, Walter Odero and Robert Stone, November 2007 – revised March 2008.*

Key successes of FSDT to date

- A well qualified and highly committed management team is now in place.
- FSDT has developed a solid body of interventions covering all output areas.
- Some important projects (like the FinScope survey) have been completed, and some (like Dunduliza) are moving into a promising second phase. A second FinScope survey has also been completed, and the results are expected to be available in the thirds quarter of 2009.
- There is a large pipeline of potential new projects.
- Sound project and financial management procedures have been established.
- A new logical framework has been adopted and a monitoring and evaluation system has been developed.

Key issues requiring attention

- A five year strategy for 2008 to 2012 needs to be completed and adopted as soon as possible.
- Now that FSDT is fully operational, there is a requirement for a level of scrutiny of the operation of the programme, and a level of support for the management team, that the PIC is not in the best position to provide; it is therefore recommended that the scope of the Investment Committee is widened to take on some of these functions.
- Although good systems are in place, there is a need for some tightening up of the planning and budgeting process, as well as of financial and procurement procedures.
- FSDT needs to establish a human resources policy and to establish mechanisms for implementing the policy.
- It would be useful for an annual report to be produced, and for improvements to be made in the content and scrutiny of quarterly reports.
- The agreed communications strategy needs to be implemented.

E.3.2 The 2008 Output to Purpose Review

The 2008 Output to Purpose Review was undertaken before the results of the FinScope 2009 survey were available, and was therefore unable to assess progress against the Objectively Verifiable Indicators (OVIs) for the Goal. It key conclusions on the purpose and outputs can be summarised as follows.[153]

- Progress made against Purpose level OVIs is extremely positive.
- For all three Purpose level OVIs, actuals are running far ahead of target. New Purpose level OVI targets for 2010 and 2011 should be set and agreed by the PIC and management to take account of progress already achieved.

153) *FSDT, 2008 Output to Purpose Review, Adrian Stone (DFID), Karen Losse (GTZ), Jared Duhu (CIDA) and Elin Carlsson (Sida), Final Draft, March 2009.*

- **Output 1** (Improved policy, institutional, legal and regulatory framework and data for delivery of financial services) is on track to be largely achieved, although progress remains slow.
  - The BoT clearly values the technical inputs provided by FSDT and sees the programme as an important partner.
  - Regulation and Supervision of the SACCOS sector is the most problematic area under this output, largely because, one key stakeholder has yet to be brought fully on board – the Registrar of Cooperatives Department within the Ministry of Agriculture, Food Security and Cooperatives.

- **Output 2** (Increased wholesale financial service provision to support retail financial service providers): based on progress against the OVI, this Output has already exceeded its year 5 target and is fully achieved.
  - The market has clearly outperformed expectations in this area. However, attribution to FSDT is weak, given the fact that most of the FSDT activities under this output are still in design or early implementation phase
  - There are four projects already approved under this output and a further five in the pipeline.

- **Output 3** (Enhanced appropriate business services for SACCOS and MF providers): is on track to be largely achieved by the end of the programme. However FSDT need to move ahead with the supply side survey and MFP reviews to determine the extent of progress achieved.
  - To date, spend under this output has been very low (less that 3% of total expenditure). The programme is not currently working directly with local or regional training/academic institutions to improve standards of teaching and/or increase the supply of qualified consultants onto the market. This is a gap that needs to be reviewed
  - There is clearly a need to improve the IT, technical and managerial skills within financial institutions big and small in Tanzania, but the standard of support services remains low.
  - FSDT needs to take care to adopt consistent approach to the development of the market in Tanzania for support services for SACCOS and MF providers.

- **Output 4** (More and Better Financial services available to meet the needs of urban and rural enterprises (MSMEs)) is only likely to be partially achieved.
  - While the strategic direction is sound, the majority of FSDT activities under this output remain at the development/early implementation stage. The PIC needs to work closely with management to define a clearer roadmap for this output moving forward.
  - That OVIs for this output should be revised in light of the small business survey once complete

- **Output 5** (More and better financial services available to meet the needs of poor urban and rural households and individuals): overall, FSDT is on track to largely achieve this output.
  - While the majority of the projects funded under this output are making good progress, Dunduliza's network of SACCOS is underperforming.
  - For several OVI under this output, definitions are an issue.

- The review concluded that project management and governance arrangements were largely satisfactory, and that the 2008-12 strategy was being implemented. Room for improvement was identified in a number of areas, including:
  - the need for improvements in reporting, including reports on spending against budgets, Quarterly Reports and project appraisals;
  - better public relations, lobbying and advocacy
  - more regular monitoring and evaluation of all ongoing activities and
  - improvements in HR management.

In the course of the evaluation, it was established, as foreshadowed in the above remarks, that there are problems with the interpretation of some of the OVIs. These problems have been discussed with FSDT management, and the evaluation team will provide advice to the management on correcting the errors and improving the measurement of the OVIs.

E.4 Impact on FSDT end-beneficiaries

The end-beneficiaries for Outputs 4 and 5 are not the institutions that FSDT is supporting, but their clients. The evaluation supported the conclusion of the 2008 OPR that in terms of the **breadth** of outreach to the end-beneficiaries, FSDT is on track largely to achieve its targets in making more financial services available to households and individuals (Output 5), though not as advanced in making the services available to MSMEs. To test the conclusions of the OPR on the **depth** of the services provided to households and MSMEs, and the difference that the availability of services had made to end-beneficiaries, the evaluation included visits to a selection of clients of BRAC, AccessBank, SELFINA and CARE.[154] The visits are summarised here (the names of the clients are not given, to protect confidentiality).

E.4.1 BRAC Tanzania

BRAC is an NGO that has been working in Tanzania since June 2006 running programmes in microfinance, livelihood and business development services, agriculture, and essential community health care, providing direct services exclusively to women. Microfinance is provided in the form of group loans to groups of 22-25 members, divided into small groups of about five. As at April 2009, it had 96,802 members in Tanzania, of whom 77,198 were borrowers.[155]

Each branch begins with a street survey to locate suitable households, followed by a campaign of visits to tell people about BRAC. The strategy is to start with lending only, then to move into health, agriculture and livestock (especially poultry) extension work through one volunteer for each in each group, trained by BRAC. During the loan cycle, the client comes to the office to collect cash for the loan. After 1 week they come to the weekly meeting and pay the loan to the small group, which pays to the cashier of the big group.

154) The evaluation also included a visit to the TUR SACCO in Turiani, which is supported by CRDB under and FSDT grant, but this is also a client of PASS and CRDB and is covered under Annex C.

155) BRAC Tanzania, Empowering Women and Girls In Tanzania: Annual Report 2008, and interview with Hossain Adib, Country Manager. BRAC originated in Bangladesh, where it was called originally called Bangladesh Rural Advancement Committee, which was changed to Building Resources Across Communities.

The groups borrow on the basis of joint and several liability. BRAC refuse loans to people whom they know to be members of PRIDE or SACCOS (to avoid people over-extending their debt).[156]

FSDT contributed USD 1.09 million from 2006 to 2008 to support pilot operations and an independent review, and in Phase 2 FSDT are extending a loan of USD 6 million to support BRAC microfinance operations. By March 2009 USD 3.6 million had been drawn down. BRAC has also received a USD 15 million grant from the Bill & Melinda Gates Foundation, of which £10 million is for microfinance activities, as well as seed money for other activities from Triodos and from Oxfam Netherlands.

The clients visited lived and worked in the Magomeni district of Dar es Salaam. Like most branches in Dar es Salaam, the Magomeni branch was engaged only in lending at the time of the visit. Magomeni Branch has 2,209 clients in 90 groups served by nine community officers (eight women and one man). The Branch Manager was a new graduate (in sociology).

Box E.1 A profile of BRAC clients

Client 1 keeps chickens (for sale) in two chicken sheds on her home plot. She became a BRAC client in 2006 and is on her third loan. Her loans have been for TZS 2 million for 40 weeks, to buy young chicks and rear them for sale. Each chick costs TZS 1,000 and can be sold in five weeks for TZS 3,500. Every five weeks she sells 500 chickens for a profit of around TZS 300,000. She continues to use BRAC loans for working capital – her husband has been made redundant and they have five children – but with BRAC working capital loans she has been able to more than double her production in three years. In 2006 she had 400 chickens, now she has 1,000. With her husband having recently been made redundant, her income was enough to support the family (five children) while her husband builds a bakery. She says that without the BRAC loans, she could not have reached a level of business where this would have been possible.

Client 2 sells fried cassava and chapattis outside her house from 7 a.m. to noon. Starting in 2007, she is now on her third BRAC loan (the loans were TZS 250,000, TZS 350,000 and TZS 500,000, all for 40 weeks). She buys the cassava and oil for TZS 10,000 each day and sells for TZS 15-20,000, thus making a profit of TZS 5-10,000 a day. Before BRAC she was selling chapattis at half the profit. Now she is diversifying into vegetable samosas for sale in the evening (selling about 200 samosas at TZS 50 each for a profit of about TZS 4,000 a day). So since joining BRAC she has almost trebled her income in 2 1/2 years. Uses BRAC loan only for working capital. She has 4 children, her husband is employed.

Client 3 owns a small shop, selling mixed goods. She is on her fourth loan since 2006 (TZS 200, 400, 500 and 600 thousand), all for buying stock. Before BRAC she was selling mostly rice and flour for TZS 100-150,000 a month at a monthly profit of TZS 50,000. Now she sells a wide range of goods (soap, cosmetics, batteries, sweets, etc), her turnover is TZS 100-300,000 a month at a monthly profit of TZS 100,000. So in three years with BRAC she has doubled her income. She has two children, her husband has another business.

156) *Interviews with Hossain Adib, Country Manager, Mofizar Rahman, Regional Manager, Dar es Salaam Region and Violet Tembe, Branch Manager, Magomeni Branch.*

E.4.2 AccessBank Tanzania

AccessBank Tanzania Ltd was established in 2007 as a bank with a special focus on microfinance, part of an emerging network of commercial microfinance banks (AccessHoldings). Access Holdings has 36.8% of the capital and the remaining capital is shared equally by five development institutions – IFC, African Development Bank, BIO (the Belgian Investment Company) and KfW of Germany. The bank is headquartered in the Kijitonyama commercial district of Dar es Salaam and has two other branches, both in Dar es Salaam. AccesBank has received a grant of USD 1.4 million from FSDT to finance technical assistance from it technical partner LFS Financial Systems GmbH, of which USD 1.2 million had been disbursed by March 2009.

Box E.2 A profile of AccessBank clients

Client 1 retails traditional handicrafts, received a TZS 5 million working capital loan for 11 months with an interest rate of 4% per month. Monthly sales are around TZS 10 million. The loan has enabled her to achieve greater security of supplies and increase her range of products, thus increasing her turnover.

Client 2 retails cement and related hardware (reinforcing bars etc). On her second loan. The first was for TZS 900,000 to help move the business to permanent premises. The current loan was TZS 1.4 million for 12 months at an interest rate of 5% per month, primarily for working capital but also to extend the range of products. Building supplies is not an easy area for a woman to break into, and the client attributes her success at least in part to the confidence as well as the capital that the loans gave her. She had not had a bank account before borrowing from AccessBank.

Client 3 owns a duka, a small shop selling a variety of consumables. Borrowing TZS 4 million for 12 months at an interest rate of 5% per month, her first loan. This has enabled her to buy a new refrigerator and to introduce a range of crockery and cooking utensils, which are selling well. Profits have doubled from TZS 200,000 to TZS 400,000 per month. Had not had a bank account before borrowing from AccessBank.

Client 4 owns a clothing boutique (for men and women). On her second working capital loan, of TZS 1.8 million for eight months at 4% per month. This has enabled her to take more trips to Dubai to buy more (and better) stock. Profits are now around TZS 800,000 per month.

Client 5 owns a women's beauty salon. Borrowing TZS 4.5 million for 12 months, her second loan, partly to buy new machinery and partly for working capital, including the expansion of her business into selling kangas and kitenge cloths.

Note: As mentioned above, two of the borrowers had not had a bank account before borrowing from AccessBank. The others said either that they had been badly treated or kept waiting by their banks, or that they had not approached their bank for a loan because they thought that they would not be well received. All of those interviewed approached AccessBank either as a result of a leafleting campaign by the bank or having heard of them by word of mouth. The bank had gained a reputation in the district for making quick decisions and disbursing loans quickly (a reputation which all the clients interviewed confirmed was their experience in practice).

E.4.3 Sero Leasing and Finance (SELFINA)

SELFINA is part of Sero Businesswomen's Association (SEBA), an organisation for businesswomen and microentrepreneurs started by Dr Victoria Kisyombe. It provides leasing finance (including sale and leaseback) for MSMEs through nine branches throughout the country. SELFINA borrows from banks, and FSDT provides guarantees of up to USD 1 million for the loans. Clients were visited in Kibaha, a small town about 40 km west of Dar es Salaam.

Box E.3 A profile of SELFINA clients

Client 1 owns (with her husband) a bookshop that also sells stationery and related products. SELFINA started with a small working capital loan in 2006 to establish a relationship with Stella. She subsequently bought a photocopier, computer and software for a total of TZS 3.2 million on the basis of a sale and lease back with SELFINA. Turnover in the shop has reached TZS 100-200,000 per month and Stella and her husband gained enough confidence to open in 2008 a second shop, which sells children's toys as well as books and stationery – the only shop in Kibaha selling children's toys. They borrowed TZS 5 million from SELFINA to fit the shop and buy stock. Turnover by mid-2009 had reached TZS 60,000 per month, and Stella expected the shop in due course to match the turnover of the first one.

Client 2 bought three dairy cows with a lease of TZS 300,000 from SELFINA in 2006. Currently has 3 cows and 3 calves and has made a good income from selling the milk and the calves. Now planning to take a loan of TZS 2 million from SELFINA to expand the business.

Client 3 keeps chickens (for eggs). Started in 2005 with support from a DFID project with 300 chickens, and by May 2009 had 800 chickens, with the aid of a first lease from SELFINA. Currently negotiating a SELFINA sale and leaseback to build a second chicken house and double her flock to 1,600 chickens.

E.4.4 CARE Tanzania

CARE is a developmental NGO that has been working in Tanzania since 1994. They have developed a technique for creating and fostering Village Savings and Loan Associations (VSLAs) which has been applied in many countries. FSDT had committed to contribute USD 2.5 million to CARE's work to March 2009, and the FSDT management was proposing substantial additional assistance.

The evaluation visited a school in Kisarawe, a small town about 20 km south-west of Dar es Salaam, where about a dozen VSLAs had gathered for their weekly meetings. The evaluation met the Kisarawe Jumimaki Apex body and five of the VSLAs (names withheld to protect confidentiality).

Box E.4 A profile of CARE VSLAs

VSLA 1 has 21 members (one man), established July 2008, shares are TZS 1,000 each, a minimum of one share to be bought every week. TZS 147,000 in cash box.

VSLA 2 has 18 members (two men), established September 2008. Shares are TZS 500 and members are buying 2-3 shares a week. TZS 125,000 in cash box.

VSLA 3 has 15 members (four men), established February 2009. Shares are TZS 500 each, a minimum of one share to be bought every week. TZS 60,000 in cash box.

VSLA 4 has 16 members (seven men), established September 2008. Shares are TZS 1,000 each, minimum on one share to be bought every week. TZS 300,000 in cash box.

VSLA 5 has 15 members (four men), Shares are TZS 1,000, one share being bought every week. TZS 80,000 in cash box.

The majority of loans taken out by VSLA members were for their enterprises, for example: an electrician buying stock; a trader buying *kitenge* cloth, a building supplier buying a brick making machine. In one case, a husband and wife who jointly owned a business were members of the same VSLA: she took out a loan of TZS 200,000 for her daughter's secondary schooling, while he took a loan of TZS 100,000 for their business. About a third of the microenterprise loans were to start new business (or branch into new lines of business), which the owners said that they would have found it very difficult to do without the VSLA.

The Kisarawe Jumimaki Apex has existed for many years, having been established under a previous, multi-sector CARE project that had finished in 2003. During the five year gap between 2003 and the start of the current FSDT supported project, 64 VSLAs had continued to operate and continued to support the Apex (there are now 118 groups in the district). The CARE VSLA methodology is an expensive intervention, costing about USD 35 per head for the 9-12 months that CARE supports the establishment and development of a VSLA. The issue of sustainability after this period is therefore crucial. The continuation of the 64 VSLAs and their Apex in Kisarawe during the five years without CARE cannot be regarded as conclusive proof, but it is at least indicative of the robustness of the CARE model.

E.5 Key achievements

In the four years of its operations, FSDT has established itself as a central player in financial sector development in Tanzania. The programme is well ahead of targets for numbers of people served by FSDT supported projects, and for the range of new financial services introduced, as evidenced by the results of the 2008 OPR.

The programme has fostered significant innovations in the financial sector, such as BRAC, AccesBank and SELFINA.

- BRAC has proved that their group lending technology can be successfully adapted to the Tanzanian environment: between its establishment in June 2006 and the end of 2008 the BRAC microfinance programme secured a membership of 39,513 and advanced USD 4 million to 25,518 borrowers.[157] The end-beneficiaries interviewed during the evaluation all reported having significantly increased their income and their confidence as a result of their involvement with BRAC.
- AccessBank has made remarkable progress in the very difficult area of MSME lending, based a proactive marketing strategy implemented by newly recruited graduates, backed by a robust management information system. Incorporated in August 2007, the Bank opened its doors to the public in November 2007: in the 13 months of operation to the end of 2008 over 13,000 accounts had been opened and more than 3,000 micro and small business loans disbursed in a total volume exceeding the initial equity capital of the Bank of TZS 6.3 billion (DKK 27 million).[158] Of the five MSMEs interviewed during the evaluation, two had not even had a bank account before taking a loan from AccessBank, and the others had either been refused loans by other banks or had been reluctant to approach them.
- SELFINA has pioneered the use of leasing techniques to empower women to develop businesses. By mid-2008 SELFINA reported a gross loan portfolio of USD 4 million with nearly 8,000 customers, a capital asset ratio of 12.4%, a return on assets of 9.7% and a portfolio at risk (>30 days) of only 0.1%, a remarkable success story.[159]

Projects sponsored by the Trust have also made an important contribution to government strategies and policies. The 2008 OPR reported that FSDT funded the consultancy study that informed the Rural Financial Services Strategy (RFSS). The approval of the RFSS by the Inter-Institutional Committee chaired by the Governor of the BoT represents an important milestone. Work was underway by within the BoT by May 2009 to develop an action plan and budget for RFSS implementation.[160]

There is strong evidence of FSDT's compliance with the Paris Declaration principles of alignment and ownership, such as invitations to the Trust act as adviser to government on specific issues. For example, the newly established Monetary and Financial Policy Unit in the Ministry of Finance and Economic Affairs asked for training and mentoring support from FSDT, and the FSDT was invited to participate in the elaboration of Kilimo Kwanza ('Agriculture First'), a major agricultural development initiative launched in May 2009.

Compliance with the Paris Declaration principle of managing for results is illustrated by the testimony of AccessBank and BRAC, both of whom said that they thought that their own programme planning and appraisal techniques were sound until they encountered FSDT. They found FSDT's appraisal techniques very rigorous – indeed in both cases they at first thought that FSDT was excessively rigorous. But in both cases they benefitted from the appraisal, which covered risks that each of them had underestimated (for example, the likelihood of rapid staff turnover in the case of BRAC and the value of real estate in the case of AccessBank). An additional benefit was that FSDT, while thorough,

157) BRAC Tanzania, Empowering Women and Girls In Tanzania: Annual Report 2008.
158) Access Bank Tanzania, Annual Report 2008.
159) MIX Market, http://www.mixmarket.org
160) It should be pointed out that it would not be appropriate for the evaluation to offer a judgement on RFSS but only to cite the judgement of others, since OPM, which is conducting the evaluation, undertook the consultancy study that informed RFSS.

were also relatively quick to make decisions and once FSDT had agreed to support the institutions, it encouraged others (who were aware of FSDT's high standards) to provide funds.

It is clear from the various reviews and interviews with members of the PIC that FSDT has achieved a high standard of management and governance, and a coherent strategy to 2012 and beyond, including a strategy for the evolution of Tanzanian ownership and management of the programme.

E.6 Key challenges

The FSDT logical framework has, in its OVIs, a very heavy focus on the numbers of people reached by assisted institutions, a focus which has been reflected in the strategies adopted by the Trust. The evaluation does not question this focus, since extending outreach to large numbers of people is undoubtedly a major objective of the programme. There is a danger, however, that too heavy a focus on client numbers may detrimental to a more strategic approach to the transformation of the sector as a whole and its political economy. This danger has already been recognized by the PIC and FSDT management, both of whom acknowledge that FSDT needs to make more of an impact on the enabling environment (at the macro and meso level) as well as on financial service providers (at the micro level). The 2008-12 strategy therefore includes a commitment to rebalance the use to FSDT resources to reach 10% at the macro, 20% at the meso and 70% at the micro levels, compared to expenditures to March 2009 of about 7% at the macro level, 11% at the meso level and 82% at the micro level.

The focus on achieving high numbers also necessitates FSDT working through relatively large scale institutions with a significant foreign input (such as Dunduliza, BRAC and CRDB). There is therefore a danger of creating the impression that FSDT may be something of an expatriates' club. The evaluation encountered evidence that some stakeholders in Tanzania do indeed have that impression. The management of FSDT acknowledge the problem, but argue that it is very difficult to deal with the problem: even if there were a thousand SELFINAs in Tanzania, which there are not, finding and reaching them could be prohibitively resource-intensive.

The problem is, however, exacerbated by FSDT's relatively poor record in communications, both with the public and with key stakeholders and groups. FSDT does not devote as much resources to communications as would be expected from an organisation designed to become embedded as a central player in financial sector development in Tanzania. Some opportunities to create useful forums for dialogue have been missed. For example, for various reasons the Bankers Association in Tanzania is relatively ineffective; several financial institutions told the evaluation that they were surprised that FSDT had not used its position to establish a regular bankers forum at which issues of banking sector capacity building and development could be addressed. The need to improve communications was noted in previous reviews and has been acknowledged by the PIC and the management of FSDT, and a new emphasis on communications has been included in the Trust's 2008-12 strategy.

Given the above developments, FSDT is now positioned to be a long term player in financial sector development in Tanzania. Unfortunately, there are doubts about the availability of funding to enable FSDT to function in the long term. As reported in

Section E.2 above, commitments by current development partners amount to less than half the USD 50 million forecast pipeline of commitments to 2012. The PIC is fully aware of the issue, and is working to attract new funds and co-finding opportunities.

There is a further problem related to the focus on numbers mentioned at the beginning of this section. The 2008 OPR noted that there appeared to be anomalies in the numbers reported under several of the OVIs in the logical framework. The evaluation established that there were indeed flaws in the calculation of several of the indicators, which resulted in exaggeration of the numbers of people reached. The evaluation team is providing advice to the FSDT management on how to correct the errors.

A specific challenge faced by RDE in relation to FSDT arose from the decision that Danida would confine its support to CRDB in BSPS II to the support required under the exit strategy for DIF. Support for the developmental (public good) element of CRDB's work with SACCOS and SMEs would henceforth need to come from FSDT, within the remit of which such work falls. The RDE was therefore confronted with a potential conflict of interest of being a long-term supporter of CRDB, and its role as a member of the PIC. To avoid this conflict, RDE recused itself from PIC decisions on FSDT support for CRDB, and took no part in discussion of potential CRDB projects inside or outside the PIC, except to provide information to the PIC members as required. The evaluation concluded that the issue has been handled with total propriety by RDE and FSDT. There is, however, a need to ensure that this is well understood by all concerned.[161]

E.7 The role of Danish support

Danida has been an important financial contributor to FSDT and an active member of the Project Implementation Committee. Danida commitments of DKK 37.5 million represent 12% of total funds committed so far for the period from 2005 to 2012 (about 7% of funds committed to end 2008 and 10% of funds so far committed for 2008-12). According to FSDT management, Danida has also been exceptionally prompt and efficient in disbursing funds, thus making an important contribution to the Trust's cash flow management.

As explained in Section E.4, however, the Danida programme financing cycle has had one unfortunate consequence, which is to restrict the ability of RDE to increase funding for FSDT, at least for the time being. Because of the timing of the appraisal of BSPS III and the rules governing the use of the funds, decisions on funding for FSDT had to be made before the success or the strategy of the programme were clear, and it is virtually impossible to alter those decisions until a relatively late stage in the programme.

161) *During the appraisal of the FSDT project to support CRDB capacity building for its SACCOS, there were serious technical disagreements between FSDT management and CRDB about the structure of the project. When the evaluation asked at a meeting in CRDB Bank how the issue was resolved, a senior CRDB manager responded, 'We lobbied, and we won!' The implication was that CRDB had put pressure on the PIC and/or FSDT management through RDE. The evaluation was satisfied from the account given by FSDT and RDE that there was no substance whatsoever to this allegation, and that RDE behaved with total propriety throughout. It is important for CRDB management to understand that such allegations can be damaging to CRDB as well as to Danida.*

It should also be noted, however, that the long term programming approach to development taken by Danida, as incorporated in the various phases of BSPS and ASPS, has also been beneficial to FSDT. As a member of the PIC, Danida has from the outset supported the role of FSDT as a continuing programme rather than a limited project – reflecting Danida's long term approach to financial sector development in all three channels. This has enabled the Trust to take a pro-active strategic position rather than a demand-led approach merely filling the gaps left by other programmes. The RDE has also supported management in arguing for a broad range of interventions, striking an appropriate balance between growth and poverty reduction, again making a positive contribution to the balance of FSDT's portfolio.

Follow up to recommendations made in PASS and BSPS programme reviews
ASPS II (Component F – PASS)

Review	Recommendation made	Follow up?
2003	The business plan study be initiated following a regional tender procedure.	Yes – 2004 review states: 'The business plan has been developed and has been discussed by the PASS Board of Directors.'
	Decisions about how to establish linkages to the Danida PBSP be deferred till the business plan study has been completed.	Not mentioned in 2004 review.
	The position as deputy manager formally be handed over to a Tanzanian staff member not later than April 2003.	Not mentioned in 2004 review.
	A mentor arrangement be established with a Danish business organisation and a technical adviser be hired as business adviser/marketing adviser	Not mentioned in 2004 review.
2004	PASS should continue to pursue that a credit facility is established with other suitable bank(s) than the CRDB.	Yes – 2005 review states: 'So far an agreement is only reached with CRBD, but PASS is negotiating with EXIM Bank and Stanbic.'
	The technical review of PASS should include a further look at the business plan and should establish the need for an extension of the period where PASS will receive donor support. At the same time the review should look into how PASS could expand its focus to include smallholders including female farmers.	Technical review mentioned in 2005 review but no reference to specific areas identified in 2004 review.
	The PASS Board should as soon as possible hire a consultant to look into the possibilities of PASS becoming a legal entity, e.g. by being registered as a trust.	2005 review states: 'In 2004, the PASS Board agreed that PASS should be established as a Trust.' But no mention of whether a consultant was hired.
	The PASS Board should co-opt representatives of PASS clients in the PASS Board, and the RDE should consider assigning a professional as their representative in the Board. When PASS is registered as a private entity, the Board should consider to select a business person as chairperson.	Not mentioned in 2005 review. 2006 review states: 'The new board with a stronger private sector representation has been appointed.'

2005	Government of Tanzania should approve PASS as a Trust as soon as possible.	Yes – 2006 review states: 'Registration of PASS as a trust is a critical step for PASS to be able to act as a private entity. By July 2005 both the Danish Embassy and the Ministry of Finance had agreed to the transfer of PASS into a trust and the Trust Deed was approved by both parties.'
	PASS in collaboration with the working group established by the PASS Board should develop guidelines for the future blend between small and medium loans having both the agricultural development aspect for small and medium scale farmers and entrepreneurs and the need for self-sustainability in mind.	Yes – 2006 review states: 'A group under the former PASS board outlined guidelines for the PASS loan portfolio. PASS has developed terms of reference for a consultant to develop a strategy for PASS's future loan portfolio and has contracted a consultant to write the PASS business plan. Finally PASS management has initiated collaboration with NGOs also working with farmer groups as well as with farmer associations and chambers of industry and agriculture.'
	PASS should develop a strategy for its future development. The strategy should outline the future blend between small and medium loans (as discussed with the PASS Board Working Group), how to engage with processors and contract farmers, and how to work with other service providers, e.g. Technoserve and NGOs in the sector.	Yes – 2006 review states: 'The 2005 joint annual review recommended that PASS should have a more strategic focus on its development. PASS has recently addressed these issues of a more strategic concern.'
	PASS management should consider changes in staff requirements as proposed by the Technical Review.	Not mentioned in 2006 review.
	PASS should establish credit guarantee schemes with two more banks.	Yes – 2006 review states: 'PASS has in 2005 successfully negotiated an agreement on a credit guarantee with Exim Bank. PASS has in this respect achieved the immediate objective of PASS working with two banks. The annual sector review in 2005 recommended that PASS be working with more banks. Negotiations with Stanbic have failed and PASS is now negotiating an agreement with the National Micro-finance Bank. This bank has branches in district head quarters and the collaboration will help PASS support clients in more remote districts.'

Review	Recommendation made	Follow up?
2006	PASS should not provide credit guarantees of 100 % and should reach an agreement with the banks about an upper limit for the credit guarantee. Preferably the credit guarantee should be kept below 60%.	Yes – 2007 review states: 'The 2006 Review recommended that PASS should not provide credit guarantees of 100% and that 'Preferably the credit guarantee should be kept below 60%'. The latter has created certain inconveniences as the clients of PASS have a highly different risk profile and capacity for presenting collateral.'
	The PASS Board should look into the capacity of PASS management and staff to ensure that PASS can recruit and retain qualified staff. The PASS remuneration packages should be re-considered if necessary.	Not mentioned in 2007 review.
	The PASS board and PASS management should ensure that the strategic focus of PASS is further developed and the business plan and strategy for the development of the loan portfolio are internalised.	Not mentioned in 2007 review.
	The Danish support to PASS should be extended beyond 2007 based on a clear exit strategy clearly describing how PASS will be able to cover all its costs and how PASS will be facing out the technical assistance. The extension of the Danish support should be based on a thorough assessment of PASS's sustainability.	Yes – 2007 review states: 'PASS's proposed strategy for exiting ASPS II should consider PASS's vision that may be supported under the BSPS III. PASS should therefore revisit the exit strategy to ensure that all steps and actions up to June 2008 point towards the vision and targets for PASS in BSPS III.' No mention of assessment of PASS's sustainability.

BSPS II (Component 4 – CRDB/ FSDT)

Review	Recommendation made	Follow up?
2004	The [BSPS II] monitoring system should be finalised so it is ready for implementation. This includes, that for Component 4 baselines should be formulated for each indicator.	Yes – 2005 review states: 'The indicators used [for component 4] are good and the baseline figures are now established.'
	The Succession Plan in CRDB should be supported if only two of the capacity building modules are scheduled during 2004, with the other two deferred to 2005. The budget line should be increased by DKK 300,000 from both Danida and CRDB for a total increase of DKK 600,000.	Yes – to some extent – 2005 review states: 'The succession plan has started to be implemented, four staff members have been identified and their training is scheduled for 2005. A programme to expose board members to international standards undertook useful activities in 2004 and will continue this year.'
	CRDB should develop its SME business within the principles described in the Component Description using the proposed client outreach methodology, which includes a limited amount of internally delivered client services and the use of a multi-supplier model for external BDS services.	Yes – to some extent – 2005 review states: 'The credit policy and procedure for handling loans to SMEs has been finalised, both have been approved by the Board and can now be used in the field. The major task since the last review has been to develop new products for SME lending. The bank has developed two products named 'Bidii' Loans [Literally translated to mean Effort, Exertion, or Hard Work Loans]. One of the loans is for investment and the other for working capital. The SME Support Toolkit, a non-financial service support mechanism to be used by staff in training SMEs, is also ready. Lending will start in March 2005 with a 6 months pilot-phase covering Mwanza and Vijana branches.'
	CRDB should be permitted to manage the SME Guarantee Fund internally following approval by the CRDB Board and Danida of the terms and conditions for the management of the fund.	Not mentioned in 2005 review.

Review	Recommendation made	Follow up?
2004	Danida should participate in the FSD fund. It is proposed that an amount of DKK 5 million be reserved from unallocated funds, subject to a positive review of the relevant legal and structural issues related to the Trust Deed. This initial amount could be adjusted at a later date depending upon the review. A consultant should look into these legal and structural issues. Funds for this consultancy should be drawn from unallocated funds.	Yes – to some extent – 2005 review recommends that 'Danida should continue participating in the FSD fund' which implies that it already participates. However, amounts are not specified, nor is the use of a consultant.
	A BSPS II coordination workshop in which synergy opportunities, common issues monitoring, reporting, financial management, common strategies for instance related to cross cutting issues and MSME approaches should be organised within the next quarter.	Referred to in 2005 review but no action had been taken. 2005 review states: 'The situation has, however, not substantially changed'.
	RDE and the Ministry of Finance should at the forthcoming High Level Consultations address the issue of establishing a more formal coordination structure.	Referred to in 2005 review but no action had been taken. 2005 review states: 'The situation has, however, not substantially changed'.
	The proposed budget for sub-component one of the CRDB Component should be approved.	Not mentioned in 2005 review.
	The 2005 budget for micro finance should be approved.	Not mentioned in 2005 review.
2005	Danida should continue participating in the FSD fund.	Yes – 2006 review states: 'Current FSDT donors, DFID, RNE, SIDA, CIDA and DANIDA, have committed USD 33.4m for the next five years, of which equivalent to DKK 5m (USD 1.1m) is from Danida.'
	Sub-component 1: Future support towards enhancing the performance of the [CRDB] Bank management ought to be tailored towards two areas: (i) Managing challenges resulting from the observed good performance (ii) Strategic management processes that would ensure success in implementing the Wholesaling of Micro-finance and Small and Medium Loans programmes, the latter being relatively 'young'.	Yes – 2006 review states: 'The Managing Director signalled that although microfinance is proving to be profitable, the rolling out process is still subjecting the bank to resource constraints. The recommendations made in the 2005 RAM are being implemented. TA is directing efforts towards Microfinance and SMEs, and the succession plan is continuously being streamlined including a new organisational arrangement to deputise the Chief Executives.'

Sub-component 1: The proposed budget for the sub-component of DKK 1,420,992 should be approved. This entails that Danida support to this sub-component will expire at the end of 2005 as planned.	Yes – included in revised budget in 2006 review
Sub-component 2: The CRDB Micro-finance entity should design a special monitoring system related to the expansion strategy in order closely to monitor the up-scaling programme. A list of indicators is required to show how new partnerships adhere to good practice. Those MFIs designed from scratch would require special attention to rule out any short-term opportunistic interests.	Yes – 2006 review states: 'The bank adhered to the recommendations made in 2005, especially on maintaining good practice centred on the adopted model, and refraining from using resources and alternative models from other donors. The MFI management reported to have rejected several offers from different donor agencies. Measures have been taken to undertake 'Intake Assessment' for new MFIs before signing partnership agreements and the bank will monitor closely the up-scaling programme. A list of indicators is used to profile potential partner MFIs before entering agreements. However there is room for improving the monitoring after partnership agreements are signed; it also worth undertaking a MF impact assessment – Act 2.1.13.'
Sub-component 2: The CRDB Micro-finance entity should design a clear strategy to load all costs of establishing and strengthening capacity of new MFIs into their Profit & Loss account.	Yes – 2006 review states: 'Stand alone accounts for the MFI is a step towards laying a strategy to load all costs of establishing and strengthening capacity of the new MFIs into their P&Ls.'
Sub-component 2: The 2005 budget of DKK 2,085,000 should be maintained.	Yes – included in revised budget in 2006 review.
Sub-component 3: A thorough review of the pilot phase such that lessons feed into improved processes while rolling out SMEs in the 5 additional regions should be undertaken.	Not mentioned in 2006 review.
Sub-component 3: The Bank should review IT for SME lending and processes that will make reporting and compliance to BoT regulations easier.	Yes – 2006 review states: 'The bank has reviewed the IT for SME lending, an SME loans' software has been procured, the system has been designed and it is being tested. The next step will be to link it fully with the main bank system. The bank is thus fostering to fully comply with the BoT regulations.'

Review	Recommendation made	Follow up?
2005	Sub-component 3: Guidelines for the MFI and SME guarantee funds should be finalised and institutionalised.	Yes – 2006 review states: 'The RAM 2005 recommendation that guidelines for the SME guarantee fund should be finalised and institutionalised has been implemented.
	Sub-component 3: The corrected budget of DKK 1,795,000 should be approved.	Yes – included in revised budget in 2006 review.
2006	Sub-component 1: The work plan for 2006 should be approved using resources carried forward from 2005. No more funding should be provided from BSPS for this sub-component. The bank should endeavour to make use of own resources where required funds exceed those provided by BSPS II, particularly for training, institutionalising the ABB system and for finalising the succession plan.	Not mentioned in 2007 review.
	Sub-component 1: The bank should finalise the outstanding 2004 audit of the programme accounts.	Yes – 2007 review states: 'The 2006 recommendation regarding finalisation of 2004 accounts' audit has been implemented.'
	Sub-component 2: the bank should follow-up closely the new elections of board members in the partner MFIs, and design new capacity-building modules for the new management teams and board members. It should undertake the needed training in order to contend with the risk of loosing good practice and currently enjoyed discipline in the partner MFIs. DKK 1.2 million should be released from contingencies for these purposes. The 2006 Budget would therefore be DKK 3,285,000.	Yes – 2007 review states: 'The RAM 2006 recommendation to follow-up elections at the MFIs was adhered to and training was done for elected leaders and appointed managers.' No information about budget in 2007 review.
	Sub-component 3: The 2005 budget should be approved.	Not mentioned in 2007 review.

Annex G List of people met during the evaluation

Ministry of Foreign Affairs, Copenhagen
Ole Winckler Andersen, *Head of Evaluation Department*
Eva Jakobsen Broegaard, *Evaluation Department*
Morten Elkjær, *Chief Technical Adviser of The Africa Commission, formerly Deputy Head of Technical Advisory Services.*
Theo Ib Larsen, *Senior Adviser, Technical Advisory Services*
Charlotte Laursen, *Head of Department of Business and Contracts*
Janne Schneider, *Chief Consultant, Department of Business and Contracts Embassy of Denmark, Dar es Salaam*
Samweli Kilua, *Programme Officer, Business Sector*
Jørn Olesen, *Programme Coordinator, Business Sector*
Bjarne H. Sørensen, *Ambassador*

CRDB Bank
Dr. Charles Kimei, *Managing Director*
Sebastian Masaki, *General Manager*
Fabiola Mussula, *Branch Manager, Azikwe Premier Branch*
Mussa Mwinyidaho, *Senior Relationship Manager, SME*
Dorah Ngaliga, *Director of Human Resources*
Jens Ole Pedersen, *Deputy Managing Director*
John Baptist Rugambo, *Director of Secretariat*
Rehema Shambwe, *Senior Relationship Manager, SME*
Everson Temu, *Senior Relationship Manager, Morogoro branch*

CRDB Microfinance Services Co.
Samson Keenja, *Chief Manager Operations*
Sebastian Masaki, *General Manager*
Arnold Ngeleshi, *ICT Manager*
Titus Tumanini, *Chief Credit Manager*

FSDT
Ian Robinson, *Technical Director*
Sosthenes Kewe, *Technical Manager*
Pamela Aman, *Programme Administrator*

PASS
Cosmo Francis Chinunje, *Business Development Specialist*
Iddy Lujina, *Managing Director*
Killo Lussewa, *Business Development Specialist*
Dr. Andrew Temu, *Chairman Board of Trustees*
Antoon Vergroesen, *Technical Advisor*

Bank of Tanzania
Enock Maganga, *Deputy Director, Credit Guarantee Department*
Harry Ndambala, *Director, Microfinance Institutions*
Flora Rutabanzibwa, *Director, Microfinance Policy (Bank of Tanzania)*

Other
Hossain Adib, *Country Manager, BRAC*
Dinesh Arora, *General Manager, Exim Bank*
Kathleen Charles, *Manager of Strategic Services, FBME*
Jarad Duhu, *CIDA*
Mwatima A. Juma, *IFAD Country Officer*
Dr Victoria Kisyombe, *Managing Director, SELFINA*
Odilo Majengo, *Director of Marketing, Ministry of Industry, Trade and Marketing*
Abuu Othman, *CARE Tanzania*
Leticia Pima, *CARE Tanzania*
Mafizar Rahma, *Regional Manager, Dar es Salaam, BRAC*
Patrick Schöneborn, *Banking Adviser, AccessBank*
Mrisho Shomari, *Acting Branch Manager, Magomeni, AccessBank*
Adrian Stone, *DFID Tanzania*
Violet Temba, *Branch Manager, Magomeni, BRAC*

Ministry of Foreign Affairs of Denmark
Danida

2 Asiatisk Plads
DK-1448 Copenhagen K
Denmark

Tel +45 33 92 00 00
Fax +45 32 54 05 33
um@um.dk
www.um.dk

EVALUATION OF
DANISH SUPPORT FOR FINANCIAL SERVICES
IN TANZANIA

ISBN 978-87-7087-225-6
E-ISBN 978-87-7087-226-3

DESIGNGRAFIK / 12698