



1. Project Data:		Date Posted :	09/28/2005	
PROJ ID:	P050441		Appraisal	Actual
Project Name:	Rural& Micro Financial Service	Project Costs (US\$M)	2.45	2.03
Country:	Tanzania	Loan/Credit (US\$M)	2.00	1.55
Sector(s):	Central government administration; Banking; Micro- and SME finance	Cofinancing (US\$M)	0.00	0.00
L/C Number:	C3278			
		Board Approval (FY)		00
Partners involved :		Closing Date	12/31/2002	12/31/2004
Evaluator :	Panel Reviewer :	Group Manager :	Group:	
Kris Hallberg	Roy Gilbert	Alain A. Barbu	OEDSG	

2. Project Objectives and Components

a. Objectives

The project had three objectives :

- Develop a common policy framework, based on internationally recognized best practices, for Rural and Microfinance (RMF) in Tanzania in order to establish an enabling environment for RMF and increase the quality and returns of investments planned by Government agencies and other donors .
- Increase the level of knowledge and skills within the RMF industry .
- Institute a program of systematic tracking and analyzing all RMF initiatives against common criteria .

b. Components (or Key Conditions in the case of Adjustment Loans):

The project had five components :

- Develop a national RMF policy based on wide stakeholder consultation and international best practice (appraisal estimate \$0.15 million, actual cost \$0.10 million).
- Develop the legal, regulatory, and supervisory framework for RMF (appraisal estimate \$0.30 million, actual cost \$0.33 million).
- Develop operational guidelines and standards for government and donors (including banks, cooperative financial institutions, and NGOs) as well as capacity building initiatives to ensure that each government and donor initiative maintains certain quality standards, uses a consistent set of performance indicators, and focuses on sustainability of the interventions (appraisal estimate \$0.07 million, actual cost \$0.08 million).
- Capacity building: build the capacity of the Directorate of Microfinance (DMFI) at Bank of Tanzania to coordinate, track, and analyze development activities in RMF; build the capacity of the Cooperatives Department at the Ministry of Cooperatives and Marketing (MCM) to develop operational guidelines and standards as well as a supervisory framework for Savings and Credit Cooperatives Societies (SACCOs). (appraisal estimate \$1.53 million, actual cost \$1.36 million).
- Enhance knowledge and skills in RMF: Support a series of technical workshops to disseminate research work and technical handbooks on RMF (appraisal estimate \$0.20 million, actual cost \$0.16 million).

In addition, \$0.20 million was set aside for contingencies (\$0.00 million actual).

c. Comments on Project Cost, Financing, Borrower Contribution, and Dates

The project was designed as a Learning and Innovation Loan (LIL). Counterpart funding was provided by the Government (appraisal estimate \$0.45 million, actual \$0.48 million). Loan effectiveness was delayed because preparation of the Project Implementation Plan took longer than expected, and delays in project implementation caused disbursements to be slow . As a result of the delay in effectiveness and slow implementation, the closing date was extended twice to December 31, 2003 and then to December 31, 2004. At project closing, total disbursements amounted to \$1.55 million, and the undisbursed balance of \$0.65 million was cancelled.

3. Relevance of Objectives & Design :

- The project's objectives were consistent with the Country Assistance Strategy's objectives of increasing economic growth, improving the environment for private sector activity, and extending access to basic social and economic services by low-income groups. Project objectives were also consistent with the Government's policy

of increasing access by small savers and microentrepreneurs to financial services . The Government realized that there was potential for growth in the informal manufacturing sector (tailoring, bakery, beverages, pottery, metal products, wood products, and jewelry) if improvements were realized in the availability of microfinance, training in business skills, and basic infrastructure facilities .

- The project was designed to address a major shortcoming in the RMF sector : the lack of a common framework, with uniform regulation and supervision, to guide investment in the sector . Project design, preparation, and appraisal benefitted from wide consultations and detailed comments from peer reviewers and microfinance specialists from the Consultative Group to Assist the Poorest (CGAP).
- The project was supported by a Learning and Innovation Loan (LIL) that was intended to be implemented quickly in order to share the lessons of experience with stakeholders in RMF . However, the project supported a number of activities, such as reviewing and amending laws, that required consensus -building and therefore took a long time to accomplish. A LIL was not the right instrument to support these long -term reforms.

4. Achievement of Objectives (Efficacy) :

- Development of a policy framework for RMF based on international best practice : *substantial*. A National Microfinance Policy (NMP) was adopted following a broad consultative process among stakeholders . The NMP provided guidelines for the RMF sector regarding pricing, delinquency control, financial reporting, and information management, as well as gender equity and governance . The banking law was amended to take into account microfinance institutions (MFIs) and SACCOs to make them part of the financial industry in Tanzania and provide for their effective licensing and supervision by the Bank of Tanzania . The legal and regulatory framework for MFIs and SACCOs were adopted, although with some delay . The largest microfinance providers showed improvements in performance indicators (increased profitability, improved CAMEL ratings, reduced delinquency rates, reduced subsidies for onlending); there were also increases in the number of RMF providers, customers, and loan portfolios and savings deposits . The donor community raised an additional \$ 1 million to build the capacity of MFIs in accordance with NMP . Principles for new government and donor support for MFIs were adopted in March 2005 after the project closed.
- Increase the level of knowledge and skills within the RMF industry : *modest*. The project supported two workshops for industry participants and stakeholders on Operational Risk Management for Microfinance Auditors and Accountants, and on Business Planning and Financial Modelling for Microfinance Institutions . In addition, three annual conferences were held to bring together local and international stakeholders in the RMF industry. The Government is using the new RMF strategy as input into its planned second generation of financial sector reforms. The capacity and knowledge of staff in MCM and SACCOs was enhanced through training courses aimed at supervision of financial cooperatives . (The ICR does not provide evidence on actual increases in the level of knowledge and skills (outcomes), but instead provides evidence on training provided (outputs)).
- Institute a program of systematic tracking and analyzing RMF initiatives : *substantial*. Training of staff of the DMFI at the Bank of Tanzania and adoption of a tracking and analysis tool allowed DMFI to collect and analyze information on 24 MFIs including banks, NGOs, and SACCOs. DMFI was able to evaluate the five largest direct providers of microfinance services which account for about 90 percent of the loans provided to low-income clients in Tanzania. The results of the evaluation showed significant progress being made in outreach, profitability, and sustainability.

5. Efficiency :

Implementation delays were partly due to a lack of familiarity with Bank procurement procedures, which could have been lessened with better collaboration between the DMFI and the Directorate of Banking Supervision (the latter had good knowledge of procurement from its experience with prior Bank -financed projects). The Bank's overhead costs (\$570,000) amounted to about a third of the value of Bank financing . Since the ICR does not contain information on the cost-effectiveness of project activities, it is difficult to judge the efficiency of the project .

6. M&E Design, Implementation, & Utilization:

- The Project Appraisal Document proposed that project effectiveness would be measured by monitoring Government and donor compliance with the policy framework and the quality and quantity of new investments in the sector. However, the ICR does not include much of this information .
- Although the small scale of the project did not warrant a costly M&E system, the project could have done a better job of specifying indicators for some project objectives, particularly (i) the quality and returns of investments planned by Government agencies and other donors, and (ii) the level of knowledge and skills within the RMF industry.

7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):

None.

--	--	--	--

8. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability:	Highly Likely	Likely	The ICR fails to make the case that project benefits are highly likely to be sustained.
Bank Performance:	Satisfactory	Satisfactory	However, the Government contribution to the ICR notes significant problems implementing the Bank's procurement procedures.
Borrower Perf .:	Satisfactory	Satisfactory	However, there were delays in the adoption of a legal and regulatory framework for MFIs and SACCOs as well as in the preparation of the Project Implementation Plan.
Quality of ICR:		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

9. Lessons:

- Policy reforms can best benefit industry participants if there has been close collaboration with stakeholders during the project preparation stage.
- The sustainability of project benefits is made more likely when project implementation is mainstreamed into the normal operations of the implementing agency.
- Project implementation can be delayed if World Bank /IDA procurement procedures are not aligned with national procurement systems.
- A LIL may not be an appropriate instrument to support policy reforms that require consensus -building and a long time to implement.

10. Assessment Recommended? Yes No

Why? It would be useful to see whether the new framework is still in use and whether it led to an increase in the quantity and quality of investments in the RMF sector .

11. Comments on Quality of ICR:

The ICR is of good quality, incorporating a thoughtful contribution from the Government as well as an evaluation of the project conducted for the Bank of Tanzania . It should have given more thorough explanations of the causes of delays in effectiveness and implementation . Other shortcomings included (i) the omission in Annex 2 of a project cost table showing separate Bank and Government financing, and (ii) inconsistencies between component cost figures in Section 3.3 and Annex 2.