



Business Plan 2020 - 2024

BRAC Tanzania Finance Limited

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This version of the business plan sets out the strategic direction for the next five years and concludes Phase 2 of the planning process. Appendix 2 outlines areas that will be further updated in Phase 3 before the business plan can be considered as final.

1 BRAC Tanzania | Microfinance

BRAC started its microfinance operations in Tanzania in 2006 to provide access to finance to communities across the country. Thirteen years after its inception, BRAC Tanzania is the largest microfinance institution in terms of number of branches, serving more than 203,640 borrowers across 25 administrative regions, including both mainland Tanzania and Zanzibar. Microfinance activities are currently carried out by two legal entities, BRAC Tanzania Finance Limited and BRAC Zanzibar Finance Limited (together “BRAC Tanzania”) to comply with local laws and regulations, but operates as one organisation.

For BRAC, microfinance is an integral part of its holistic development efforts. Through a sister organisation, BRAC Maendeleo Tanzania, BRAC has implemented a long list of social development projects in areas such as education, agriculture, or water, sanitation and hygiene. Projects such as Livelihood Enhancement through Agriculture Development and Empowerment and Livelihoods for Adolescent Girls are great examples of BRAC’s ability to integrate and combine microfinance and social programmes to bring much needed services to the target communities.

BRAC Tanzania has, nonetheless, also been successful on its own and contributed to improvement of the level of financial inclusion in Tanzania. While technologic developments have enabled Tanzanians to access basic financial services such as payments, still very small shares of the adult population are able to access more sophisticated formal financial services such as borrowing (11%), savings (24%) or insurance (13%). People lacking access to those services can still be counted in the millions. BRAC Tanzania has developed this five-year plan to contribute to both the broadening, in terms of number of people having access, and deepening, in terms of range and quality of products available, of financial inclusion in accordance to its mission.

MISSION









To provide a range of financial services responsibly to people at the bottom of the pyramid.

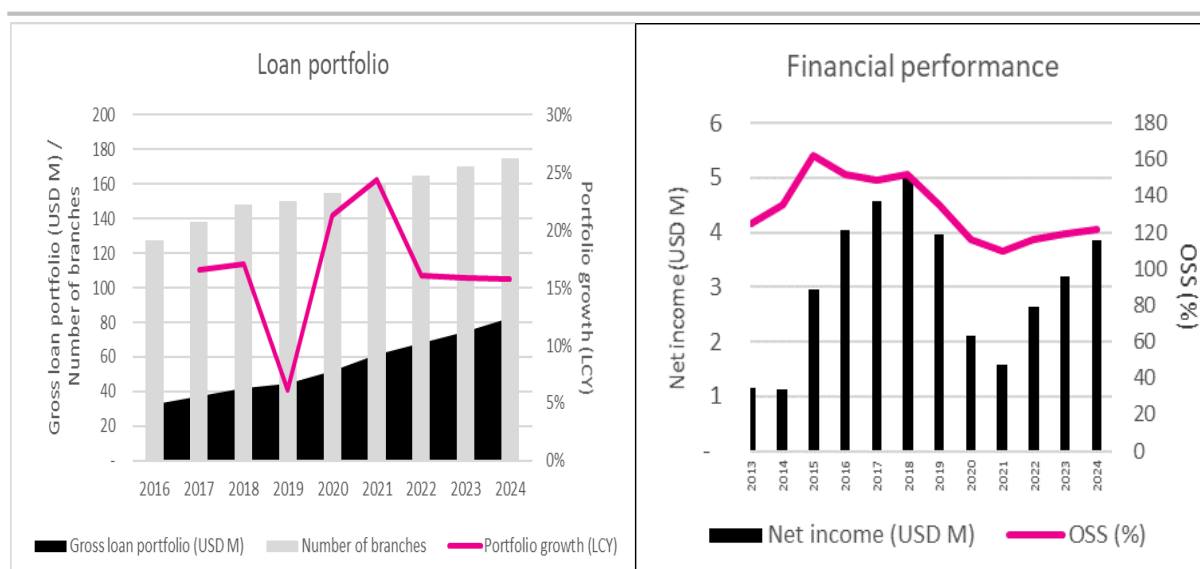
We particularly focus on women living in poverty in rural and hard to reach areas to create self-employment opportunities, build financial resilience, and harness women’s entrepreneurial spirit by empowering them economically.

This business plan sets a direction towards becoming a deposit-taking microfinance banks that allows its clients to increase their financial resilience through savings and other products and services. Besides the key goal, the plan outlines moderate growth targets that will see the number of borrowers to grow from 203,640 in 2019 to 245,363 in 2024 and gross loan portfolio to increase from USD 45M to USD 82M over the next five years.

Alongside the transformation, this business plan defines six key strategic priorities and outlines key activities for each of them in order to strengthen and mature the institution. The activities include but not limited to product development, digitisation of field operations, or implementation of the social performance management system. BRAC Tanzania will also focus on talent management and strengthening of its management structure to ensure the organisation has the leadership capacity to sustain the strong growth and achieve its impact goals.

1.1 Performance Snapshot

	2013	2019	2024
 Total Borrowers	101,068	203,640	246,363
 Branches	112	150	175
 Women	99%	96%	96%
 Rural ¹	28%	41%	55%
 Poor ²	NA	64%	75%
 Loan disbursements	USD 47M	USD 99.96M	USD 144.40M
 Average loan size	USD 339	USD 362	USD 435
 Gross loan portfolio	USD 17 M	USD 52.77M	USD 82.32M



¹ It is believed that the current definition underestimates the percentage of rural borrowers and does not accurately capture BRAC Tanzania's exposure to the segment in the current and past portfolio. BRAC Tanzania is working on a set of criteria that would be fit for purpose.

² As per Lean Data Survey 2019; measured using PPI through a sample of clients that are falling below the \$3.20/day line

1.2 Achievements

Since its humble beginnings in 2006, BRAC Tanzania has grown to be one of the largest financial institutions in the country providing the much-needed services to the financially underserved. Despite its impressive growth, it has not compromised on its mission to serve its target client segments. Moreover, the quality of its services contributing to improvement of livelihoods of its clients has been confirmed by multiple awards.

Largest Branch Network to Reach Underserved Communities

BRAC Tanzania has been committed to provide financial access to financially underserved communities regardless of their location. It is one of the few institutions with operations covering most of Tanzania. With its 150 branches, it is currently present in 25 out of 31 Administrative Regions and is exploring opportunities for expansion into the remaining regions. Having developed the largest branch network in Tanzania, BRAC Tanzania has been able to reach more remote places than any other financial institution.

Impact at Scale

Striving for reaching as many people in need as possible and achieving impact at scale has always been part of BRAC's DNA. BRAC Tanzania has followed this principle since its beginning which has allowed it to reach over 203,000 households as of December 2019. Over the past five years, BRAC Tanzania has increased the number of borrowers by 95% and disbursed more than 1,100,000 loans in the amount of more than USD 335 M.

Maintaining Focus on Target Populations

BRAC Tanzania has continued to promote financial inclusion especially among *women living in poverty in rural and hard to reach areas*. It has focused on women who have been left out by the mainstream financial institutions and aspired to contribute to their empowerment through entrepreneurship and employment. Together with its development sister organisation, BRAC Maendeleo Tanzania, BRAC Tanzania has been supporting women from their young age through the Empowerment and Livelihoods for Adolescent Girls (ELA) programme. Its women-focused products, i.e. Microfinance and ELA loans, remain to account for 88% of BRAC Tanzania's portfolio. Similarly, BRAC Tanzania is committed to promoting women's employment and leadership. At the end of 2019, BRAC Tanzania was employing 1,450 staff of which 90% are women. Moreover, all Credit Officers, Branch Managers, and Area Manager were women.

Besides women, BRAC Tanzania has focused on low-income populations living in rural areas where access to financial services has not been adequate. It has been providing loans to micro and small entrepreneurs, to smallholder farmers for agriculture cultivation, poultry or cattle rearing, and to the youth to start their first businesses.

Award-winning Quality of Services

Tanzania's positive impact has also been confirmed by its clients being among the winners of the Citi Micro entrepreneurship Awards in 2019. Marijani Mmari a poultry farmer and SEP Client from USA-River Arusha has exemplified the importance of financial support to small businesses by demonstrating not only financial growth in his business but also contributing to the society through philanthropic activities. Marijan Mmari who recently won a Citi Entrepreneurship Award has been BRAC's SEP program client since 2015.

By 2019, Mmari had acquired a vehicle for delivery of eggs and therefore increased distribution from 30 to 50 metric tonnes as he is now able to cover a wider area. He has also managed to increase monthly gross sales from TZS 23 million to TZS 25 million and added his employees to 15, (7 men and 8 women). He is able to pay his employees basic salary including PAYEE, WCF, NSSF and other relevant contributions and taxes

While Marijani's business success is admirable, he is also a philanthropist. He has been giving back to the community by supporting young people with their education pursuits by means of assisting with school fees, school uniforms, and other educational materials. Marijani is the third SEP client from BRAC to win the Citi Micro – entrepreneurship awards, Zabron Mbwaga also from Arusha region secured a top prize win as the overall Micro -entrepreneur of the Year while a businesswoman Lucy Kiongosi from Dodoma was declared the Woman Microentrepreneur of the Year both won at the 2017 Citi Micro entrepreneurship Awards.

BRAC Tanzania's positive impact has also been confirmed by its clients being among the winners of the Citi Micro entrepreneurship Awards. Zabron Mwaga, a seed breeder and a successful entrepreneur who has been with the SEP programme of BRAC Tanzania since starting his business in 2011, was the overall Award winner for 2017/2018, while Lucy Kiongosi an SEP entrepreneur was awarded the Best Woman Micro-entrepreneur. Lucy started a waste collection business in 2013 and by now has two collection centres and employs about 10 people; but her appetite does not end there as she plans to open a factory processing scrap metals and waste bones in the future.³

Provision of Client Centric Services

The Lean Data client satisfaction survey conducted in early 2019 has further confirmed that BRAC Tanzania positively contributes to livelihoods across its client base and not only in individual cases. The survey showed that 99% of clients would take a future loan from the institution. Moreover, 59% said their income has “very much improved”, 66% reported significant increase in their ability to plan their finances, and 71% said their quality of life has “very much improved”. The survey results are an encouragement for BRAC Tanzania to continue its hard work and further improve its services to achieve even higher client satisfaction levels next time such a survey is done.







Committed Staff

The achievements mentioned above would not be possible without dedicated and well-trained staff. Here again, BRAC Tanzania's staff has won multiple prizes over the past several years. Most recently, Amina Bakari Hussein, a Microfinance Credit Officer has received a “Field Officer Award” from Whole Planet Foundation. The award has been a well-deserved appreciation for her 7 years of hard work and dedication to serving the members of her community.

³ TAMFI, 18 April 2018. 16 Entrepreneurs Win Big In Citi Micro-Entrepreneurship Awards 2017/8.

1.3 Strategic Plan Overview

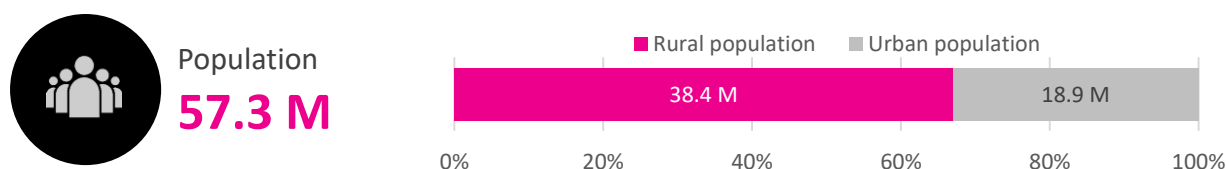
Building on achievements to date, BRAC Tanzania plans to both broaden and deepen the access to responsible financial services by underserved Tanzanians. A key activity to achieving this goal will be the ultimate transformation into a microfinance bank. Further, expansion to rural areas, development of new products and digitisation of its operations are among the other strategic priorities in the next five years. The institution builds its plans around six strategic areas:

Strategic Plan of BRAC Tanzania		
Responsible Inclusive Finance	<ul style="list-style-type: none"> Transformation into a deposit-taking microfinance bank to allow its clients to improve their economic resilience through savings Further expansion to rural areas Implement social performance management system 	
Innovative Product Development	<ul style="list-style-type: none"> Product development to meet the needs of the target segments, including products for Agrifinance and Youth Finance Inclusion of digital delivery channels in current and upcoming products 	
Digitization of Field Operations	<ul style="list-style-type: none"> Improve internal systems and operational infrastructure to gain maximum efficiencies from the planned digitization of field operations 	
Talent Management	<ul style="list-style-type: none"> Strengthen management capacity to ensure efficient delivery of the strategy and transformation into a microfinance bank Focus on attracting, developing and retaining local talent, including development of a competitive compensation packages and incentive schemes, broadening field level talent pools, hiring management trainees and young professionals 	
Management Development and Decision-Making	<ul style="list-style-type: none"> Implement management structure meeting the requirements of operating a microfinance bank Put in place best practice corporate governance structure aligned to the regulatory requirements 	
Funding	<ul style="list-style-type: none"> Attracting local and international debt funding to support planned growth, product development and capacity building Optimise the capital structure and diversify shareholding by welcoming mission-aligned equity investors 	

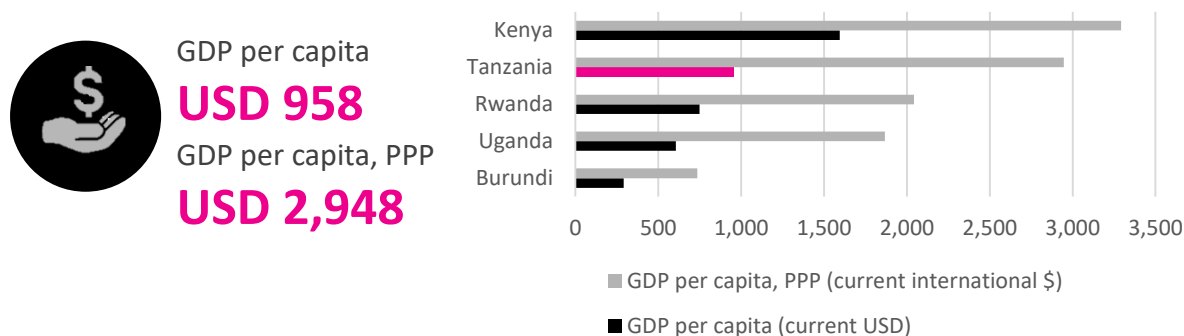
2 Market Analysis

2.1 Country Information and Financial Inclusion

Tanzania has a population of 57.3 million people, out of which 66.9%, or 38.4 million, live in rural areas.⁴ For its large land area, Tanzania has a population density of only 64.7 people per square km. Compared to its East African neighbours (Kenya: 87.3, Uganda: 213.8, Rwanda: 494.9), Tanzania is the least densely populated.



In October 2015, John Pombe Magufuli was elected as the fifth President of the United Republic of Tanzania. Magufuli's fifth phase government has prioritized efforts to clampdown on corruption, improve public administration and manage public resources for improved social outcomes. In 2017, 72% of Tanzanians said corruption had decreased "somewhat" or "a lot" over the preceding year, compared to 13% in 2014. Similarly, 71% said the government is fighting corruption "fairly well" or "very well," compared to 37% in 2014. On the other hand, recent tax reforms have put pressure on entrepreneurs, thereby reducing liquidity in the market.



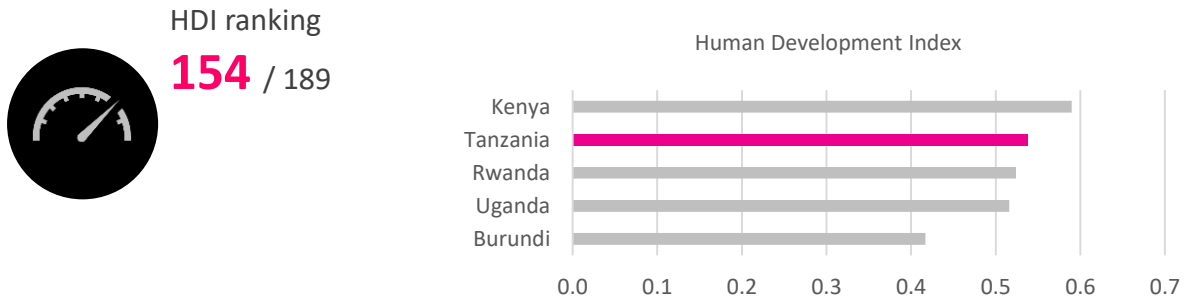
The Tanzanian economy is after Kenya, the strongest in the region when measured by GDP per capita as well as when considering its purchasing power parity.³ While Tanzania's GDP has grown at an average rate of 7% since 2000, the forecast predicts slowdown in real GDP growth to values between 4.0% and 5.0% per year in the next five-year horizon. Despite having comparable inflation with its neighbours of around 5%, GDP growth is expected to be one of the lowest in the region.⁵ These expectations are largely a result of recent economic and tax reforms that has challenged some sectors of the economy.

High population growth rate has to an extent neutralized the economic gains of the past period and has resulted in the absolute number of people living in poverty to stagnate despite the ratio of people

⁴World Development Indicators, data for 2017.

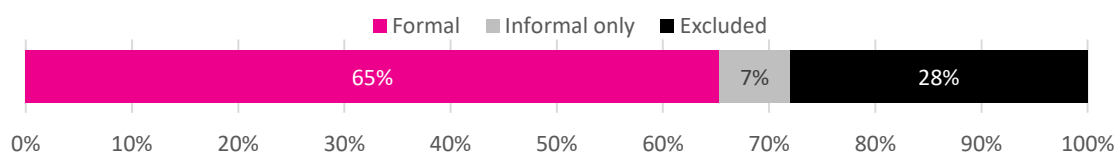
⁵World Economic Outlook, April 2019.

living under the national poverty line continuing to decrease (from 34.4% in 2007 to 28.2% in 2012 and then to 26.8% in 2016).⁶ Social development indicators similarly show that despite the larger economy, Tanzania does not fare too much better than its neighbours, Rwanda and Uganda. In the global perspective, it poorly ranks at 154 out of 189 assessed countries.⁷



Although agriculture contributes only around one fourth to the overall economic output, it employs the majority of the population, primarily in rural areas with higher poverty rates. The agriculture sector faces a number of challenges resulting in low crop yields. It is heavily dependent on seasonal rainfall, remote rural areas lack much needed infrastructure and marketing channels. Smallholders, and particularly women, also have limited access to post-harvest technologies, financing, insurance, information, extension services and inputs.⁸ Apart from agriculture, around one quarter of the population is employed in services and less than 10% in industry.⁹

With 41% of adult Tanzanians generating income from seasonal farming activities and only 7% of the population receiving salary income, access to financial services is an important factor in coping with unexpected life situations. However, 28% of the mainland population remained financially excluded in 2017 (1% deterioration from 2013) and a further 7% had access only to informal financial services (9% decrease from 2013).



Formal financial inclusion has increased from 58% in 2013 to 65% in 2017. A large portion of the increase is caused by the uptake in mobile money which is, however, primarily used as a convenient means of sending money rather than an access point to more sophisticated financial services. There is a significant difference in financial inclusion in urban and rural areas. Rural populations tend to be more financially excluded (35%) than people in urban areas (15%). Only 10% of adult Tanzanians have a proof of ownership and only 3% of adults claim to have a title deed which makes them unable to

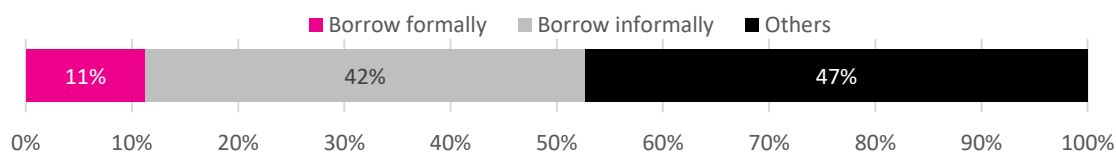
⁶ World Bank, Tanzania: Overview.

⁷ UNDP Human Development Index, data for 2017.

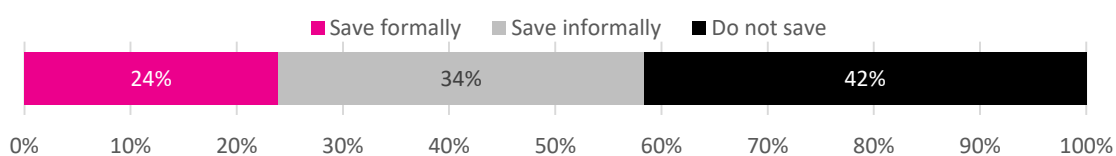
⁸ World Food Programme, United Republic of Tanzania Country Strategic Plan (2017-2021).

⁹ World Development Indicators, data for 2017.

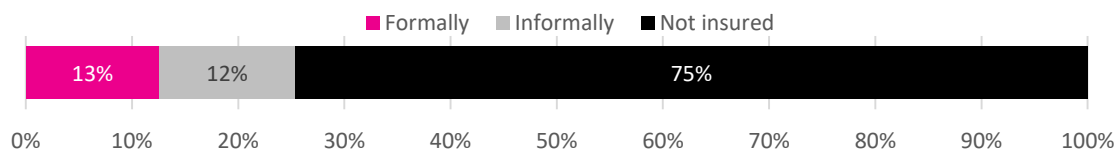
access loans requiring collateral. On the other hand, most Tanzanians do have at least some ID card (83% had voters ID card) which is often the minimum requirement to access formal financial services.¹⁰



Informal borrowing remains the main source of credit for 42% of adult Tanzanians while only 11% borrow from formal financial service providers. The main sources of credit are family and friends (69% of those who borrow) followed by savings groups (18%). Mobile money is used as a source of credit by 4% whereas microfinance institutions by only 2% of those people who borrow.



Of those who save, the primary means is by saving cash at home (43%) but mobile money has been catching up (35%). Savings groups, banks and family members are the other popular means. Only 1% of savers, save with microfinance institutions.¹¹



Three quarters of Tanzanians do not have any insurance. Out of those who are insured, most use health insurance products. It is also a fact that insurance is usually taken by men, living in urban areas with relatively higher income; for other segments of the population the uptake is rather minimal.

There is a significant gender gap in terms of financial inclusion. Only 60% of Tanzanian women have access to financial services and 9% have access to informal financial services, which leaves 30% financially excluded. That compares weakly against 70% of men having access to formal services and 26% being financially excluded.

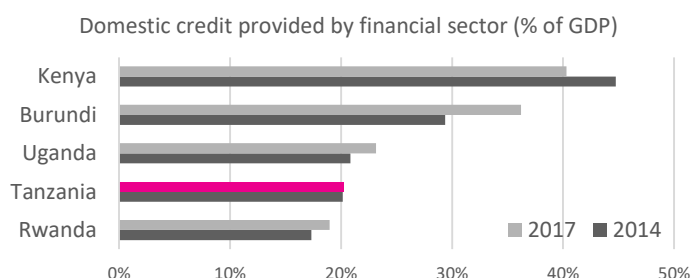
¹⁰FinScope Tanzania 2017. Since the survey uses multiple-choice questions, the share of people using *only* informal financial services is a smaller subset of people using informal services (alongside formal services).

¹¹ FinScope Tanzania 2017.

2.2 Financial Sector Overview

Mirroring the statistics on financial inclusion, the Tanzanian financial sector is rather limited in its size and depth. Total financial assets account only for 36% of GDP and nearly three quarters of the assets is held by banks. The remaining quarter of the financial assets is mostly held by pension funds that

include mandatory social security funds.¹²The Tanzanian financial sector also provides less domestic credit in relation to GDP than sectors in neighbouring countries, with the exception of Rwanda, and the ratio has rather stagnated in recent years.



Although there is a variety of financial institutions ranging from commercial banks to microfinance institutions to SACCOs (Savings and Credit Cooperative Societies) and VICOBA (Village Community Banks) only a limited number of financial institutions achieve nationwide coverage and many institutions' locations are either limited to urban centres of larger cities or regional capitals.¹³ This has been recognised by the government as an obstacle to further development and the current Second Five Year Development Plan and the Tanzania Development Vision 2025 strongly prioritize increasing financial access to the rural unbanked community. Part of this process has been the establishment of a new legal framework for microfinance institutions, and a new regulatory framework to enable mobile repayment, in order to establish clear service standards and to encourage more private investment in rural finance.

Banking Sector

In spite of the small size of the financial sector, the banking sector includes a high number of banks; as of December 2019, there were 38 commercial banks, 6 community banks, 3 development banks and 5 microfinance banks. The market is, nonetheless, very concentrated and dominated by a small number of large players – CRDB and NMB have together approximately one third of total banking assets and the top 5 banking institutions have over 50% of the total banking assets and the second 5 cover a further 20% of the market.¹⁴

This high market concentration effectively translates into relatively low competition, further segmented by products and geography. As a result, there are large differences in terms of profitability, capital adequacy and portfolio quality across the sector. The few large banks strongly outperform the large number of smaller banks that often lack funding and scale. A combination of non-performing portfolios resulting in suboptimal profits and inadequate capitalisation forced a number of banks to close in the past two years. High reference interest rates set by the central bank and lack of policies facilitating recollection have further increased vulnerability of certain banks to adverse events.

¹² IMF, November 2018. United Republic of Tanzania: Financial System Stability Assessment.

¹³ Clickpesa, December 2018. Insights into the Tanzania financial sector: a rapidly developing ecosystem.

¹⁴ IMF, November 2018. United Republic of Tanzania: Financial System Stability Assessment.

With only 2.5 bank branches per 100,000 adults¹⁵ and of which approximately 60% of existing branches are located in 5 major cities (Dar es Salaam, Arusha, Mwanza, Mbeya and Moshi), banks are able to reach less than 10% of the rural population and just about one third of urban population.¹⁶ Although the Tanzanian banking sector faces multiple challenges, it also offers a huge opportunity for banks that are able to reach scale with a cost-effective model.

Microfinance Sector Overview¹⁷

The microfinance sector shares some similarities with the banking sector. It consists of hundreds of microfinance institutions that, with the exception of only a handful of organisations, have operated only regionally and with limited scale and minimal regulation. Most of the major players in the microfinance sector, including BRAC Tanzania, are members of the Tanzania Association of Microfinance Institutions (TAMFI). Recent developments might, however, significantly change the status quo over the next several years.

In 2017, the Ministry of Finance and Planning of Tanzania published the National Microfinance Policy with the overall objective to promote financial inclusion by creating an enabling environment for efficient and effective microfinance sub-sector that serves the need of the low-income individuals, households, and enterprises and thereby contribute to economic growth, employment creation and poverty reduction. Following the National Microfinance Policy, the new Microfinance Act, 2019, was introduced to, for the first time, regulate non-deposit taking microfinance institutions (Tier 2), SACCOs (Tier 3) and community microfinance groups (Tier 4). This was followed up by the publication by Bank of Tanzania (BOT), The Microfinance (Non-deposit taking Microfinance Service Providers) Regulations, 2019, which are focuses at providing guidelines in terms of licensing, regulatory reporting, liquidity, capital adequacy and client protection requirements. All Tier 2 to Tier institutions should be compliant by October 2020 or else they will cease to operate. Microfinance institutions willing to take deposits (Tier 1) will need to comply with the Financial Institutions Act, 2006 as Microfinance Banks.¹⁸

The new regulations have introduced consistent standards in terms of reporting on client protection principles applicable across the microfinance sector. BOT will focus on Tier 2 institutions and delegate to a supervisory body the activities of Tier 3 and 4 institutions. It is expected that some of the smaller institutions will face challenges to live up to the higher standards and comply with the new regulations.

Microfinance Sector Segmentation

The microfinance sector in Tanzania can be divided across various dimensions but there are two that can segment the sector into its key categories. The first dimension is the ability to take deposits and the second is the scale of operations.

1. Microfinance Banks

There are only 5 microfinance institutions with a license to take deposits. Their scale significantly varies, some microfinance banks have only a small number of branches (EFC and Hakika) and others have branches across the country (FINCA and VisionFund). These microfinance banks need to follow

¹⁵ World Development Indicators, data for 2015 (latest available).

¹⁶ FinScope Tanzania 2017.

¹⁷ See Appendix 1 for an overview of laws and regulations impacting microfinance institutions.

¹⁸ Microfinance Act, 2019.

the Banks and Financial Institutions Act, 2006, which places high requirements on the institutions in order to ensure the entrusted deposits of their clients are managed responsibly.

- *EFC, FINCA, Hakika, VisionFund, Yetu*

2. Country-wide Microfinance Institutions

Apart from BRAC Tanzania, there is only a very small number of microfinance institutions operating at scale across the large country. Those who do, such as ASA Tanzania or Fanikiwa, are usually located in and around larger cities and towns.

- *BRAC Tanzania, ASA Tanzania, Fanikiwa*

3. Regional Microfinance Institutions







Besides the first two categories where all the major microfinance operators belong, there are further hundreds of small, regional non-deposit-taking institutions providing microfinance services. The majority of these institutions will fall under Tier 3 and Tier 4 according to the new Microfinance Act, 2019 but there are also some Tier 2 institutions belonging to this category. Having to comply with regulations for the first time might become a challenge for many of those and some might even decide (or be forced) to cease their operations altogether.

- *Twaweza*

The segmentation identifies the closest peers of BRAC Tanzania but a recent customer survey revealed that there is limited direct competition in the markets that BRAC Tanzania operates. Nonetheless, it is primarily the two other segments where BRAC Tanzania sees a strategic opportunity for the next five years. The focus in 2020 is for BRAC Tanzania to comply with the regulatory requirements of Tier 2 and then transform into Tier 1 by the end of 2021. Thus, transformation into a deposit-taking institution is one of the strategic priorities for the next five years and upon successful transformation BRAC Tanzania would become a major player in this segment. On the other side of the spectrum, it is expected that some of the smaller, regional microfinance institutions might not be able to comply with the new regulations and create opportunity for BRAC Tanzania to enter markets they might leave behind.

3 Business Model and Strategic Plan

Building on its past achievements, local opportunities and BRAC International’s strategic priority areas, BRAC Tanzania has developed a business plan that adapts the global strategic areas to the local context of Tanzania.

	Strategic Priority areas of BRAC International	Strategic Plan of BRAC Tanzania	
Responsible inclusive finance	Further embed BRAC’s mission into the Microfinance operations through Client Protection, Social Performance Management, and Client Outcomes Measurement.	<ul style="list-style-type: none"> Transformation has been broken into 2 phases – compliance with the new Tier 2 regulations and then transformation into a deposit-taking microfinance bank to allow BRAC clients to improve their economic resilience through savings Further expansion to rural areas Implement social performance management system 	
Innovative product development	Leverage internal learnings, industry best practice, research, and alternative delivery channels for new product development and scaling in line with the BRAC’s mission.	<ul style="list-style-type: none"> Product development to cater for needs of the target segments, including agrifinance and products for youth Inclusion of digital delivery channels in current and upcoming products 	
Digitization of field operations	Enhance customer experience, reach more clients, and increase organizational efficiency.	<ul style="list-style-type: none"> Improve internal systems and operational infrastructure to gain maximum efficiencies from the planned digitization of field operations 	
Talent management	The inclusive, systematic process that encompasses the attraction, identification, development, deployment, performance and retention of individuals who are of specific value to meet our long term goals.	<ul style="list-style-type: none"> Strengthen the management team of the institution to ensure efficient transformation into a microfinance bank Improve retention of staff and attracting local talent, including development of compensation packages and incentive schemes, broadening field level talent pools, hiring management trainees and young professionals 	
Management development and decision-making	BRAC International Microfinance management moves from country program management to a governance oversight structure.	<ul style="list-style-type: none"> Implement management structure meeting the requirements of operating a microfinance bank 	
Funding	Defining the structure and mechanism to finance the growth and expansion of BRAC International’s microfinance companies and their implementation of strategic priority areas.	<ul style="list-style-type: none"> Attracting local and international debt funding to support planned growth and product development Optimise the capital structure and diversify shareholding by welcoming mission-aligned equity investors 	

Responsible Inclusive Finance

BRAC Tanzania is a leading microfinance institution and the largest in terms of number of branches. It plans to further expand and grow in order to provide responsible financial services to the currently underserved Tanzanians and become one of the top 5 microfinance institutions, i.e. non-deposit-taking microfinance institutions and microfinance banks, in Tanzania in terms of number of clients and footprint. In order to achieve that BRAC Tanzania will expand its number of branches to 175 by 2024 and introduce new product offerings that would attract more clients in existing and new markets.

One of the strategic initiatives for the period of 2020 to 2024 is transformation into a microfinance bank that will enable BRAC Tanzania to provide further products and services to its clients. BRAC Tanzania has already embarked on the journey to convert the current company limited by guarantee into a company limited by shares. BRAC Tanzania will be able to leverage the lessons learnt from the transformation of BRAC Uganda, another sizeable microfinance operation of BRAC International in the region. The transformation is planned to begin in 2020 and first deposits accounts should be opened no later than end of 2021. The transformation is planned to begin in 2020 by becoming a Tier 2 institution in compliance to Bank of Tanzania Microfinance Regulations (2019). It will then transform into a deposit-taking institution by the end of 2021 in line with a phased approach Transformation Roadmap that has been put in place.

To further improve its services and to ensure that both the expansion and transformation bring the most benefit to its clients, BRAC Tanzania will implement a social performance management (SPM) system. The system will enable BRAC Tanzania to report on its double-bottom line and ensure that it creates value for its target clients and achieve its mission to empower them to create economic opportunities for themselves. Implementation will follow the SPI4 framework developed by Cerise. The process has already started in early 2019 by identifying current gaps and dedicating resources in terms of SPM champions to support the implementation throughout the organisation. It is expected that the system will be fully implemented by the end of 2020.

Innovative Product Development

BRAC Tanzania intends to continue its work on product development. There is a wealth of experience including both successes and failures that could be utilised going forward. BRAC Tanzania has recently introduced a position of Products Delivery Manager and plans to further strengthen its management team in this area in support of product development. Even stronger emphasis will be given to development based on client needs and requirements and this approach will be prioritised over donor-led projects unless they directly involve at least one of the target segments. For that purpose, BRAC Tanzania is carving out a portion of the projected portfolio and budgeted for internally funded market assessment and client needs analysis. One of the priority areas for product development is Agriculture Financing. Besides specific segment targeting, BRAC Tanzania is also exploring alternative and digital delivery channels that would bring operational efficiency and increase convenience for clients.

Digitisation of Field Operations

In addition to introduction of alternative and digital delivery channels for higher efficiency, better client service, and staff safety, BRAC Tanzania will also seek to digitize its field operations. Digitisation of field operations will enable, among other, the use of the Poverty Probability Index (PPI) to collect client poverty likelihood data, this tool combined with the tracking of other client outcomes indicators,

will further support double bottom line reporting and the measurement and achievement of BRAC Tanzania's mission and better targeting and development of products and interventions.

As part of the digitization, BRAC Tanzania expects to further improve its internal systems and data-based decision making for both social and financial bottom lines, invest in new hardware and to introduce high speed internet connections across all the regions where it is operating. Given the large size of the institution, any changes to the field operations need to be implemented in a considerate way. To ensure all critical factors are considered and a clear implementation roadmap is designed, BRAC Tanzania will develop a digital strategy in 2020.

Talent Management

Gearing up to becoming a deposit-taking microfinance bank, BRAC Tanzania has already started to take the next milestone in consideration when hiring new staff, especially at the management level. It also appreciates that the management team will need to be strengthened to ensure efficient transformation into a microfinance bank. Further it plans to improve retention of staff and attracting local talent, including broadening field level talent pools, hiring management trainees and young professionals. In order to achieve that, it will introduce a performance-based incentive scheme, staff loans and make sure that its compensation package is in line with the market. It will also strive to increase the number of women in leadership so that both genders are equally represented.

Management Development and Decision-making

Activities around management development and decision-making will be driven by the requirements of the new Microfinance Act, 2019, and the outlook of becoming a microfinance bank. BRAC Tanzania has had a relatively slim management structure with limited middle management which will be gradually strengthened; the Microfinance team is the near-term priority with other departments following soon after. The institution will also be strengthened around risk and performance management. BRAC International Microfinance management which used to be closely involved in operational decision-making is going to provide strategic direction and oversight through quarterly board meetings.

Funding

In order to support the planned growth and fund the planned transformation, BRAC Tanzania will need to secure significant amounts of capital. Transformation into a microfinance bank will give BRAC Tanzania access to previously unavailable deposits that will be used to extend loans to those in need. Deposit mobilisation will, however, not immediately secure all the capital required for the planned growth and the remaining capital will need to be sourced in the form of debt. BRAC Tanzania will seek to attract debt funding from both local and international lenders in a competitive manner that should enable it to secure best available terms and conditions in the market.

As part of the transformation-related regulatory requirements, BRAC Tanzania will seek to diversify its shareholding by welcoming mission-aligned equity investors. It is anticipated that its capital structure will be optimised prior to the diversification to make the investment more attractive for the incoming investors. In order to support growth in its earlier years, BRAC Tanzania has been accumulating earnings and its equity ratios are significantly above market standards. With the change of legal form to a company limited by shares, BRAC Tanzania will be able to optimise its capital structure to facilitate entry for new strategic investors and unlock equity for BRAC International to expand in further countries.

3.1 Target clients, their needs and impact goals

In order to stay focused on providing products and services that address needs of the target populations, BRAC Tanzania is going to be guided by the Theory of Change that is shared by all entities of BRAC International Microfinance. BRAC Tanzania will regularly assess its progress along the five stages of change in order to manage its operations so that its activities effectively lead towards positive long-term impact on the target communities.

Theory of Change



BRAC Tanzania, with support from the BRAC International Microfinance (BI MF) team, has been in the process of reviewing and updating definitions for measuring outputs across its target segments. Definitions for rural populations and people living in poverty is has been revised to best reflect the local context and designed so that they allow measuring progress towards BRAC's mission. The revised impact indicators are outlined under Social Performance Management in section 3.6 below.

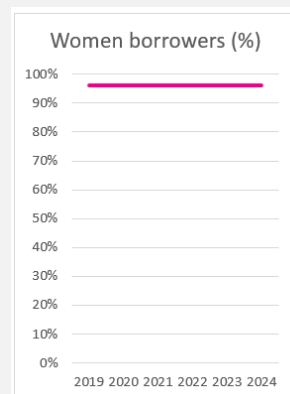
Similarly, the BI MF team is in process of defining the outcomes to be measured over the short- and long- term and setting targets for the next five years. By Q2 2020, it will have clearly defined indicators to measure self-employment opportunities, financial resilience and economic empowerment. Indicators might include the ones used in the Lean Data survey conducted in Q1 2019 in Tanzania, such as clients' increased ability to save, improvement in earnings, or ability to plan finances. While BRAC Tanzania will use the indicators defined by BI MF to track client outputs, outcomes and impact, it may choose a few additional indicators to measure that are relevant to the local context.

To the extent possible, and further enabled by a digital field application (DFA), the outcomes will be measured operationally in BRAC Tanzania's systems (black fields in the Theory of Change graphic) based on client information, including client poverty likelihood data using the Poverty Probability Index (PPI). For the outcomes and impact that cannot easily be measured internally, BRAC Tanzania will commission Lean Data surveys and impact studies (grey fields in the Theory of Change).

As per its mission statement, BRAC Tanzania aims to primarily serve *women living in poverty in rural and hard to reach areas*. It also offers its services to other financially excluded populations, such as adolescent girls or smallholder farmers. While each group has its specific needs there are some that are common across the segments such as financial literacy or business skills training. The strategic plan intends to address the unmet needs and further improve services to the target groups.

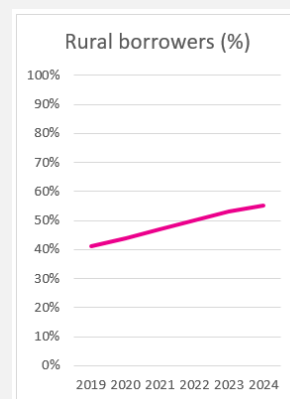
Women

Women are at the centre of all BRAC's interventions and BRAC Tanzania is not any different. 96% of total clients are women and the two products, ELA and Microfinance Loan, that are offered exclusively to women account for 78% of the portfolio. As it was demonstrated on some of the country's statistics, there remains to be a gender gap in terms of financial inclusion with women lagging behind in terms of access to and use of financial services. BRAC Tanzania will continue supporting women to eliminate the gap by further expanding its outreach and by customizing features of its products so that they are tailored to women's needs. Women will account for more than 96% of total clients in the next five years.



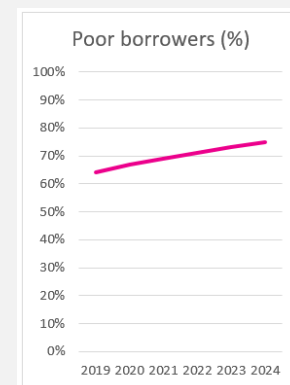
Rural populations

BRAC Tanzania has focused on rural women since its inception. The share of customers in rural areas has increased from 28% in 2013 to 41%¹⁹ in 2019 and is planning to further strengthen its position by having 60% of the portfolio in rural areas by 2024. Execution of the strategy, including product development and digitisation initiatives, should enable BRAC Tanzania to reach even more remote areas in a cost-effective manner. Small holder farmers are a primary sub-target and agrifinance product developments intended to become the third core product offering after MF and SEP.



Poor populations

To ensure populations living in poverty have access to economic opportunity, BRAC Tanzania's loans start from as low as USD 100. People living in poverty can only rarely access individual loans from banks or other financial institutions. Offering loans through solidarity groups can help overcome the lack of collateral and allow disbursement of micro loans to people at the bottom of the pyramid. Despite its growth plans BRAC Tanzania's focus will not drift away from people living in poverty. Its average loan size will remain practically unchanged, increasing only with inflation, to stay accessible to these important target clients. Whereas BRAC Tanzania plans to focus its expansion on rural areas, it acknowledges that people living in poverty can reside in all geographies, including urban and peri-urban areas.



¹⁹ It is believed that the current definition underestimates the percentage of rural borrowers and does not accurately capture BRAC Tanzania's exposure to the segment in the current and past portfolio. BRAC Tanzania is working on a set of criteria that would be fit for purpose.

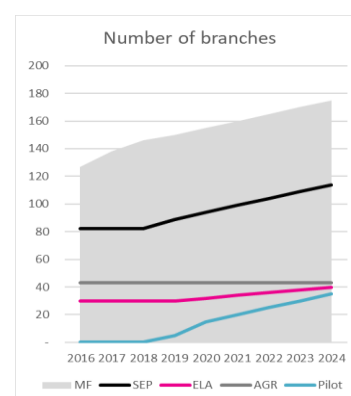
3.2 Branch Network

With 150 branches as of the end of 2019, BRAC Tanzania has the largest branch network of all microfinance institutions in Tanzania. The network spans 25 out of 31 administrative regions of Tanzania and 109 out of 269 districts. Thanks to the broad branch network that covers rural, peri-urban and urban areas, BRAC Tanzania is able to reach financially underserved people in areas where no other microfinance institution goes.

Despite BRAC Tanzania already having the largest branch network, it plans to further grow its footprint in the next five years. BRAC Tanzania plans to go further into rural areas but it will also selectively open new branches in peri-urban and urban areas if substantial growth opportunities are identified. It will be proactively scoping new markets for potential expansion based on (a) selected financial inclusion indicators to ensure mission alignment, (b) proximity to existing branches, (c) presence of other financial services providers relative to the market size, and (d) main sources of income in the target markets. Where possible, BRAC Tanzania will be seeking to combine its microfinance services with social development programmes. There are locations, particularly in the Mid-South of Tanzania, where BRAC implements education projects and there is potential to integrate those interventions with its microfinance interventions.

While priority will be given to markets in regions with existing presence, opportunities will be sought also in southern regions of Lindi and Mtwara as well as western regions of Kigoma and Rukua or Zanzibar. All those regions have relatively low population density and therefore might require a different approach, including the utilisation of alternative and digital delivery channels or new products, that would help overcome the related challenges, such as difficulty to form borrower groups, security risk related to carrying cash over long distances and overall lower cost efficiency.

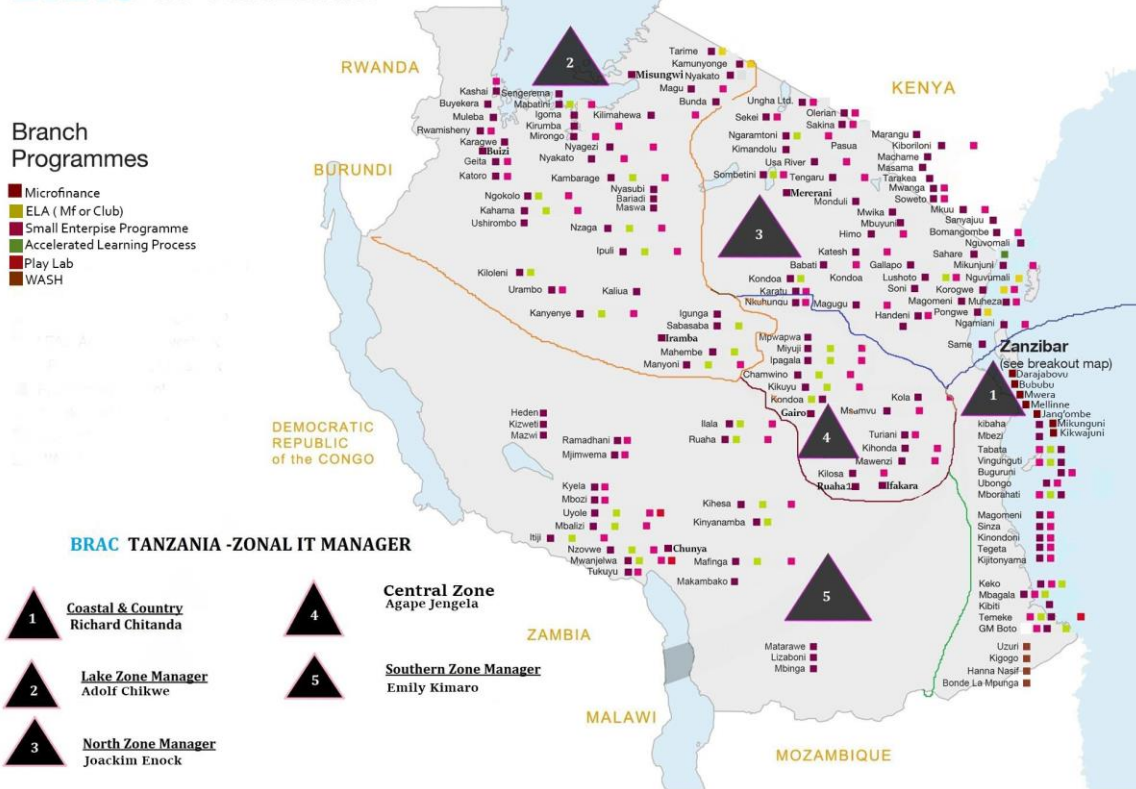
In all its branches, BRAC Tanzania offers its Microfinance (MF) Loan. The Small Enterprise Programme (SEP) Loan is then offered in selected peri-urban and urban branches across 17 administrative regions. Besides these two core products, BRAC Tanzania also offers loans to Adolescent Girls (ELA) in 30 branches across the country and Agrifinance (AGR) loans in 43 branches. The plan is to gradually increase the number of products at its branches, depending on market assessments, in order to provide the clients with products that are best suited for their needs. In 2020 it plans to open 5 new MF branches and have 5 existing branches start offering SEP loans. By the end of 2024, SEP loans will be offered in more than 100 branches, and Microfinance loans in more than 175 (see section 3.4 for more information on existing product offerings).



BRAC Tanzania vs Competition

BRAC Tanzania has the largest branch network among microfinance institutions. It often operates in markets that others do not reach as recently confirmed by results of a Lean Data survey showing that 92% of clients could not easily name an alternative to BRAC.

BRAC in Tanzania



3.3 Alternative Delivery Channels

BRAC Tanzania’s branch network enables it to reach more clients in remote areas than its peers but there is a large opportunity to leverage the extensive branch network with alternative delivery channels. Improving infrastructure has contributed to the fact that around 78% of adult Tanzanians now live within 5km from a formal financial access point and 60% actively use mobile money services.²⁰

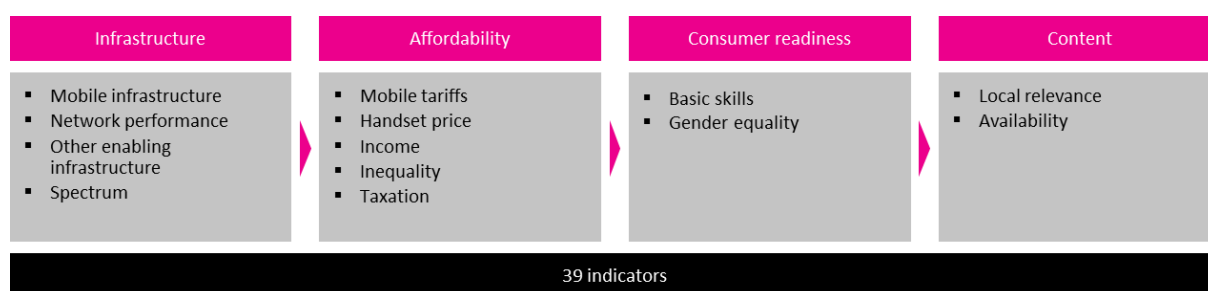
The operations of BRAC Tanzania has so far been mostly cash-based; the one exception has been repayments of SEP loans using M-Pesa or Tigo Pesa. In the next several years, however, use of alternative delivery channels are planned to improve the quality of services for its clients, expand its reach, and improve staff safety by reducing their movement with cash. While introduction and use of such channels is one of the strategic priorities, any new solutions will need to pass assessment against specific and purposeful social and financial criteria. Their implementation will then need to consider overall preparedness of the institution, including system requirements and integration, and staff capacity and plan for appropriate training and investments. Credit Officers should be able to educate the clients in terms of digital finance so that they can reap all its benefits and decrease the risk of misuse. In this regard, a digital readiness assessment will be conducted in 2020 that will result in the development of a Digital Financial Services Strategy. It is planned that in 2020, the Microfinance program will do pilot for group loan repayment via M-Pesa.

²⁰FinScope Tanzania 2017.

For BRAC Tanzania’s target clients, and especially for Microfinance Loans, however, transaction fees on mobile money services continue to present an obstacle to easy adoption. Despite the suboptimal market conditions the advantages often outweigh the costs. Especially for SEP clients, a comparison analysis shows that banking costs are higher than mobile money transactions considering time, transportation and risks. SEP clients have been able to use mobile money for paying instalments since 2014 and it has recently added another mobile money provider to increase modality of payment methods. BRAC Tanzania plans to test disbursement of SEP loans through mobile money in 2019. Similarly, collection of Microfinance Loans through mobile money will be tested to better understand clients’ sensitivity to the transaction fees in exchange for more convenient means of payment.

As well as for product development, market assessment and needs analysis will identify the appropriate alternative delivery channels. The assessment will consider a variety of indicators, such as those included in GSMA Mobile Connectivity Index to determine what channels can be used depending on the existing infrastructure in the areas where BRAC Tanzania operates. Following the initial assessment, a strategy document is going to be developed to guide implementation of alternative delivery channels.

GSMA Mobile Connectivity Index



BRAC Tanzania vs Competition

Some microfinance banks and non-deposit-taking institutions have introduced alternative delivery channels for loan disbursement and repayments. FINCA Microfinance Bank Tanzania, for instance, engages more than 150 agents to extend the reach of its approximately 30 branches as part of its FINCA Express Wakala and it also allows its clients to manage their accounts through its mobile banking platform, FINCA Mobile.

3.4 Loan Products and Services

BRAC Tanzania’s core offering consists primarily of BRAC’s traditional products, the Microfinance Loan and SEP Loan. The ELA Loan product, that was introduced as part of a broader Empowerment and Livelihood for Adolescents project in 2010 (handed over to MF for management in 2015), and the Agrifinance loan product, that started in 2013 as part of the Livelihood Enhancement through Agriculture Development (LEAD) project, have successfully complemented the two leading products. These products will continue to evolve and will be complemented by new products to cater to the varying financing needs of BRAC Tanzania’s clients. Agrifinance will be a particular area of focus for the next five years.

Existing Products

BRAC Tanzania provides its loan products either through solidarity groups (e.g. MF, AGR and ELA) or directly to individual entrepreneurs (e.g. SEP). In both cases, however, those are individual loans. BRAC Tanzania does not use joint group liability in case of another group member's default. BRAC believes in responsible financing where each individual is responsible for their own loan repayment and where groups primarily exist to build up social cohesion among its members and create a platform where the members support each other.

MF is an individual loan offered through solidarity groups for women entrepreneurs, collected on weekly or biweekly basis with average size of USD 325. SEP is an individual loan provided to small entrepreneurs, collected on a monthly basis and USD 1,556 average loan size. ELA is another individual loan offered through solidarity groups targeted at adolescent women entrepreneurs. ELA clients often take smaller loans than MF and the average loan size for the ELA portfolio is approximately USD 259. Last but not least, there is a portfolio of Agriculture loans that continues to provide finance to more than 17,000 smallholder farmers following the end of the LEAD project in March 2017. BRAC Tanzania expects to review and adapt the product as part of its Agrifinance product development over the course of 2020. The product is currently offered to both men and women through solidarity groups and have average loan size of USD 273.


Microfinance Group Loan (MF)



MF is a small, collateral free loan for women micro-entrepreneurs to fund income-generating activities, such as food processing or street vendors. The loan is provided through solidarity groups.

TZS 250,000 – 7,000,000
25% flat / 13% flat
Weekly and biweekly
40 weeks / 20 weeks
Groups of 15-30


Small Enterprise Programme (SEP)



SEP provides access to financial services for both men and women entrepreneurs who are unable to obtain credit from mainstream financial institutions. It is an individual loan with its tenure based on evaluation of the enterprise.

TZS 1,500,000 - 30,000,000 and above
25% flat
Monthly instalments
6 or 12 months
Individual


Empowerment and Livelihood for Adolescents (ELA)



ELA is a small, collateral free loan for adolescents aged between 18 and 25 years and the loan is used to start and develop their own business.

TZS 200,000-3,000,000
 25% flat / 13% flat
 Weekly instalments
 40 weeks / 20 weeks
 Groups of 15-30

Agriculture Loan (AGR)



A loan product targetted at rural smallholder farmers, both men and women, to access finance for agriculture-related income generating activites.

TZS 200,000-3,000,000
 25% flat / 13% flat
 Monthly instalments
 40 weeks / 20 weeks
 Groups of 10-20

Innovative Product Development

The needs of its target clients will always be central to BRAC Tanzania’s product development. Therefore, better understanding of client needs should be enabled by market assessments, digital data collection, and enhancing its social performance management systems. A Lean Data project conducted in early 2019 has been able to accelerate those efforts and gather valuable information that will further align product development with its social performance management efforts. From the findings, clients would appreciate to have more flexible repayment schedules, access to larger loans, additional business training or lower interest rates. In order to further inform considerations around the suggested areas, BRAC Tanzania plans to leverage its historical client data to better understand how factors such as repayment schedules or loan size influence clients’ ability to repay. In addition, the planned digitisation of field operations will help BRAC Tanzania to more easily gather client data and build business insights to further calibrate product features to client’s requirements.

BRAC Tanzania has piloted agrifinance products with various modalities, including in-kind input or bullet-type repayments, but no variation has been able to reach substantial scale so far. BRAC Tanzania has, however, been able to gain valuable experience and knowledge and its learnings can be applied in future product development efforts.²¹With a majority of Tanzanians living in rural areas and generating their main source of income from agriculture, there is a large need for agriculture finance that would cater to their needs. Financing is, however, only one part of the solution and it will need

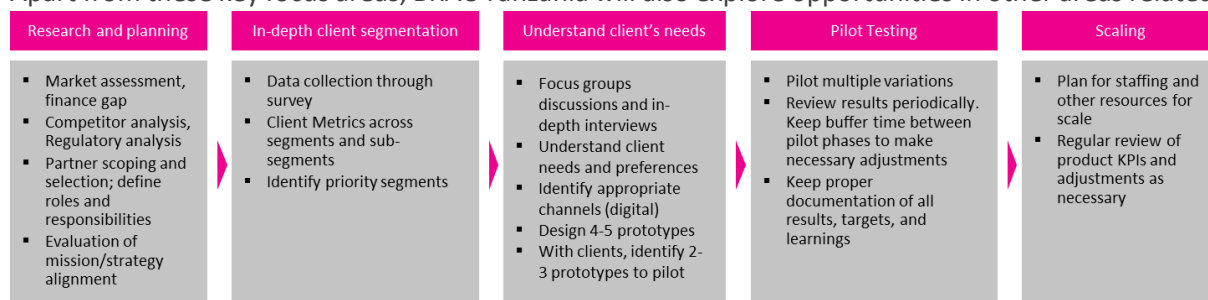
²¹ The challenges included lack of staff technical knowledge regarding applied agricultural techniques, lack of market infrastructure and inadequate transportation facilities to more remote areas, or suboptimal land and area selection. The product would also benefit from a combination with crop/input insurance.

to be matched with trainings regarding new agriculture technologies or high-quality seeds as well as support in creating marketing opportunities and sustainable value chains. BRAC Tanzania plans to develop, prototype, and pilot a new agrifinance product already in 2020. With micro leasing products being allowed under the new Microfinance Act, 2018, BRAC Tanzania is going to assess suitability of such products for its target clients to finance productive agricultural assets.²²

BRAC Tanzania will be able to leverage the BRAC International Microfinance team and knowledge from other countries in product development. Any product development efforts will follow the framework that guides the process from initial research and planning to piloting and scaling of a product and ensures that clients' needs are prioritised at every stage of the process. Past experiences with product development also show that client-centricity of the product design is not the only factor of success. The process also requires close engagement with third parties involved, whether it is in product design or delivery, and ensuring that the field staff involved in the process is given sufficient training and has the time, capacity and appropriate incentives to contribute to the success of the product. A combination of the systematic approach and past experiences is expected to result in products and services that empower BRAC Tanzania's clients and further its mission.

Product Development Approach

Apart from these key focus areas, BRAC Tanzania will also explore opportunities in other areas related



to its target client segments, such as youth finance, education finance or clean energy financing. Priority will be given to products that directly focus on target client segments as BRAC Tanzania prioritises development based on client needs and requirements over donor-led projects unless they directly involve at least one of the target segments. BRAC Tanzania has recently introduced a position of Products Delivery Manager and is carving out a portion of the projected portfolio and budgeted for internally funded market assessments.

BRAC Tanzania vs Competition

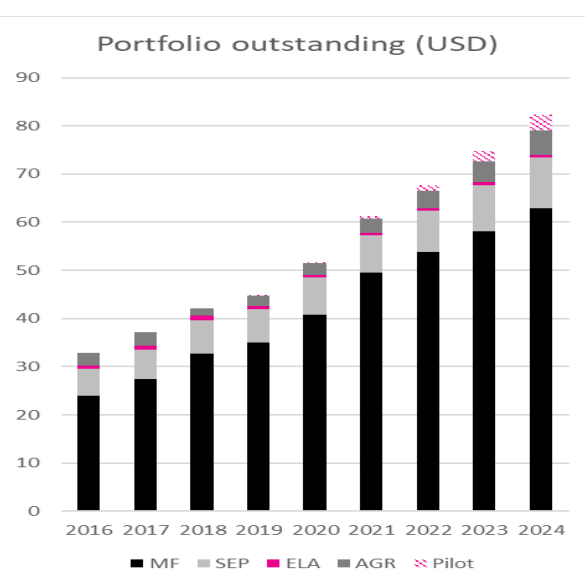
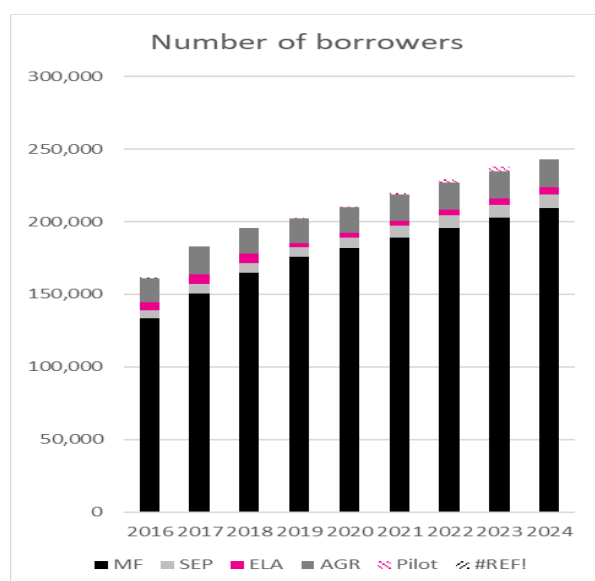
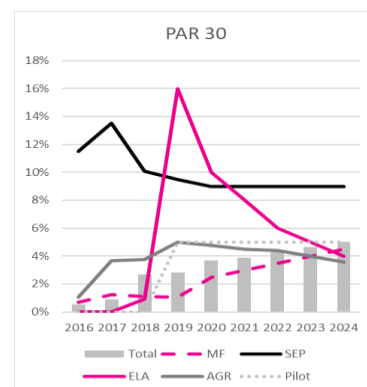
The Tanzanian microfinance market has a rather limited product offering. Most of the institutions offer basic microfinance products and there are only a few exceptions. Among those exceptions include VisionFund with its agriculture loan or FINCA with its education and mobile loans.

3.4.1 Loan Portfolio

In December 2019, gross loan portfolio amounted to USD 52.80M, which is expected to further increase to USD 84.79M by the end of 2024. The majority of the portfolio will remain to be dedicated to groups loans (MF) with 95% of total borrowers and 84% of total loan portfolio outstanding, in 2024.

²² Microfinance Act, 2019. (Leasing products can have an average value of the asset being up to TZS10M and the loan term not exceeding 24 months.)

SEP is expected to grow at a similar rate, from USD 8.43M in 2019 to USD 9.90M in 2024; and ELA will grow from USD 0.68M 2019 to USD 0.63M in 2024. The agriculture loan will see the strongest growth from all the loan products in terms of portfolio outstanding, increasing from USD 3.45M in 2019 to USD 5.10M in 2024, and remain the second largest in terms of number of borrowers. Lastly, the piloting portfolio is going to take up to 3% of the total portfolio outstanding in 2024. Whereas these numbers are current best estimates, it is possible that some of the piloted loans will turn into permanent products and change the expected distribution of the portfolio.



3.4.2 Loan Quality

BRAC Tanzania has been one of the best performing microfinance institutions in terms of portfolio quality. Its clients nonetheless face the same challenges as any other micro and small entrepreneurs in Tanzania which have a negative effect on portfolio quality. Export bans on maize (pushing the selling price low for smallholder farmers), fishing restrictions or stricter taxation rules introduced by the government have directly (fishermen and farmers) or indirectly (traders) caused difficulties for some clients to repay their loans and some have even had to close their business altogether. The country market conditions have had stronger effect particularly on SEP clients. Increasing taxation in recent years and ongoing challenges with collateral documentation (only 3% of population own a land deed) has caused PAR>30 days for the SEP portfolio to hover around 10% for the greater part of 2019. Compared to other financial institutions which on average report non-performing loans around 20%, BRAC Tanzania’s loan portfolio remains best in class.²³

Unlike more regional financial institutions with more concentrated branch networks, BRAC Tanzania also faces the challenge of managing operations across the Tanzania’s wide geographic area. While long distances between branches make supervision more difficult, BRAC Tanzania has been adapting its structure to respond to the requirements of the continuously growing portfolio.

²³ See Appendix 1 for an overview of non-performing loans of selected banking institutions in Tanzania.

Whereas the MF loans has had great portfolio quality in the past, BRAC Tanzania is conservative in its projections that work with the assumption what if the quality deteriorates in the upcoming years and projects its PAR >30 days as increasing towards 4.50% in 2024. BRAC Tanzania will also be attempting to bring the SEP PAR >30 days downwards but its projections assume it might stay at around 7.0%. ELA is expected to trail around 4.0% and Agrifinance around 3.6%. Overall, the very conservative estimates result in total PAR >30 days being 4.99% in 2024. Needless to say, BRAC Tanzania is going to target much lower PAR >30 days levels which, if achieved, would have positive effects on its earnings.

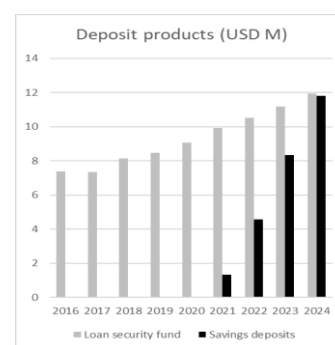
3.5 Deposit and Other Products

Although lending will remain the main business line, BRAC Tanzania intends to transform into a microfinance bank by end of 2021 in order to be able to provide a wider range of products to people at the bottom of the pyramid. It is the ability to deepen and not only broaden financial inclusion that made the transformation a key strategic priority.

Deposit Products

As part of the transformation process, BRAC Tanzania will develop competitive deposit products that cater to the needs of its clients. To match its future peers, BRAC Tanzania expects to introduce multiple saving products, including fixed deposits or goal-oriented monthly deposit schemes, and clients will have access to their accounts through digital channels.

It is expected that first deposit accounts could be opened towards the end of 2021 and the amount of deposits mobilised would gradually increase. If only 80% of BRAC Tanzania’s borrowers save USD 50, the aggregate amount would reach USD 9.8 M in 2024.



Other Products

BRAC Tanzania introduced Credit Life Insurance to its offering in 2018 and it is currently included as part of all its loan products. The insurance policy covers repayment of the remaining balance of the loan in case of borrower’s death, total and permanent disability, funeral expenses, and critical illness. While BRAC Tanzania does not plan to develop its own insurance products in the near future, it might explore the possibility of adding an insurance component to its planned agriculture loans as it could have a large positive impact on smallholder farmers’ ability to cope with increasingly unpredictable effects of climate change.

BRAC Tanzania vs Competition

Besides commercial banks, only five microfinance banks are allowed to take deposits from their clients. Microfinance banks offer a relatively broad range of deposit accounts ranging from simple transaction accounts, to fixed term accounts or accounts for specific clients, such as students or village community banking groups. Most of the microfinance banks offer digital access to managing the deposit accounts. The popularity of the digital savings account can be seen through the FINCA example, which managed to subscribe 30,000 customers to the service in only the first two weeks after introducing the service.

3.6 Operations

3.6.1 Organisational Structure

3.6.1.1 Management and Governance

BRAC Tanzania is governed by a board of directors that consists of BRAC International microfinance experts. As the company matures, it is expected that further external board members will be invited from the ranks of independent experts and incoming equity investors as per the requirements of the new Microfinance Regulations, 2019. There will also be a Social Performance Management board committee, and potentially other committees as might be required by regulations or other developments, established to ensure governance of this critical area of company management.

Until August 2019, the company was headed by BRAC's Country Representative in Tanzania with microfinance operations being led by two Programme Managers, one for Group Lending and one Individual Lending. The Programme Managers have been supported by Heads of Finance, Human Resources, Administration and Internal Audit. Since then a Chief Executive Officer (CEO) fully responsible for all microfinance operations has been recruited. This structure will continue to evolve over the next five years to accommodate the increasing needs on management and the regulatory requirements related to upcoming transformation. In 2020 the focus will primarily be on strengthening the microfinance team to ensure compliance with the Tier 2 requirements and other departments will follow in line with transformation into a deposit-taking Tier 1 institution.

3.6.1.2 Departments

Considering the aspiration to become a microfinance bank while continuing to grow the organisation in terms of footprint, products and number of clients, BRAC Tanzania appreciates that the current organisational structure will require gradual strengthening in capacity and expertise.

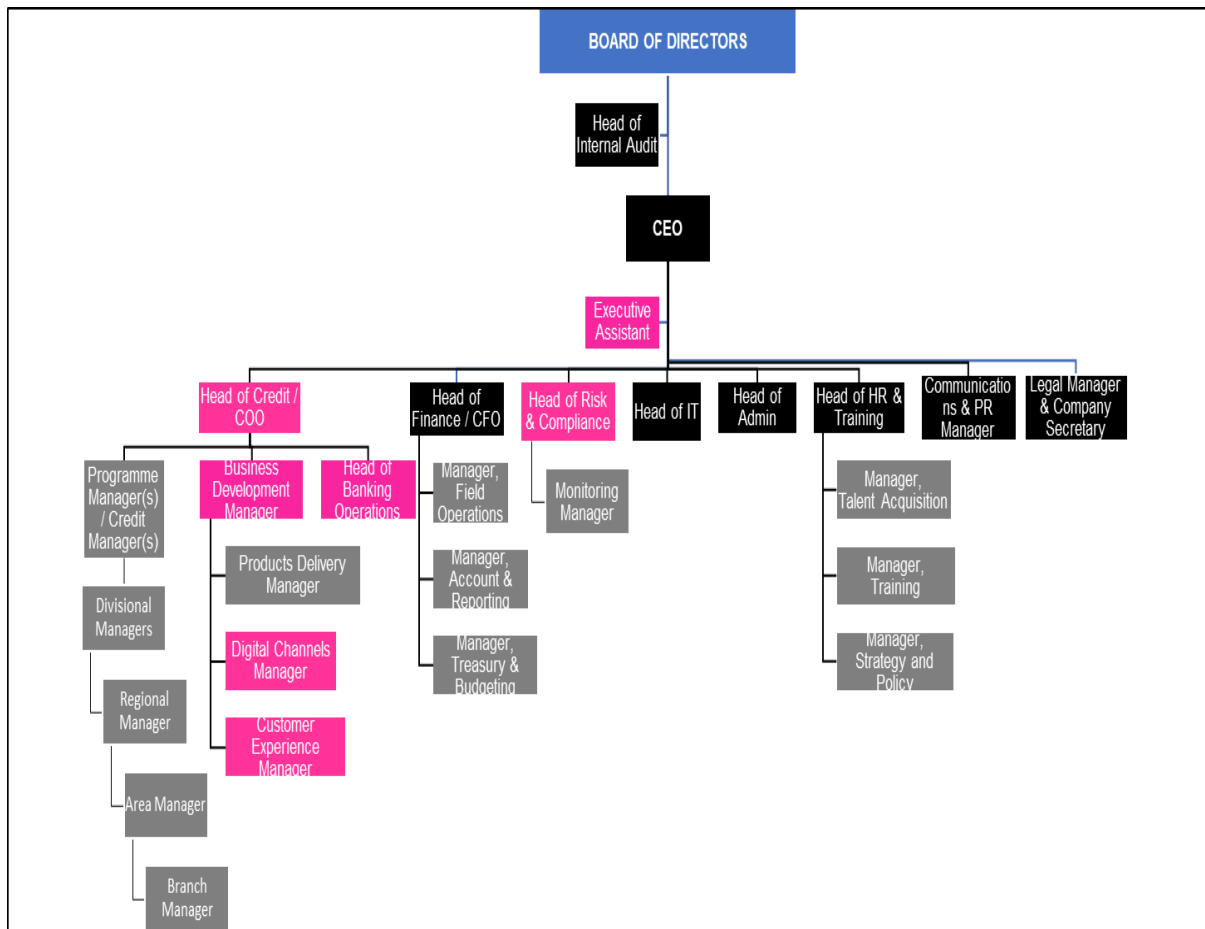
The key change so far, he has been the addition of the CEO fully responsible of BRAC Tanzania's microfinance operations. Moreover, with the growth of portfolio and a number of development initiatives in terms of products and digitisation, the current Microfinance department is considering addition of Client Service and Digitisation Managers to oversee such initiatives and Head of Business Development to join the leadership team later. Strengthening the development side would leave more time for Programme Managers of the operational team for meeting growth targets and improving the quality of loan performance.

As well as Microfinance, the Finance department will need to add capacity and expertise in areas of treasury management, budgeting and reporting to deal with the upcoming regulatory requirements. With the planned digitisation and larger reliance on IT systems, it is expected that the IT team will need to be strengthened as well in order to manage the IT systems, partnerships and related risks. Thus, BRAC Tanzania plans to have a dedicated Head of IT and stronger team from the head office to the field with IT Officers at regional level depending on need.

Despite digitisation, high quality staff will remain the key ingredient for success. The HR and Training department will need to have sufficient capacity to attract and retain talent as the number of staff increase from around 1,800 in 2019 to more than 2,400 in 2024.

Internal Audit will need to grow in numbers proportionately to the overall institutional growth and contribute to identification of risks across the organisation. This will be supported by Head of Risk and Compliance as part of strengthening internal controls. Lastly, Marketing & Communication will extend

its role in promoting BRAC Tanzania’s brand in the market, product marketing and client awareness, and reputation management.



3.6.2 Credit Operations

BRAC Tanzania’s credit operations have mostly vertical reporting lines. The Microfinance department is led by Head of Credit/Microfinance, which is in leadership supported by Programme (Credit) Manager for Group Lending (PM GL) and Programme (Credit) Manager for Individual Lending (PM IL). Historically, each product had a fully developed, dedicated structure going from Regional Managers to Credit Officers. With new loans to be added to the product mix, BRAC Tanzania is going to reorganise the structure to have two main reporting chains – one for Group Lending and one for Individual Lending – with only Credit Officers being dedicated to one single product for the near future. This structure should increase efficiency as it will for instance, require fewer Area Managers. Having fewer Area Managers will allow Regional Managers to spend more time on counselling, coaching and mentoring. For now, each Credit Officer has responsibility for one product only. Introduction of new products will likely require an adjustment to the structure.

Recognising the importance of having appropriate capacity at every level of its operational structure, BRAC Tanzania from time to time will adjust its structure to react to various growth rates in different regions. Ongoing growth and expansion might require reorganisation of the Microfinance operations by re-allocating Branches to different or new Area Offices and Area Offices to different or new

Regional Offices. Some larger branches have a new position of Assistant Branch Manager to free Branch Managers' time for supervision.

BRAC Tanzania has had to face several cases of fraud in the past. The large size of the country and long distances between branches makes supervision in some areas challenging. BRAC Tanzania, however, takes proactive steps to address the issue. This year the Microfinance Operation Manual was reviewed and translated in both English and Swahili languages to strengthen internal controls and improve access of the field staff to the operational knowledge. Client grievance and complaint resolution mechanisms will be strengthened in line with Client Protection Principles and implemented as part of the Social Performance Management system Action Plan developed in 2019. To further promote good performance and improved staff welfare, BRAC Tanzania is currently implementing an Incentive Scheme for its Microfinance staff and will offer staff loans with advantageous terms to staff across the institution.

BRAC Tanzania is planning to introduce a Digital Field Application (DFA), i.e. a tablet- or mobile phone-based front-end platform, to improve its data collection and manipulation, shorten time needed for credit decisions, and better performance measurement and management. The first step to implementing the DFA across the whole organisation will be a development of a Digital Strategy in 2020. The strategy will need to take into considerations peculiarities of the local context, technical training for staff and digitisation change management as well as future operational and IT requirements following transformation into a deposit-taking microfinance bank. Until the strategy is developed, BRAC Tanzania will continue piloting some potential solutions that might be used as part of the digitisation.

There are, however, initiatives that do not require full digitisation in order to achieve operational efficiencies and could be introduced independent of the digital strategy. For instance, BRAC Tanzania is piloting monthly repayments for loans offered through solidarity groups that would allow Credit Officers to increase the number of borrowers they are able to serve. Another area that would offer efficiency gains is integration of mobile money platform used for SEP repayments with BRAC Tanzania's systems.

BRAC Tanzania vs Competition

FINCA is the market leader in terms of digitising its field operations. It uses digital field automation to open new accounts (incl. biometric verification), initiate the loan application process (including scoring), and to disburse loans.

3.6.3 Human Capital

BRAC Tanzania recognises that achieving the business plan strategic objectives will largely depend on capacity of its human capital, both in its quantity and quality. The planned growth will require approximately 700 new staff in addition to 1,800 current staff. To have access to the right talent at the right time, the HR department has been developing a talent pool of potential employees across organisational levels. BRAC Tanzania will also make utmost use of its training expertise to develop a pool of staff that can be in the forefront of BRAC Tanzania's operations in the future. Delivering more trainings per year, BRAC Tanzania is experienced in capacity building of its staff. In BRAC Tanzania all Credit Officers and Branch Managers are required to complete a number of specific microfinance and soft skills related trainings and refreshers based on their length of services. BRAC Tanzania can also

leverage BRAC International to deliver trainings on the latest industry best practices to improve of staff's competency.

Besides building the required staff capacity, training also helps in retaining well-performing and ambitious staff who appreciate such investment into their development. In order to be competitive in the job market and stimulate good performance, BRAC Tanzania will introduce an incentive package for the field staffs from Q2 of 2020 and is also planning to introduce staff loans with advantageous interest rates later that year. In addition to the above, the BRAC Values Award rewards employees that embrace BRAC's mission and values of Innovation, Integrity, Inclusiveness and Effectiveness.

At the beginning BRAC Tanzania was benefiting from a number of expatriate staff bringing experience from Bangladesh that helped to set up the first branches and establish robust internal processes. From the outset, it has been the intention to replace the expatriate staff with local talent; currently there are only 22 expatriate staff. Moreover, all positions are part of a succession plan that expects all positions to be held by local staff. These efforts align with government policies that promote job creation for Tanzanians and discourage hiring expatriates unless necessary. Decreasing the number of expatriate staff is also required by the Microfinance Regulations of 2019 that BRAC Tanzania will need to comply to become a Tier 2 and ultimate deposit-taking institution.

BRAC Tanzania's commitment to women empowerment is not limited to its lending operations only. Out of a total of 1,424 employees, approximately 87.30% are women as of December 2019. The largest share of women can be found at field level but BRAC Tanzania is committed to provide equal opportunities increase the number of women in middle and senior management. By 2024 it is targeting to have equal gender representation across its management.

3.6.4 Systems

3.6.4.1 Finance

The Finance department of BRAC Tanzania performs a crucial role within the organization in improving operational efficiency, financial planning and management, and preparing reporting that informs management's decision-making. To support growth and transformation of the institution with increasing operational and regulatory demands, BRAC Tanzania will develop a management structure of the department so that each of its functions is managed by one Manager – Field Operations, Accounts and Reporting, and Treasury Management.

The Finance department will need to grow together with the rest of the organization not only in quantity but also quality. The planned digitization of field operations will spare field Accountants the manual data input that is required from them currently and allow them to spend more time on analysis and control of operations and generating business insights closer to the field operations. To fully benefit from these efficiency gains, BRAC Tanzania plans to provide the Accountants with appropriate training so that they have the required skills for the new activities.

While there are substantial efficiencies to be gained, the Finance department will need to carefully manage the investments needed to implement the digital solutions and transformation costs. Delivering on the business plan and strategic activities will require additional debt funding to be raised and the Finance department will play a key role in planning and securing the required capital. Lastly, BRAC Tanzania will need to develop processes, systems and staff capacity for thorough and frequent regulatory reporting under the new Microfinance Act and in anticipation of the transformation into a microfinance bank.

3.6.4.2 Information Technology

BRAC Tanzania currently uses sbiCloud, a management information system developed by BRAC IT Services Limited (biTs), for its microfinance operations. The system records all transactions, client information and documentation, and generates financial statements for the organisation. All financial information for each branch is being collected manually using three different logs: the daily collection book, the cash book and the ledger. Data on loan collections and disbursements, as well as the revenues and expenses of the branch are entered into the appropriate books and then are entered into the system. As described in previous sections, one of the strategic priorities is to digitise and automate the manual processes.

Although the system does not offer all functionalities as core banking systems, it allows in-house customisation of its functionalities and provides access to most of the information in real time. Depending on the operational and regulatory demands, BRAC Tanzania might either implement a full-fledged core banking solution or upgrade the current sbiCloud system.

sbiCloud can also be integrated with other platforms which will be required to fully utilise advantages of the digitisation initiatives. The integration might require additional adjustments of the systems but, depending on the chosen solution, BRAC Tanzania might benefit from developments in other BRAC International's microfinance institutions.

Orbit, developed by BI, is another system used by BRAC Tanzania which provides HR management and Fixed Asset Register modules. Upon full implementation in 2020, it will allow the company to have all staff data in a digital form and to manage the payroll, staff transfer or performance analysis in an efficient manner. The Fixed Asset Register module will allow recording of all the assets, store related documentation digitally, track the assets' movement and depreciation automatically and maintain accounting records that will feed directly into sbiCloud, once it is fully integrated.

Digitisation of field operations will require acquisition of mobile devices for the field staff, either mobile phones or tablets. In addition, an upgrade of the existing hardware might be required. Currently every Branch office is equipped with at least one computer but once operations are digitised, two computers will need to become standard in order to ensure continuity of operations in case of any hardware difficulties. Internet connectivity of Branches is another area that will need to be considered as part of digitisation efforts. Digitisation-related investments into hardware will also prepare the institution for implementation of a fully-fledged core banking system that will likely have higher hardware requirements than the current system. In addition to the hardware at the field level, an investment into a safe data centre will likely need to accompany the acquisition of the new system.

In terms of human resources, the IT department currently consists only of two persons at the Country Office and additional five IT Officers at the regional level. With its increasing importance of digital solutions and IT infrastructure, the team will be strengthened to manage demands of a growing organisation and provide timely support to the digitised operations. It is expected that with increasing complexity of its IT systems, BRAC Tanzania will recruit a dedicated Head of IT. The department will also hire IT officers to provide hardware and software support in the field.

3.6.4.3 Risk management and Internal Controls

Risk Management

The main function of risk management is to protect BRAC Tanzania from risks of significant likelihood and consequence in the pursuit of BRAC Tanzania's strategic goals and objectives. It provides a consistent risk management framework in which the risks concerning BRAC Tanzania can be identified, considered and addressed in key approval, review and control processes. It encourages proactive rather than reactive management and assist in safeguarding BRAC's assets, i.e. people, finance, property and reputation.

Having sizeable field presence and more than 1,400 staff serving over 200,000 clients, the key risk faced by BRAC Tanzania is operational. As any microfinance institution, BRAC Tanzania is susceptible to fraud, theft or manual input inaccuracies. Strong internal controls and proactive approach to addressing findings of various control mechanisms can, however, mitigate the operational risk to acceptable levels.

BRAC Tanzania has a strong and fully dedicated Monitoring unit that monitors each Branch on a quarterly basis and prepares monthly reports on its findings. Finance department has Accountants in every Branch, Area and Region to ensure consistency of accounts and close control of all cash transactions, and a fully-fledged Internal Audit department contributes to ensure internal controls are followed according to operational policies.

Recently BRAC Tanzania has recruited a Risk Officer to further strengthen its risk management capabilities. The Risk Officer is responsible to collect the risk register that Branch office sup date on a daily basis, monitor the levels of risk and prepare a comprehensive report each quarter for senior management of BRAC Tanzania. It is expected that a separate Risk department will be established to further improve management of operational and other risks.

Although operational risk is the dominant category, financial risk is no less important. As BRAC Tanzania learnt the hard way, there is need for caution when dealing with other Tanzanian financial institutions and even seemingly strong institutions should be subject to due diligence. Together with liquidity or currency risks, it is primarily under responsibility of the Finance department.

Last but surely not least is the impact risk. The overarching objective of the business plan is to widen and deepen financial inclusion in its target communities. Effective management of the institution is a necessary but not sufficient condition to achieve that. It will also require development and delivery of products and services that truly empower BRAC Tanzania's clients to improve their livelihoods. The social performance management system, including the Client Protection Principles and Universal Standards for Social Performance Management, that is being implemented will be a critical component of BRAC Tanzania's risk management framework.

Internal Audit

The role of the Internal Audit department is to assist the management of BRAC Tanzania by providing independent advice on operations and performance by assessing the effectiveness of Internal Control, Risk Management and Governance Process. The Internal Audit Manual sets out the policies and procedures that govern the conduct of internal auditing at BRAC Tanzania and describes the underlying principles, standards and codes of ethics and management processes for the department. Internal audit department is an independent, objective assurance and consulting support designed to add value and improve BRAC Tanzania's operations.

3.6.4.4 Social Performance Management System

BRAC Tanzania strives to ensure that its organizational culture is customer-centric and its systems, processes, and employees help build loyalty, trust, and long-term relationships with clients. Its microfinance operations are designed to create value for its target segments and, in accordance with the mission, they empower its clients to create economic opportunities for themselves.

As such, BRAC Tanzania will comply with the Universal Standards of Social Performance Management (USSPM) and the Smart Campaign Client Protection Principles (CPPs). As a mission-driven organization, serving clients well is something BRAC Tanzania practices inherently in its daily work. By implementing and using social performance standards and client protection principles, BRAC Tanzania will have the structure that ensures it continues to achieve its mission and social goals.

The implementation of the social performance management system started in early 2019 with a Cerise SPI4 self-assessment followed by the creation of a detailed action plan to close any identified gaps. In 2020, Client Protection gaps will be prioritized as well as adjustments to policy and procedures. In order to ensure the implementation goes as planned, BRAC Tanzania has selected a Social Performance Management Champion and will form a Social Performance Management Board Committee to oversee the activities. Upon completion of the action plan, BRAC Tanzania will start the process to obtain Smart Campaign Certification. Implementation of the social performance system will also help BRAC Tanzania to comply with the increasing client protection requirements under the Microfinance Act, 2019, and later on under the Banking and Financial Institutions Regulations.

As mentioned earlier, BRAC Tanzania will be collecting additional client data to measure, assess and manage its social performance and client impact. The output indicators have been updated and outcome indicators defined. These indicators will be evaluated on a regular basis, quarterly for outputs and annually for outcomes. A Lean Data survey, sponsored by Global Partnerships and conducted in collaboration with 60 Decibels in Q1 2019, offered closer insight into client satisfaction, helped in defining the outcome indicators and presented an efficient way of collecting the outcome data going forward.

BRAC Tanzania's Poverty Outreach Indicators						
YEAR	2019	2020	2021	2022	2023	2024
POVERTY OUTREACH						
% Women Clients	96%	96%	96%	96%	96%	96%
% Rural Coverage	41%	44%	47%	50%	53%	55%
% Below \$3.2 Poverty Line	64%	67%	69%	71%	73%	75%
CUSTOMER SATISFATION						
Net Promoter Score	32	36%	40%	45%	50%	55%
Client retention rate*	To develop baseline indicators					

Implementing the social performance management system, including compliance with the USSPM and CPPs as well as client data collection and analysis over time, will support BRAC Tanzanian achieving its strategic objectives along its theory of change. The system will ensure that the products and services it provides lead to expected outputs, outcomes and BRAC Tanzania's ultimate goal, that people living in poverty, especially women in rural and hard to reach areas are economically empowered and have improved their livelihoods and wellbeing.

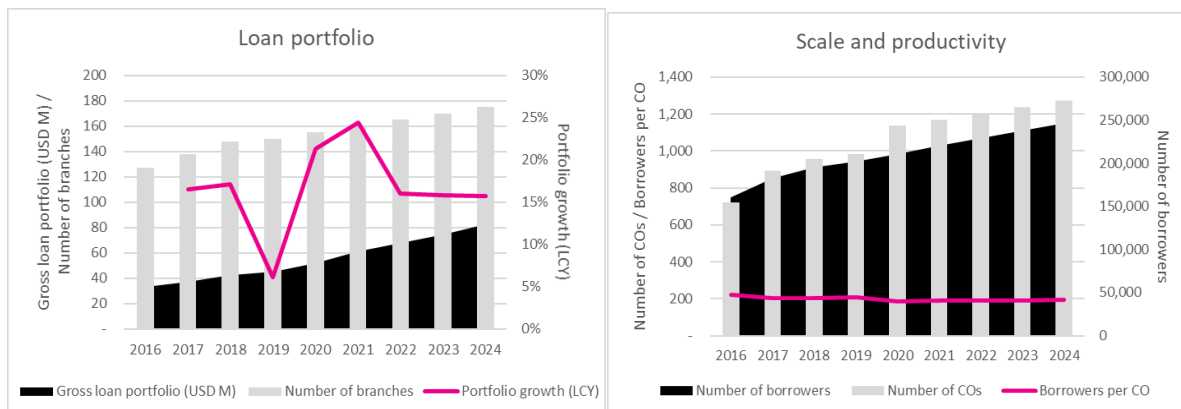
3.6.4.5 Marketing and Communications

BRAC Tanzania has been relatively passive in terms of marketing its products and services. It has relied mainly on word-of-mouth and its Credit Officer to reach out to new clients. The recent Lean Data survey shows that a majority of the surveyed clients would recommend BRAC Tanzania to a friend. There is a good opportunity to enhance the goodwill and mobilise existing clients to actively promote the brand through promotional items. A Communications Manager recently joined the ranks of BRAC Tanzania to support the efforts of increasing brand visibility.

4 Projections

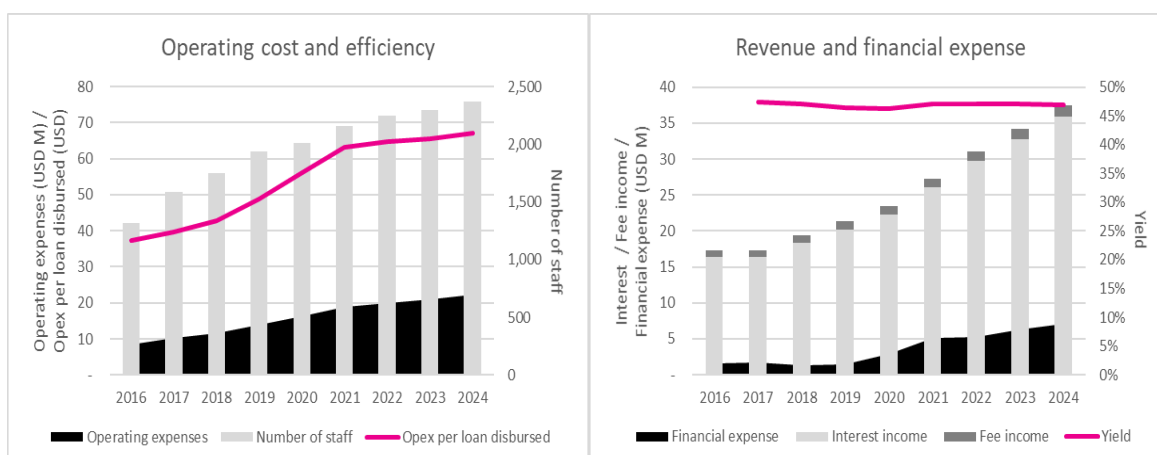
4.1 Operational Projections

BRAC Tanzania will continue growing its lending operations both in terms of gross portfolio outstanding and number of borrowers. Gross loan portfolio will increase from USD 44.83M in 2019 to USD 82.32M in 2024 and the number of total borrowers will grow from 203,258 in 2019 to nearly 246,363 in 2024. BRAC Tanzania will focus on consolidating and transforming the institution in the next five years and therefore project only modest growth in the near future.



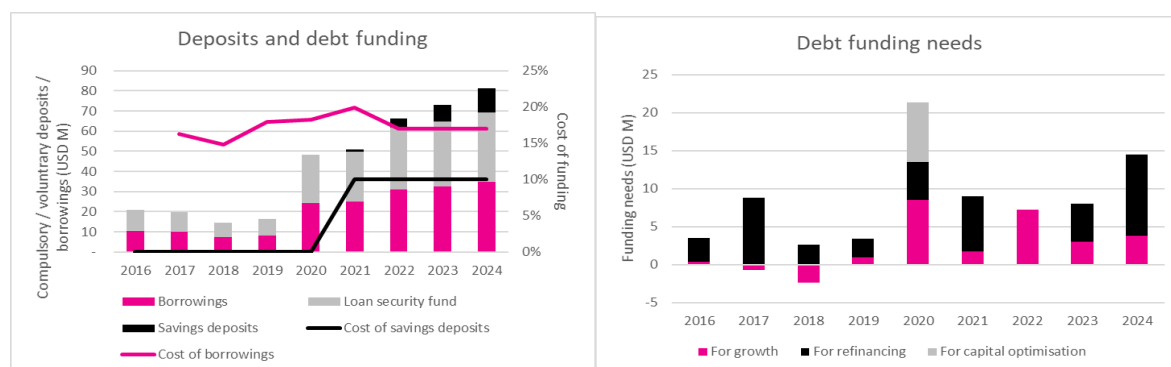
To sustain the planned growth in portfolio, additional field staff will be hired, however, the key strengthening will take place at the country office; overall, total number of staff will increase to just under 2,500 in 2024. With additional staff and continuous investments into improved operations, including digitisation and social performance management, BRAC Tanzania will see its operating expenses increase from USD 12.56M in 2019 to USD 22.27M in 2024. The additional operating expenses will also have an effect on cost efficiency of the operations; the operating expenses relative to number of loans disbursed will increase from USD 45 per loan disbursed to USD 67.

BRAC Tanzania's portfolio will continue generating sufficient revenues to maintain profitability of the institution even in the years of transformation. Taking interest and fee income together, the revenues will steadily increase from USD 21.36M in 2019 to USD 37.39M in 2024.

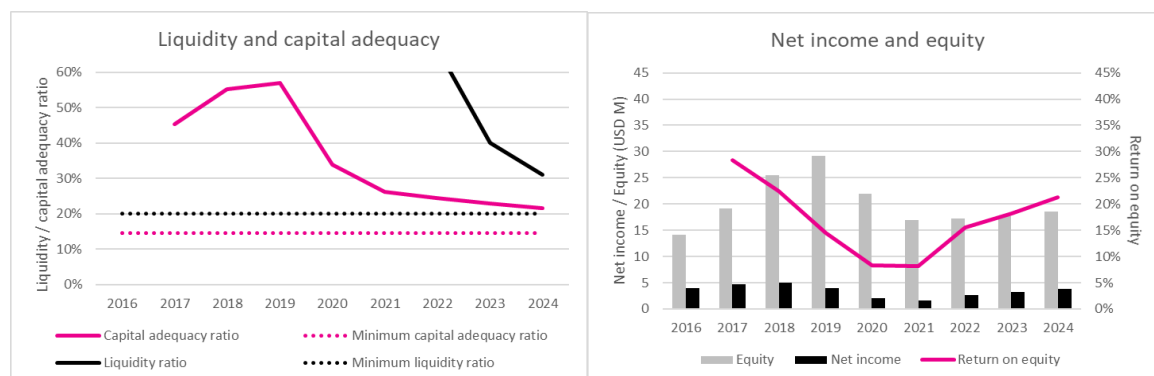


As part of preparations for transformation, BRAC Tanzania will optimise its capital structure in 2020. To meet regulatory requirements, BRAC Tanzania will need to diversify its shareholding and the capital optimisation intends to make the equity investment more attractive for interested parties. The intention is to welcome new shareholders by the end of 2021 and meet the condition for obtaining a deposit-taking license. The optimisation will involve swapping approximately USD 18.2M of accumulated retained earnings with debt funding.

After the expected receipt of the deposit-taking license at the end of 2021, BRAC Tanzania will be able to mobilise savings from its clients and the public. It is expected that it will be able to gradually mobilise about USD 11.83M in deposits savings by 2024.



The total debt funding need will be USD 8.5M for growth and compliance, USD 60M for debt refinancing and USD 18.2M for capital optimisation between 2019 and 2024. The capital optimisation amount is based on longer-term projections of capital adequacy ratio that will be significantly above the regulatory requirements even after the optimisation takes place.



The five-year plan is prepared with a strong emphasis on consolidation and transformation of the institution while maintaining financial sustainability. BRAC Tanzania expects its profitability to decrease in the upcoming years but its return on equity is to stay above 10% despite the significant investments into the transformation.

BRAC Tanzania together with BRAC International are considering contributing a share of the annual surplus to BRAC Maendeleo Tanzanian support of its social development programmes. Clear guidelines and a threshold at which such contributions will be made is going to be set by the end of 2020 together with targets for or ranges of profitability ratios (e.g. Return on Assets or Return on Equity) to ensure those are in line with BRAC Tanzania's social goals.

4.2 Financial Statement

4.2.1 Statement of Financial Position (Balance sheet)

USD	2017	2016	2018	2019	2020	2021	2022	2023	2024
	Actual	Actual	Actual	Projections	Projections	Projections	Projections	Projections	Projections
Balance Sheet									
Assets									
Cash & Investments	5,147,048	4,071,759	4,695,956	7,047,051	13,440,776	3,252,929	3,057,964	3,339,840	3,679,048
Net Loan Portfolio	34,987,280	31,526,134	39,788,908	42,585,907	49,139,894	58,201,177	64,311,763	70,962,928	78,203,637
Other Current Assets	1,864,258	1,277,801	1,240,979	1,319,288	1,522,326	1,803,040	1,992,342	2,198,392	2,422,705
Fixed Assets	215,965	41,955	413,953	241,648	635,599	1,103,210	1,380,131	1,298,550	1,541,842
Total Assets	42,214,551	36,917,650	46,139,796	51,193,894	64,738,596	64,360,355	70,742,201	77,799,710	85,847,232
Equity & Liabilities									
Savings Deposits	-	-	-	-	-	1,320,113	4,580,078	8,321,576	11,825,407
Loan Security Fund	7,333,009	7,366,864	8,148,023	8,484,406	9,059,898	9,928,071	10,514,678	11,186,661	11,950,908
Borrowings	9,883,989	10,397,759	7,215,045	8,206,508	24,200,746	24,826,487	30,894,273	32,397,899	34,669,984
Other Liabilities	5,902,340	4,706,171	5,279,512	5,347,818	9,517,219	11,392,244	7,541,028	8,147,813	8,861,888
Capital Funds	19,095,212	14,446,855	25,497,216	29,155,162	21,960,733	16,893,440	17,212,144	17,745,760	18,539,045
Total equity & Liabilities	42,214,551	36,917,650	46,139,796	51,193,894	64,738,596	64,360,355	70,742,201	77,799,710	85,847,232

4..2.2 Statement of Comprehensive Income

USD	2017 Actual	2018 Actual	2019 Projections	2020 Projections	2021 Projections	2022 Projections	2023 Projections	2024 Projections
Income Statement								
Interest income	18,634,011	20,057,608	20,198,377	22,267,713	26,051,549	29,718,702	32,716,432	35,965,891
Fee and other income	1,554,318	1,558,376	1,163,523	1,429,471	1,958,974	1,253,847	1,328,707	1,423,044
Financial expense	(1,682,855)	(1,306,023)	(1,384,830)	(2,925,532)	(5,143,522)	(5,288,626)	(6,273,458)	(7,030,314)
Loan loss provision	(1,398,789)	(1,221,138)	(503,250)	(1,249,429)	(1,594,689)	(1,711,651)	(2,013,193)	(2,349,553)
Total operating expenses	(10,365,227)	(11,690,773)	(13,856,682)	(16,299,076)	(18,766,299)	(19,994,688)	(20,992,060)	(22,268,526)
Profit before tax	6,741,457	7,398,050	5,617,138	3,223,147	2,506,013	3,977,584	4,766,428	5,740,543
Tax	(1,999,110)	(2,110,064)	(1,643,195)	(1,103,024)	(931,824)	(1,333,518)	(1,583,302)	(1,889,845)
Gain/(loss) on foreign currency	(37,416)	(276,626)	-	-	-	-	-	-
Profit after tax	4,704,931	5,011,360	3,973,943	2,120,124	1,574,189	2,644,066	3,183,127	3,850,697
Dividend	-	-	-	(7,901,235)	(5,470,432)	(1,322,033)	(1,591,563)	(1,925,349)
Transfer to reserves	4,704,931	5,011,360	3,973,943	(5,781,111)	(3,896,244)	1,322,033	1,591,563	1,925,349

5 Risk Considerations

There are several categories of risk factors that might affect execution of the plan. BRAC Tanzania is going to actively manage the risks in order to achieve both its social impact and financial goals.

5.1 External risk factors

Country and Market Environments

BRAC Tanzania has taken into consideration the current economic, political and social conditions as well as the outlook in planning for the next five years. The plan has been developed and the targets has been set with the understanding that the country's economy is expected to continue growing but that the environment for small enterprises might remain challenging. Simultaneously, BRAC Tanzania appreciates that the external conditions can develop differently than expected and the plan might need to be adjusted in case the conditions change significantly. Increasingly, the risk factors are not only economic, political and social but also environmental. Having a large portion of clients dependent on agriculture, BRAC Tanzania will also need to monitor and manage risks related to the effects of climate change, such as severe droughts and heavy rains.

The risk factors mentioned above would affect BRAC Tanzania indirectly by impacting its clients and their demand for BRAC Tanzania's services as well as their capacity to repay their loans. BRAC Tanzania will be managing those risks by ensuring its products are well-suited to the clients' needs and it delivers high quality of services. Implementation of social performance management system and innovative product development will strongly contribute to mitigating the risks. It is likely that competition will increase in some of BRAC Tanzania's markets and those activities will also help BRAC Tanzania to mitigate the risk of losing clients to its peers.

Financial Sector and Regulations

As a microfinance institution, BRAC Tanzania also faces risks related specifically to the financial sector, such as changes in financial markets, financial infrastructure and regulations. Developments in exchange rates and availability of affordable funding have direct impact on financial performance of the institution and will influence its financial capacity to deliver on the business plan. BRAC Tanzania is confident that it will be able to actively manage these financial risks. It is also assumed that there is relatively low regulatory risk and that the regulations, even though they will increase requirements on the microfinance institutions, will positively contribute to development of the microfinance sector.

5.2 Internal risk factors

Transformation and Operations

Transformation, initially, into a regulated Tier 2 entity and ultimate into a deposit-taking institution, will require significant effort to ensure meeting the related regulatory requirements, including drafting new policies and procedures and updating the existing ones. Having a management capacity to drive the process will be the key to success. Besides the transformation, BRAC Tanzania will need to continue managing its operational risks on a daily basis. In addition to its internal controls and well-functioning internal audit, some of the strategic activities, such as digitisation of field operations and use of mobile money, will contribute to better management of the main operations risks, such as fraud and robberies.

Human Capital

Perhaps the key factor to achieving the five-year goals is having a capable and competent human capital. Successful implementation of the strategic priorities will depend on availability of adequate quantity and quality of people. Inability to secure staff in sufficient number and with required capacity will be a risk that need to be managed. Appreciating that, BRAC Tanzania has identified talent management as one of its strategic priorities. Introducing incentive schemes and ensuring that every single staff has access to appropriate training is aimed at mitigating the related risks.

Technology

Lastly, digitisation of operations will increase BRAC Tanzania's exposure to technology risk. Assessment of technology risk needs to go beyond hardware and software, it also needs to consider the human factor interacting with the technology. BRAC Tanzania is planning to develop a Digital Strategy that will guide the change from a paper-based to digital institution. A Digital Readiness Assessment is planned for Q2 of 2020 which will later inform the development of a Digital Strategy.

Appendix 1

Financial and operational information of selected peers

Microfinance institutions²⁴

#	Name	No of Branches	No of Borrowers	Loan Portfolio Outstanding (USD M)
1	BRAC	150	203,640	52.77
2	ASA	102	122,749	23.15
3	FINCA	26	50,000	29.2
4	VISION FUND	29	44,178	10.3
5	TUJIJENGE	23	11,434	3.17

Banks²⁵

#	Name	No of Branches	Loans to Deposits	Portfolio at Risk	Loan Portfolio Outstanding(USD M)
1	CRDB	260	74.5%	19.0%	1,300
2	NMB	223	75.6%	5.0%	1,340
3	NBC Bank	49	62.6%	12.4%	357
4	BOA	26	85.8%	17.8%	126

²⁴ Data as of December 31, 2018.

²⁵ Data as of September 30, 2018.

Appendix 2

Phase 3 Activities

This business plan will further be updated in July 2020 after the projections are revised at BI level and when the Head of Finance is on board. The key areas to be updated include the following:

- Update on the Digital Strategy once a Digital Readiness Assessment has been completed;
- More details around IT infrastructure and Core Banking System once the IT Assessment has been finalised by the consultants;
- Update on the Transformation Roadmap in line with the Phased approach;
- Update on SPM indicators based on the SPI4 and Lean Data Survey results;