

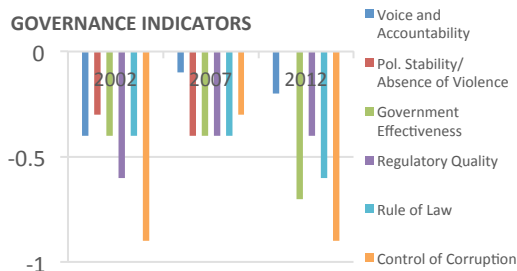
Launch of Advans Bank Tanzania's SME lending operations

1. Development relevance

Economic and poverty context: Tanzania is a Sub-Saharan country with a population of 48 million comprising two states: Tanganyika (mainland Tanzania) and Zanzibar. It has largely completed its transition to a liberalized market economy, though the government retains a presence in sectors such as telecommunications, banking, energy, and mining. The economy depends on agriculture, which accounts for more than ¼ of GDP, provides 85% of exports, and employs about 80% of the work force. All land in Tanzania is owned by the government, which can lease land for up to 99 years. Proposed reforms to allow land ownership remain unpopular. Inflation runs high with an averaging of 12,3% since 2009.

Population and Economic indicators	
Population (2012)	47 783 107
GDP growth (average 2009-2012)	6,6%
Inflation (average 2009-2013)	12,3%
Trade balance (% of GDP, 2012)	-14,7%
Foreign Direct Investment (net) (% of GDP, 2012)	6%
Net official development assistance and official aid received (% of GDP, 2012)	10%
Workers' remittances (% of GDP, 2012)	0,2%
Economic freedom Index (2014)	57,8

Despite Tanzania's good macroeconomic performance over the past decade (with GDP growth averaging 6,6% from 2009 to 2012) – mainly due to gold production and tourism –, not enough productive jobs were generated for a fast growing labour force, which is expected to double within the next 15 years. Rapid urbanization will result in more Tanzanians living in urban areas than in rural areas by 2030. If well managed, urbanization can offer an opportunity for accelerating the transformation of the economy towards higher value-added jobs in manufacturing and services.



According to the 2013 Doing Business Report of the World Bank, Tanzania ranks 134th out of 185 countries in terms of ease of doing business. It has made progress in streamlining procedures to create a business, which takes 26 days on average compared to 34

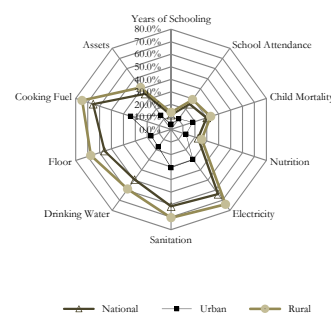
in Sub-Saharan Africa, but it compares negatively with its peers when it comes to ease of accessing credit, scoring 129 compared to a Sub-Saharan regional average of 109 (the reference being South Africa with a score of 1).

Poverty indicators	
GDP per capita (current USD, 2012)	609
Gini Index (0= equality 100= inequality)	N/A
Multidimensional Poverty Index (1=poor 0=not poor)	0,332
International (at 1,25 USD/day) poverty headcount ratio (2012)	N/A
National poverty headcount ratio (2012): % of population below national poverty line in 2012	28,2%
Rural poverty headcount ratio (2012): % of rural population below national poverty line in 2012	33,3%

Tanzania ranks 106th in terms of economic freedom (2014), being stagnant near the upper boundary of the “mostly un-free” category over the past 20 years. Declines in the management of government spending, business freedom and property rights have largely cancelled out improvements in trade and investment freedom.

Tanzania remains the 23rd poorest country with a USD 609 per capita income in 2012. 15,5% of the urban and 33,3% of the rural population live in poverty (2012). Donor dependency is high with overseas development assistance accounting for 10% of GDP in 2012. Tanzania ranked 152nd (out of 187) in the UNDP's 2011 Human Development Index. Life expectancy at birth is 53 years.

Financial sector context: The financial sector has expanded in recent years and foreign-owned banks account for about 48% of the banking industry's total assets. Competition among foreign commercial banks has resulted in significant improvement in the efficiency and quality of financial services, though interest rates are still relatively high, reflecting high fraud risk. The 2009 Finscope¹ survey showed that the percentage of adults excluded from the financial system increased from 53,7% in 2006 to 56% in 2009. Banks' outreach increased by 33% from 2006 to 2009, but access to finance from banks remained low at 8,7% of the adult population. The about one million micro,



¹ Finscope is a survey developed by FinMark Trust, with the objective of measuring and profiling the levels of access to and uptake of financial products/services (both formal and informal) in a particular country.

small and medium enterprises (MSMEs) have still very limited access to formal financial services. In Dar Es Salaam, only 11% of MSMEs had access to a bank account and less than 1% of them had an outstanding loan with a financial intermediary. A third of the Finscope sample did not want a bank loan so far, as they felt they did not have enough resources to repay a loan; another third mentioned 'economic barriers' as the main reason for not having a bank account, while others lacked the skills on how to apply for a loan.

Microfinance services are offered by i) commercial banks operating in MSME finance, and ii) microfinance institutions (MFIs), most of which are not regulated. Advans Bank Tanzania, Access Bank, Akiba Bank, Azania Bank and Equity Bank had a core MSME lending strategy out of the 32 commercial banks in 2012. In addition, some banks traditionally working with corporate clients (NMB, CRDB, Ecobank, DTB, Stanbic) started downscaling by offering loans with low interest rates to small and medium enterprises (SMEs), considered to have a huge growth potential. Bank competition in SME lending is increasing rapidly. Of the traditional MFIs, FINCA and PRIDE were the most active in the market focussing on the lowest microenterprise market segment via group lending methodologies.

Partner Financial Institution: Advans Bank Tanzania obtained a commercial bank license in May 2010 and opened its doors to the public in February 2011. Its founding shareholders Advans SA SICAR and FMO share the objective and vision to establish a sustainable microfinance-oriented commercial bank which offers a full range of financial services (deposits, loans and means of payments/withdrawals) to MSMEs and low-income households. As of December 2013, the bank served 2'757 loan clients and 10'289 depositors from three branches located in Dar Es Salaam. The clientele was composed essentially of MSMEs (35% of the portfolio were SMEs and 65% microenterprises) as well as a few corporate clients with term deposits. The

Advans Bank Tanzania (data in USD)	2010	2011	2012	2013
Total assets	4'822'430	4'178'650	4'789'020	7'992'110
Gross loan portfolio	0	712'766	2'091'000	4'824'590
Total deposits value	0	112'408	1'390'060	1'547'980
Total number of clients	0	1'742	3'408	10'421
Total staff	33	57	151	191
# women among staff	9	30	74	99
Total number of branches	0	2	2	3

banks' lending methodology is cash-flow based, with client officers reconstructing clients' past cash-flow and current balance sheet, and, for SMEs specifically, making cash-flow projections. Total loan portfolio amounted to USD 4,8 million and the deposit portfolio to USD 1,55 million. The bank aims to reach 18'500 active loan clients and 127'000 depositors by 2018. It opened a fourth branch in Mwanza in May 2014 and a fifth branch is planned in Mbeya in September 2014.

2. Intervention approach and additionality

Capacity Building Needs: Advans Bank Tanzania's key priorities for 2013 were (1) the development of SME loans upon a review of its pilot test, which had started in September 2011² and reached 30 active SME loans in September 2012, and (2) expansion to Mwanza, the second largest city in the North around 1'500 km away from its head office. It faced challenges in recruiting, training and retaining qualified SME loan officers. This is mainly due to the increasing competition from commercial banks (which pay higher salaries) and the public sector, as well as the good training provided to young graduates, making them attractive to other employers. It approached SCBF for technical assistance to develop client-oriented SME loans, to create the conditions to reach the largest possible number of potential SME clients on a sustainable basis in Dar Es Salaam and Mwanza, and reinforce the human resource policies and incentive systems.

Intervention approach: Technical assistance was provided in:

- Fine-tuning the SME product offer and defining the SME commercial strategy
- Revising SME lending policies, procedures, formats, and tools
- Designing and implementing a marketing campaign for the SME loan product, which would involve identifying communication channels preferred by Tanzanian SMEs, developing marketing materials and training SME staff in sales management
- Designing practice-oriented training materials and conducting training on SME prospection, appraisal, monitoring, and portfolio management
- Rolling out the SME products across the branch network
- Close coaching of SME loan officers
- Identifying and training-on-the-job of a local deputy SME Manager to take over SME management
- Reinforcing the human resources systems to improve recruitment, reduce high staff turnover, and retain qualified staff.

² From the start of operations in February 2011, Advans Bank Tanzania had planned to launch SME financing when its staff would reach sufficient maturity, given the relative complexity of the SME lending methodology.

Additionality: Up-scaling SME lending operations results in more SMEs accessing working capital and investment loans enabling them to grow and generate employment opportunities. Moreover, Advans Bank Tanzania offers access to low-cost bank accounts to clients' employees, enabling the latter to save and carry out transfers and bill payments.

In the longer term, the bank will contribute to the formalization of the economy. To build clients' trust and offer tailored financial services, the bank's staff spends significant time with SME clients, reconstructing their cash flows, helping them understand their business and supporting their formalization – many clients have had no previous banking relationship and produce little, often unreliable financial information.

3. Results achieved

3.1. Client level

From January 2013 to May 2014, the bank modified its loan offering to better meet the needs of specific sectors of activities and following requests of clients and client officers. It created a Flexible Repayment Loan, specially designed for activities with high seasonal turnover, such as schools and activities linked to agriculture, with a loan repayment schedule matching the client's cash-flow variations over time. Furthermore, it increased its maximum loan amount to TZS 150 million (USD 88'000). In addition, it modified the characteristics of its Spot Loan, a short-term loan offered for punctual working capital needs.

Client satisfaction has increased as indicated by drop-out rates⁴ of borrowers which decreased from 29,3% in 2012 to 15,7% in 2013, and the drop-out rate of depositors which decreased from 31,3% in 2012 to 2,4% in 2013.

The following profiles show different type of clients and their use of the new offering:

Overall Outreach ³	2011	2012	2013
Number of active borrowers	581	1'470	2'757
Number of outstanding loans	581	1'482	2'761
Of which individual MSE loans	577	1'427	2'605
Of which individual SME loans	4	55	156
% of female active clients	42,6	N/A	N/A
% of female active borrowers	N/A	41,7	50,1
% of clients in rural areas	0	0	0
Average loan balance (USD)	1'227	1'410	1'747
Number of savings & deposit accounts	1'725	3'443	10'438
% of female depositors	N/A	38,2	47,5
Average deposit balance per account (USD)	64	404	148
Clients according to income level			
Break-down of Portfolio per Outstanding Loan Size – in %			
< 1'280 USD	65,4	71,5	62
[1280 ; 12'730 USD]	34,6	27,9	37
] 12'730 USD ; 63'650 USD]	0	0,7	1
> 63'650 USD	0	0,1	0
Break-down of Deposits per Deposit Size			
< 130 USD	94,2	92,9	89
[130 ; 1'280 USD]	5,1	5,9	9,2
]1280 ; 12'730 USD]	1	0,9	1,6
> 12'730 USD	0	0,2	0,2



Mr. T., one of Advans Bank Tanzania's very first clients, sells hair, namely braids, weavings and wigs, – imported from countries such as Nigeria and Dubai – at the Kariakoo market in Dar Es Salaam. When Mr. T. started taking loans, he only had a small shop at his home. Thanks to five loans of respectively TZS 2 million (ca. USD 1'250), TZS 4 million (ca. USD 2'500), TZS 5 million (ca. USD 3'120) and two times TZS 10 million (ca. USD 6'240), he has been able to significantly increase his stock and purchase large premises in Kariakoo. Mr. T. is currently repaying his fifth loan and plans to apply for a sixth. He is a loyal and satisfied customer: *“I started with one small shop in Manzese, now I own two big shops and am able to provide my family with all they need. Advans Bank Tanzania has been and continues to be a very big support to my business and I can't imagine banking with anyone but them.”* When asked if there were any improvements to be made, he replied: *“To me everything is satisfactory, we business people are longing for affordable and easy access to loans, which is exactly what Advans offers.”*

Many clients use their benefits (or part of their loans) to invest in personal assets (cars, lands, construction...) rather than to invest in their business. This is the case for instance of one of the bank's biggest client, Ms Queen S.:

Queen S. is dealing with cosmetics, children toys and accessories at the Kariakoo market. In 2013, she took her first loan with Advans Bank of TZS 90 million (ca. USD 54'000) to increase her stock. She then was

³ For SME outreach figures, refer to section 3.2 below.

⁴ Computed as $[1 - (\text{active borrowers or depositors at end of period} / (\text{active borrowers or depositors at beginning of period} + \text{new borrowers or depositors over the period}))]$.

granted a TZS 27 million (ca. 16'250) Spot Loan to help her dealing with customs issues. After full repayment, she received a renewal of TZS 130 million (ca. USD 78'250) in 2014. Satisfied with Advans' services, she closed one of her loans with another bank and is now working with Advans and only one other financial institution. Despite the development of her business, she did not hire new employees, but still works with her son and a niece who is helping out regularly. Most of her benefits are reinvested in the construction of a house being built on a plot she acquired in 2014.

Some situations are less satisfactory for the bank and its clients, as shown by the following case:

Mr. N. and Ms. R. are two drinks wholesalers that were both granted a TZS 50 million loan (ca. USD 30'000) in 2013. Following a request to satisfy a special command from a big client, Mr. N. was later granted a 15 million (ca. USD 9'000) Spot Loan while repaying his principal loan. Both clients defaulted for various instalments, and the bank discovered that both clients had undisclosed loans from other financial institutions. The bank managed to get the full repayment of the loans and decided not to renew them despite the fact that both clients had also ceased their relations with other banks in the meantime.

Between 25% to 33% (according to months) of Advans' SME clients are not repaying loans in a satisfactory way. 15% are serious defaulters and several of them dragged the bank to complex, time-consuming, expensive and uncertain legal cases.



Despite the adjustments to the bank's offering, the

main complaint of clients is that the amount received is too small. The bank then needs to explain to its clients that their businesses are sometimes not developed enough to support the amount they are requiring or that they cannot afford to contract several loans at the same time. Many of the clients complaining about the disbursed amount later turned to defaulters.

Another frequent request concerns overdrafts, unconsidered needs. Advans has refused until now to create this product to avoid increasing indebtedness among clients. The bank's research indeed shows that banks offering overdrafts have big issues to make clients repay and are forced to transform their facilities into instalment loans to get their money back.

seen by many clients as the best option to satisfy their

Key performance indicators	2012	2013
Number of SME loans disbursed in the year	69	183
Number of outstanding SME loans (EoY)	55	156
SME gross loan portfolio (USD) (EoY)	596'000	1,6 m
PAR 30, SME loans	4,73%	3,55%
Share of SME loans in total gross loan portfolio	28,5%	33%
Number of staff (EoY)	151	191
Of which: number of staff at points of sales	119	153
Of which: number of SME client officers	3	8

3.2. Partner financial institution level

Advans Bank Tanzania was not only able to develop a demand-driven SME product range, but also to make its SME methodology, commercial strategy and marketing more efficient while balancing it with risk management requirements.

Market positioning: From January 2013 to May 2014, 259 SME loans were disbursed amounting to USD 3 million. The Gross Loan Portfolio was multiplied by almost three, from USD 596'000 at the end of 2012 to USD 1,5 million at the end of May 2014. SME loans' PAR 30 was reduced from 4,73% to 3,55% (with a 1,97% SME loan write-off ratio in 2013).

New/improved products: Advans Bank Tanzania disbursed five Flexible Repayment Loans since the product launch and a dozen Spot Loans between January 2013 and May 2014.

In addition, it launched three new products in the first half of 2014: (i) "Advans Mobile" enabling clients to transact on their accounts through their mobile phones, giving them access to account information, bank transfers and payment of various services. The real-time interconnectivity between Advans Mobile and Mpesa enables clients to make deposits and withdrawals through the whole Mpesa agent network. (ii) A microinsurance product "Mlinzi wa Familia" providing benefits to a beneficiary if the account owner passes away, and (iii) a specific savings account without attached services but with a high remuneration and complete flexibility on deposits and withdrawals, called "Mavuno account". These products do specifically answer SME needs regarding deposits. According to feedback from clients and employees and based on experience, there is need for high flexibility among SME clients, who generally do not have the time to go to branches for transactions. Advans Mobile offers them 24/7 real time access to their account without having to come to the branches.

To support clients in facing unexpected events, the bank introduced microinsurance products: (i) on loans in order to cover the loan repayment in case of death, illness or natural disaster, and (ii) on savings to provide a

financial buffer if the account holder dies or becomes disabled. The latter is provided for free to account holders that maintain a minimum balance and is combined with attractive interest rates on the account; as such it is unique in Tanzania. These products are expected to have a positive effect on the loan- and savings portfolio development.

Operational capacity:

- **Branch expansion:** The Mwanza branch is operating since May 2014 with two SME client officers among its staff. The SME activity is expected to increase after 6 months of operations, once the team is more familiar with the local market and a good micro enterprise portfolio has been created. Each branch is now specialized in specific sectors of activity. E.g., the Manzese branch disbursed 6 loans for Schools and Guest Houses (two activities highly represented in this zone) while the Kariakoo branch focuses mainly on the hardware and clothes sectors.
- **Human resources development:**
 - 39 staff were trained from January 2013 through May 2014 as broken down in the table to the right.
 - A local staff is heading the SME Loan Department since July 2014 under supervision of the Commercial Manager.
- **Improved Loan Management system:** A revised collateral policy has been implemented to better adapt to clients' capacities without jeopardizing the bank's credit risk management. Five SME loans were disbursed with insured vehicles pledged as collateral for clients who did not own land (instead of the usual mortgage contracts). A continuously updated SME Toolbox is now available for SME client officers.
- **Improved human resources management systems** thanks to clear responsibilities, adjusted incentives, more efficient recruitment process, staff administration process and improved guidance and coaching by managers of staff.

# Staff trained from Jan. 2013 to May 2014	
SME client officers	17
SME risk analysts	2
Internal controllers	3
Branch managers	5
Credit supervisors	11
Trainer	1

4. Lessons learnt and further challenges

Despite all improvements in human resources management, staff turnover remains an issue. Commercial banks with higher salaries (but less responsibilities and possible career developments) are still an attractive alternative, as are public sector positions, viewed as prestigious, safe (with life time employment) and low stress. The salary level remains the most important factor for employment choices rather than good training and career opportunities of what Advans Bank Tanzania can offer in competition with larger commercial banks.

The MSME sector is highly dependent on the external economic context. The lower foreign trade with Tanzania's key business partners (DRC, Zambia, Mozambique) during the 1st half of 2014 thus impacted business activities negatively, notably at the Kariakoo market. Moreover, the local predominately agrarian economy is highly seasonal: the 2nd half of the year, when people have money after the harvesting period and buy goods, is favourable for business while the 1st half generally displays a low level of activity. To face these challenges, Advans Bank Tanzania had to adapt its strategy and become even more prudent on loan appraisals and follow-ups than before. It faces growing competition by differentiating itself through its products, its good customer care and its transparency. This last point is highly appreciated by clients, who complain about hidden fees or bribes in other institutions.



An additional challenge is that SME clients are more difficult to mobilise, as they are less visible than micro enterprises, fewer in numbers, and their managers are not always present at the business location. However, after trying to diversify its sales channels, the bank decided to focus on reinforced sales efforts and follow-up and client referrals while developing competitive products and processes to reach out to its target clientele. The bank has a positive outlook for the coming months, with motivated and trained SME staff and new opportunities with the branch openings in Mwanza and in Mbeya. Both towns and their region open new prospects for the development of SME activities in both urban and rural settings.