THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

PERFORMANCE AUDIT REPORT ON FINANCING AND MANAGEMENT OF GOVERNMENT FUNDS AND PROGRAMS

AGRICULTURAL INPUTS TRUST FUND

CONTROLLER AND AUDITOR GENERAL

MARCH, 2022

About National Audit Office

Mandate

The statutory duties and responsibilities of the Controller and Auditor General are given under Article 143 of the Constitution of the URT of 1977 and in Sect. 10 (1) of the Public Audit Act, Cap 418.

Vision, Mission and Core Values

Vision

A credible and modern Supreme Audit Institution with high-quality audit services for enhancing public confidence.

Mission

To provide high-quality audit services through modernisation of functions that enhances accountability and transparency in the management of public resources.

Motto: "Modernising External Audit for Stronger Public Confidence"

Core Values

In providing quality services, NAO is guided by the following Core Values:

i. Independence and objectivity
ii. Professional competence
iii. Integrity
iv. Creativity and Innovation
v. Results-Oriented
vi. Teamwork Spirit

We do this by: -

- Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- Helping to improve the quality of public services by supporting innovation on the use of public resources;
- Providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit cycles; and
- Providing audit staff with appropriate training, adequate working tools and facilities that promote their independence.

PREFACE

Section 28 of the Public Audit Act CAP 418 gives mandate the Controller and Auditor General to carry out Performance Audit (Value for-Money Audit) for the purposes of establishing the economy, efficiency and effectiveness of any expenditure or use of resources in Ministries, Departments and Agencies (MDAs), Local Government Authorities (LGAs), Public Authorities and other Bodies.

I have the honour to submit to Her Excellency Hon. Samia Suluhu Hassan, the President of the United Republic of Tanzania and through her, to the Parliament of the United Republic of Tanzania this Performance Audit Report.

This report is on Financing and Management of Government Funds and Programs. The audited entities were the Ministry of Finance and Planning (MoFP), the Ministry of Investment, Industry and Trade (MIIT), the National Economic Empowerment Council (NEEC) and five selected Government Funds and Programs (GFPs) namely: SELF Microfinance Fund (SELF MF), Agricultural Inputs Trust Fund (AGITF), Kilimo Kwanza Catalyst Fund (KKCF), Export Credit Guarantee Scheme (ECGS) and Smallholder Farmers' Credit Guarantee Scheme (SCGS).

This report contains audit findings, conclusions and recommendations that focused mainly on financing, implementation of GFPs and coordination and monitoring activities.

The audited entities namely MoFP, MIIT, NEEC and selected GFPs were given an opportunity to scrutinize the factual contents and comment on the draft report. I wish to acknowledge that the discussions were very useful and constructive.

My Office intends to carry out a follow-up audit at the appropriate time regarding the actions taken by MOFP, MIIT, NEEC and selected GFPs in relation to the recommendations given in this report.

In completion of the assignment, the Office subjected the report to the critical reviews of Dr. Lucas D. Mataba, Senior Lecturer and former Head of Banking, Finance and Microfinance Department, Moshi Cooperative University and Dr.Jones T. Kaleshu, former Managing Partner, MK Auditor part time Senior Lecturer, Moshi Cooperative University who came up with useful inputs on improving this report.

This Report has been prepared by Mr. January Kinunda - Team Leader, Ms. Ndimwaga Shitindi and Mr. Bhourat Kombo-Team Members under the supervision and guidance of Ms. Mariam Chikwindo – Chief External Auditor, Mr. James G. Pilly – Assistant Auditor General and Mr. George Haule – Acting Deputy Auditor General.

I would like to acknowledge the commitment and cooperation accorded to my Audit Team by all the respective Accounting Officers and their staff, without which timely completion of this audit report would not be possible.

Charles E. Kichere,
CONTROLLER AND AUDITOR GENERAL,
NATIONAL AUDIT OFFICE,
UNITED REPUBLIC OF TANZANIA.

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LIST OF ABBREVIATIONS

AGITF	Agricultural Inputs Trust Fund
AMCOS	Agricultural Market Cooperative Society
BMCC	Branch Management Credit Committee
BOT	Bank of Tanzania
CIS	Commodity Import Support
CMS	Core Microfinance Solution
DFGF	Development Finance Guarantee Facility
EB	Eligible Bank
ECGS	Export Credit Guarantee Scheme
GFPs	Government Funds and Programs
GN	Government Notice
KKCF	Kilimo Kwanza Catalyst Fund
LGA	Local Government Authority
MFIs	Microfinance Institutions
MIIT	Ministry of Investment, Industry and Trade
MoFP	Ministry of Finance and Planning
NEDF	National Entrepreneurship Development Fund
NEEC	National Economic Empowerment Council
NEEF	National Economic Empowerment Fund
NMP	National Microfinance Policy
NPLS	Non-Performing Loans
PAR	Portfolio at Risk
PASS	Private Agricultural Sector Support Trust
PMO	Prime Minister's Office
PO RALG	President's Office-Regional Administration and Local Government
PTF	Presidential Trust Fund
SCGS	Smallholders Credit Guarantee Scheme
SCGS	Smallholder Farmers' Credit Guarantee Scheme

SELF MF	SELF Microfinance Fund;
SIDO	Small Industries Development Organisation
SIDO RF	SIDO Regional Revolving Fund
SMEs	Small Medium Enterprises
TADB	Tanzania Agricultural Development Bank
TAI	Tunduru Agricultural inputs
TCDC	Tanzania Co-operative Development Commission
TEDAP	Tanzania Energy Development and Expansion
TPB	Tanzania Postal Bank
URT	United Republic of Tanzania
WDF	Women Development Fund
YDF	Youths' Development Fund

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EXECUTIVE SUMMARY

The Government of the United Republic of Tanzania established Government Funds and Programs (GFPs) with the aim of providing financial services to low-income households and micro enterprises (NMP, 2017). However, despite of establishing GFPs, financial exclusion in Tanzania is still high at 28% as compared to other East African countries such as Kenya (18%), Rwanda (11%) and Uganda (14%) (FinScope Tanzania, 2017).

The Ministry of Investment, Industry and Trade-Investment (MIIT) through National Economic Empowerment Council (NEEC) is the overall overseer of all economic empowerment Programs and funds in the country; while the Ministry of Finance and Planning has responsibility for disbursing funds to the GFPs which rely on Government subsidy and has a role of regulating and supervising GFPs.

The audit mainly focused on financing, coordinating and monitoring functions as performed by MoFP and MIIT through NEEC; and the way GFPs were managed by responsible Implementing Entities (IEs). With regards to this audit, five implementing entities were selected namely SELF Microfinance Fund (SELF MF); Agricultural Inputs Trust Fund (AGITF); TIB Bank; BOT; and TADB.

Main Audit Findings

The audit came up with a number of findings regarding management of government funds and programs as summarised below:

a) ***There were Non-Performing Loans (NPLs) of TZS 50.04 out of 98.84 billion) of the Outstanding Loan Portfolio (51%)***

The audit noted that AGITF, SELF MF, and TIB (KKCF) had NPLs of TZS 47.4 billion out of TZS 98.84 billion. SELF MF had 7% of NPLs (TZS 2.7 billion out of 36.9 billion), AGITF had 72% of NPL (TZS 20.1 billion out of 27.87 billion), and TIB (KKCF) had 80% (TZS 27.24 billion out of 34.07 billion).

The Audit noted that non-performing loans were caused by issuing loan to unqualified customers. This is to say provision of loans to: customers with insufficient experience and management competence in agro business; customers with unsatisfactory performance; and customers with multiple loans. Other reasons were disbursement of loans before perfection of security; non-adherence to security conditions with Private Agricultural Sector Support Trust (PASS); and beneficiaries' tendency to use the loans for unintended purposes.

Non - performing loans may result into decline of Funds capital. For instance, the total capital injected by the Government for AGITF activities from its establishment was TZS 48.5 billion; and the current capital as at 30th December, 2020 was TZS 20 Billion which was noted to be attributed to existence of non-performing loans.

b) Allocation of Funds to Non-Core Activities and Untargeted Groups

The Audit noted that, SELF MF had only 7% NPLs (equivalent to TZS 2.7 billion out of a total of 36.9 billion). However, they invested significantly in market securities through FDR, bonds, and T-Bills and provided loans to commercials that did not match with their core activities. In financial year 2016/17, 80% of funds were invested in market securities, leaving only 20% of the funds to finance its core activities, which was the basis for provision of loans. However, analysis also indicated that the trend of investment in market security declined by 28% in the year 2020.

It was also noted that, after the CAG Report of financial year 2016/17, which queried the decision to investing in non-core functions, SELF MF changed from allocating significant portion of funds into market security to loan portfolio. However, the audit noted that, from June 2017/18 to 2020/21, TZS 72.2 billion (equivalent to 56%) of loans were disbursed to commercial banks, contrary to the strategic objective of the company of reaching out to un-served and under-served communities, especially those in rural areas.

It was revealed that, investment in market security was done for the purpose of liquidity management. Also, loans provided to Commercial Banks were intended to serve underserved market such as SMEs and individuals. However, evidence provided by management did not justify loans were provided to underserved market. This is an indication that SELF MF did not adequately fulfil its primary objectives of serving underserved market.

c) *Use of TZS 7 Billion of Smallholder Farmers' Credit Guarantee Scheme (SCGS) for Un - intended Purposes*

The audit noted that, TZS 10,824,394,500 was transferred from SCGS Call Account to TADB Development account from September 2021 to December 2021. Whereby TZS 3,824,394,500 was invested with NMB as SCGS Cash Cover Fixed Deposit as condition for provision of guarantee for SCGS, and TZS 7,000,000,000 was transferred from SCGS Call Account to the TADB Main Account for effective liquidity management of the Bank.

However, the audit noted that this was contrary to guideline 2.5.2 (a and b) of the Guidelines for the Administration of the Smallholder Farmers' Credit Guarantee Scheme, which requires SCGS funds to be used for purposes/activities that contributes to the objectives of the SCGS and not for the liquidity position of the TADB. This will limit attainment of the primary objectives of the Smallholder Farmers' Credit Guarantee Scheme (SCGS) of providing guarantee to Smallholders farmers.

d) *Pending Guarantee Applications Amounted to TZS 227 Billion*

Audit noted that 2021, a total of TZS 227 Billion worth of loan applications from various Commercial Banks were not guaranteed from the financial year 2018/19 to 2020/21.The audit also noted that, applications were received by BoT for appraisal, evaluation of the financial Institution's credit assessment and due diligence of the projects were carried out, however, the guarantees were not approved.

Failure to grant guarantees approval for the submitted applications was caused by the fact that the Scheme was not operational since 8th July, 2018 due to expiry of the Agency Agreement between the Ministry of Finance and Planning and the BOT. As a result of this, the primary objectives of the scheme to promote export oriented economic development in general by encouraging high value exports that will generate high level of employment and foreign exchange earnings was not adequately achieved.

e) *Provision of Guarantee Above Set Limit*

The audit noted that, TADB through SCGS, issued to 71 smallholders guaranteed loans with more than the set limit of TZS 50 Million without justification as per the guidelines. It was noted that, individual smallholder farmers were guaranteed a loans of up to TZS 2,500 million contrary to the requirements of the guidelines. In total loans of TZS 14,103.2 million were guaranteed to unqualified customers.

Furthermore, BOT through Export EGCS issued loans worth TZS 84 Billion with guarantees above the required rates. This practice limits provision of loan to many customers and increases risk in case of defaults.

f) Limited Outreach of Financial Services Offered by GFPs

The Audit noted that, 43% (64 out 150) of districts, i.e. both in Tanzania Mainland and Islands were never served by SELF MF; 20% (28 out 139) of Districts were never served by AGITF; 11% (17 out 150) of Districts were never served by TADB through SCGS (both in Tanzania Mainland and Islands); and 42% (59 out 139) of Districts were never served by TIB through KKCF. This implies customers in the remaining districts were never served by such economic empowerment funds.

The Audit also noted that, most of these offices were located in Dar es Salaam and only few had managed to open branches in other regions particularly in major cities. Generally, the GFPs services were urban biased with a slim chance to benefit the rural population in the country.

g) Inadequate Coordination in Establishment and Operations of GFPs

Review of NEEC Report 2021 showed that there were 55 Government Funds and Programs dealing with economic empowerment in Tanzania. It was noted that, 88% (46 out of 52) of Government funds and programs were actively providing loans, guarantees, grants, and other economic empowerment initiatives. 12% (6 out of 52) of Government Funds and Programs focused on loan recovery and do not provide new loans.

The Audit also, found that, 9 out of 12 loan funds targeted nearly the same category because they all focused on small businesses.

This was caused by the fact that coordination was not adequately done and each Fund/Programme performed its activities separately without considering what other funds were offering. This has resulted in duplication of efforts, inadequate financing for some funds and the existence of various performance weaknesses by the Funds and Programs.

General Conclusion

The general conclusion from this audit is that, there are efforts shown by selected implementing entities, Ministry of Investment, Industry and Trade (MIIT) through National Economic Empowernment Council (NEEC) and the Ministry of Finance in fulfilling their designated roles regarding management of government funds and programs. However, there are critical challenges facing the GFPs which require more interventions to further improve implementation, coordination and monitoring of these funds and programs. The Ministry of Investment, Industry and Trade through NEEC and Ministry of Finance and Planning have not adequately coordinated and monitored government funds and programs in order to achieve economic empowerment for the people.

The audit generally revealed that the responsible authorities namely: the Ministry of Investment, Industry and Trade (MIIT), National Economic Empowerment Council (NEEC), Ministry of Finance and Planning (MoFP), and respective Implementing Entities (IEs,) have not effectively and efficiently managed the GFPs.

Given these challenges, there is no assurance that, the GFPs have achieved or will achieve the intended objective of empowering the people economically through loans.

To improve management of GFPs and make them achieve their primary objectives, various recommendations are issued to MoFP, MIIT and NEEC. These recommendations are as follows:

Audit Recommendations

The Ministry of Finance and Planning (MoFP) should:

1. Liaise with TIB to improve the Lending Framework of Kilimo Kwanza Catalyst Fund especially on aspect of management competence, experience, critical criteria for starts up capital; and Loan Securities in order to get potential customers capable to facilitate attainment of Funds objective;
2. Strengthen its mechanism for monitoring activities to ensure adequate planning and periodic supervision of the overall performance of GFPs and take actions timely;

3. Conduct follow –ups GFPs to ensure Funds are used for unintended objective;

4. Expedite establishment of independent entity/board to manage the Export Credit Guarantee Scheme so as to enable BOT to perform its regulatory role;

5. Liaise with MIIT and NEEC to ensure that, GFPs that offer related services to same customers are merged to avoid financial constraints caused by duplication of economic empowerments efforts; and renew operation of ceased GFPs, such as the Export Guarantee Credit Schemes;

6. Strengthen controls to ensure disbursement of fund is done after validation of all necessary securities requirements and documentation of all process involved and disbursed funds are used for the intended purpose and loan recovery is done timely; and

7. Liaise with BOT to ensure all claims for Export Credit Guarantee Schemes are verified and paid.

The Ministry of Investment, Industry and Trade (MIIT) should:

1. Strengthen mechanisms in place to ensure periodic follow-up of NEEC operations on GFPs.

National Economic Empowerment Council should:

1. Ensure GFPs develop Strategies to serve the intended customers;

2. Ensure GFPs strengthen recovery mechanisms to ensure all Non-performing loans for GFPs are recovered;

3. Ensure GFPs Strengthen loan appraisal system to ensure loaned beneficiaries have capacity to service their loans
4. Liaise with MoFP and MIIT to ensure that, GFPs that offer related services to same customers are merged to avoid financial constraints caused by duplication of efforts; and renew operation of ceased GFPs, such as the Export Guarantee Credit Schemes; and

5. Strengthen its mechanism for monitoring activities to ensure adequate planning and periodic monitoring and evaluation of the performance of GFPs and suggest appropriate action.

CHAPTER ONE

INTRODUCTION

1.1 Background to Government Funds and Programs in Tanzania

Tanzania has a long history of microfinance services in both rural and urban areas. In 1991 the Government recognized the microfinance sector as an integral part of the financial sector, whereas microfinance was included in Financial Sector Reform Policy Statement of 1991 (National Microfinance Policy (NMP), 2000.

Despite the progress being achieved in the mainstream banking system like increased number of commercial banking entities both local and foreign, improved banking services delivery methodologies, the financial services to the poor and low income households in the rural and urban areas have been slow to develop which lowers accessibility of financial services for them (NMP, 2017; URT, 2018; World Bank, 2003). Government realized that in order to have an efficient and effective financial system, additional focus must be placed on the expansion of financial services to the low-income segment of the population, and that the microfinance sector must form an integral part of the country's financial system (WB, 2003).

Strategies adopted by the Government were: to establish Government Funds and Programs aimed at providing financial services to low-income households and micro enterprises (NMP, 2017); enact Economic Empowerment Act No.16 of 2014, introduce Microfinance Policy of 2000 and 2017, Microfinance Acts No. 10 of 2018 and Microfinance Regulations under GN. 679 of 2019.

However, despite all the mentioned efforts and adopted strategies, financial exclusion in Tanzania is still high (i.e., at 28%) as compared to other East African countries such as Kenya (18%), Rwanda (11%) and Uganda (14%) (FinScope Tanzania, 2017).

1.2 Motivation of the Audit

The key issues which motivated the National Audit Office to carry out the audit were as follows:

a) Weak Management of Government Funds and Programs

The National Microfinance Policy (2017) shows that, Government Financing Programs are not well coordinated despite being managed by different government organs. For instance, the National Economic Empowerment Council Report for the year 2019 indicated that there were about 13 funds/Programs owned by the government which provide micro financial services in the country. However, these Programs are characterized by inadequate financing and low requisite skills for managing the funds. In addition, the programs have not been able to establish information link between institutions and the needy populations. Also, there is a lack of linkage between increasing credit provision and building or strengthening the technical capacity of institutions to manage the funds and Programs to ensure that they operate in a sustainable basis.

Furthermore, the Journal of Business and Management (2015) indicated that, managements of state owned enterprises have different challenges particularly on management of financial resources which hamper sustainability of the funds.

b) Existence of Non-performing Loans

The CAG's report noted that, for the financial year ended June, 2017, SELF Microfinance had not recovered TZS 27 million from the balance of the written-off loans. Furthermore, the CAG indicated that, only TZS 126.9 million out of TZS 1,159 million of all-written off loans (equivalent to 11 %) were recovered. This situation motivated a study to find out various issues affecting management of the GFPs.

c) Provided Loans did not Reach the Targeted Groups

The Government Funds and Programs did not adequately cover the marginalized groups as expected. This is due to various reasons but mostly limited awareness on the existence of the Programs among the beneficieries groups. For instance, youth awareness regarding the existence and procedures to access the funds is still limited. This is due to the fact that there are no well-established participatory and transparent mechanisms to inform the youths and the public in general on where and how such funds can be accessed. This is couples with lack of accountability and answerability in management of the funds at the council's level.[1]

d) **Less Funds Allocated for the Core Business of the Government Funds and Programs**

The CAG noted that, only TZS 11,336,151,267 (19%) of the SELF Microfinance portfolio was directed towards core business of the fund. The remaining TZS 48,554,595,645 (81%) was invested in market securities which is not a core business of the fund[2].

In this regard, the Controller and Auditor General decided to carry-out a performance audit on the Financing and Implementation of Government Funds and Programs. This is because proper management of these funds and Programs can positively contribute to the reduction of poverty in the country by addressing the financial needs of needs of the low income earners or marginalized population.

1.3 Design of the Audit

1.3.1 Audit Objective

The main objective of the audit was to assess whether the Government Funds and Programs (GFPs) are efficiently and effectively managed by the Ministry of Finance and Planning (MoFP), Ministry of Investment, Industry and Trade (MIIT)[3] through National Economic Empowerment Council (NEEC), and responsible implementing entities in order to achieve economic empowerment of the low income people and the nation in general.

Specific Audit Objectives

Specifically, the audit aimed to find out whether:

a) GFPs are efficiently and effectively implemented by responsible entities;

[1] https://www.policyforum-tz.org/sites/default/files/brief%204.19.pdf retrieved on 16th April, 2021.
[2] Management Letter on the Financial Statements of Self Microfinance Fund for the Financial Year ended 30 June 2017.
[3] During the course of audit the overall role of Monitoring, Evaluating and coordinating economic empowerment activities were implemented by the Prime Ministr's Office – Investement but from 7th January 2022 that function has been shifted to the Ministry of Investment, Industry and Trade from 7th January 2022

b) MoFP adequately finance GFPs to facilitate economic empowerment of the people; and

c) MoFP, MIIT through NEEC adequately coordinate, monitor and evaluate the implementation of GFPs in the country.

In order to address these audit objectives, more specific audit and sub audit questions were developed as provided in **Table 1.1.**

Table 1.1: Audit and Sub Audit Questions

Audit Question	Audit Sub-Questions
Audit Question 1 Does MoFP adequately finance GFPs to facilitate economic empowerment of the low income citizens?	Does the MoFP adequately disburse funds to facilitate the attainment of GFPs objectives?
	Does the MoFP ensure GPFs utilize funds for intended purposes?
Audit Question 2 Do MoFP and MIIT through NEEC adequately monitor, evaluate and coordinate the implementation of GFP in the country?	Do the MoFP and MIIT through NEEC adequately monitor and evaluate the performance of GFPs?
	To what extent do the MoFP and MIIT through NEEC take actions to improve the performance of observed gaps during monitoring of implemented GFPs activities?
	Is there effective coordination in the implementation of GFPs to ensure achievement of the intended objectives?
Audit Question 3 Are GFPs efficiently and effectively implemented by responsible entities?	Do the GFPs efficiently plan for outreach to ensure effective provision of financial services to the entire country?
	Do the GFPs ensure loans are provided to the qualified and intended beneficiaries?
	Have the GFPs put in place mechanism to ensure all issued loans are timely recovered?
	Do the GFPs ensure the fund allocated are utilized for the intended purposes?

1.3.2 Audit Scope

The Ministry of Investment, Industry and Trade (MIIT) through National Economic Empowernment Council (NEEC) and MoFP were the main audited entities. This was because, MIIT through NEEC is the over-all overseer of all economic empowerment Programs and funds in the country; and the Ministry of Finance and Planning has overall responsibility for disbursing funds to the GFPs whose operations solely rely on Government subsidies. This Ministry also has a role of regulating and supervising GFPs.

The audit mainly focused on financing, coordination, monitoring, and evaluation as performed by MoFP and MIIT through NEEC; and the way GFPs are managed by responsible IEs. Specifically, audit focused on GFPs responsible for provision of loans either directly or through guarantees scheme. For specific audit objective one which looked on how implementing entities were performing, data were collected from five (5) Implementing Entities (IEs) as shown in **Table 1.2**:

Table 1.2: Selected Government Funds and Programs (GFPs)

GFPs	Implementing Entity (IE's)
SELF MF	SELF MF
Agricultural Inputs Trust Fund (AGITF)	AGITF
Kilimo Kwanza Catalyst Fund (KKCF)	TIB Bank
Export Credit Guarantee Scheme (ECGS)	BOT
Smallholder Farmers' Credit Guarantee Scheme (SCGS)	TADB

Two regions of Dodoma and Dar es Salaam were visited because the audited entities and implementing entities have their headquarters located in these two regions.

The audit covered four financial years (2017/18 to 2020/21). However, in some cases duration of the audit was extended beyond the stated period. The selected period enabled auditors to have an insight into the overall performance of the GFPs and draw credible conclusion.

1.4 Sampling, Methods for Data Collection and Analysis

The audit team gathered audit evidences to address the audit questions in order to achieve the objectives of the audit. Below are detailed explanations on sampling techniques, data collection methods used and method for data analysis.

1.4.1 Sampling Techniques

The Audit Team collected data from the Ministry of Investment, Industry and Trade (MIIT) through National Economic Empowerment Council (NEEC), Ministry of Finance and Planning (MoFP) and five (5) Implementing Intities (IEs). Purposive sampling technique was used to select the GFPs. The focus was only GFPs with high materiality in terms of capital injected (above TZS 40 Billion) falling under two categories of direct loans and guarantee schemes. The two selected categories made a total of six (6) GFPs namely SELF Microfinance Fund (SELF MF); Agricultural Inputs Trust Fund (AGITF); Tanzania Energy Development and Expansion (TEDAP); Kilimo Kwanza Catalyst Fund (KKCF); Export Credit Guarantee Scheme (ECGS); and Smallholder Farmers' Credit Guarantee Scheme (SCGS).

However, due to scarcity of resources in terms of human resources and time, five out of the six GFPs were randomly selected thus, excluding TEDAP from the list. The selected IEs include; SELF MF, AGITF, TIB Bank, BOT and MOFP, and TADB.

Table 1.3 provides information on the selected GFPs, responsible entities for their implementation and capital injected.

Table 1.3: Details for the Selected Government Funds and Programs (GFPs)

GFPs	Category of Loan Provision	Implementing Entity (IE's)	Value of Fund/ Capital injected in TZS "Billion"
SELF MF	Direct	SELF MF	59.49
Agricultural Inputs Trust Fund (AGITF)	Direct	AGITF	48.27
Kilimo Kwanza Fund (KKCF)	Direct	TIB Bank	49.95
Export Credit Guarantee Scheme (ECGS)	Guarantee Scheme	BOT and MOFP	146.34
Smallholder Farmers' Credit Guarantee Scheme (SCGS)	Guarantee Scheme	TADB	57.3

Source: *MoFP assessment report, 2021*

1.4.2 Methods Used for Data Collection

Both qualitative and quantitative methods of data collection were used. This is because the audit aimed to analyse both the qualitative and quantative data in order get strong evidences regarding financing and management of Government Funds and Programs. Two methods were used to collect the data which were interviews and review of documents.

(a) Review of Documents

Documents were reviewed in order to obtain appropriate and sufficient information to enable the Audit Team come up with clear a findings which are supported by collaborative evidences. The list of reviewed documents is detailed in **Appendix 2**.

(b) Interviews

To be able to respond to the audit questions and provide adequate conclusions against the audit objectives, interviews were used to collect information during the main study phase. The interviews allowed the Audit Team to get a broader understanding of the audit area and identify existing challenges, root causes and eventually the consequences to those problems and challenges. The detailed list of interviewed individuals is indicated in **Appendix 3**.

1.4.3 Data Analysis

Various methods were employed in analysing data depending on the nature of data and available evidence. Quantitative data were organised, summarised and compiled using software for data analysis such as excel, spread sheets. The analysed data were presented in different ways such as tables, graphs, charts, and percentage distribution.
Qualitative data were described, compared and related so that they can be extracted and explained as findings. The analysis involved looking for categories such as events, descriptions, consistencies or differences to develop theory from the gathered data.

1.5 Assessment Criteria

The Audit criteria for audit questions and sub questions were based on various criteria as explained below:

Roles played by MoFP, MIIT, NEEC and Implementing Entities

The audit formulated questions that would give data on role played by MoFP and NEEC and the IEs. These roles are as per National Microfinance Policy, 2017; Public Finance Act 2001; National Economic Empowerment Policy of 2004, National Economic Empowerment Act No. 16 of 2004, Public Investment Management Operational Manual; Financial Sector Development

Master Plan 2020/21 to 2020/23; establishment statutes of the respective implementing entities; and Credit Policy, Manual and Guidelines for the respective Implementing Entity.

Efficiency and Effectiveness in Implementation of GFPs by the Responsible Entities

Implementers of GFPs are required to develop appropriate innovative products and services for low income segment of the population; provide financial education and adhere to consumer protection legal and regulatory framework; and prepare periodic reports as may be required by their respective regulators (National Microfinance Policy, 2017).

NEEC is obliged to provide Tanzanians with the opportunity to participate in economic activities (Section 5 (1) (a) of National Economic Act No. of 16 of 2004).

Financing of Government Funds and Programs to Facilitate Economic Empowerment

Section 16(1) of the National Economic Enpowernment Act No. 16 of 2004, established a Fund to be known as the National Economic Empowerment Fund into which shall be paid all monies, appropriated by the Parliament and such other monies collected as grants, contributions or loans for economic empowerment.

MoFP is required to establish a stable, sound, efficient, and inclusive financial services which will contribute to resource mobilization for the economic growth of the nation (Financial Sector Development Master Plan 2020/21 to 2029/30).

Section 18 of the Public Finance Act 2001, requires the Minister of Finance and Planning to estimate financial requirements of the public entity for that particular year (Section 18 of Public Finance Act, 2001).

MoFP is required to ensure funds are timely disbursed and used in line with the existing guidelines (Section 5.3 of Public Investment Management Operational Manual 2015).

Monitoring, Evaluation, and Coordination of the Implementation of GFPs in the Country

MoFP is supposed to monitor Government Funds and Programs as well as monitor and evaluate the progress of the microfinance sub-sector *(National Microfinance Policy, 2017*).

NEEC is supposed to develop and supervise effective mechanism for monitoring trends of economic empowerment activities and for evaluating the impact or results (GFP inclusive) (*National Economic Empowerment Act No. 16, 2004.*

Paragraph 5(a) of National Economic Empowerment Policy of 2004 state that, NEEC is the supreme organ and will be under Ministry of Investment, Industry and Trade. The organ will be established with the Act for the aim of enhancing management, monitoring and coordination of all empowerment initiatives.

Paragrah 4.3.3.2 of the National Economic Empowerment Policy of 2004, provides that the government is directed to evaluate funds which provide soft loans to citizen.

NEEC is obliged to coordinate the implementation of Government Funds and Programs (*National Microfinance Policy, 2017)*.

1.6 Data Validation Process

The audited entities namely Ministry of Investment, Industry and Trade (MIIT), National Economic Empowerment Council (NEEC) and the Ministry of Finance and Planning (MoFP) were given an opportunity to go through the draft audit report. All audited entities confirmed the accuracy of the information presented in this report. The comments and responses of the MIIT, NEEC and Ministry of Finance are shown in **Appendix 1**.

1.7 Standards Used for the Audit

The audit was conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) performance auditing standards. The standards require the audit team to plan and perform the audit so as to obtain sufficient and appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objective(s). The Auditors believe that, the evidences obtained provide a reasonable basis for the findings and conclusions based on the audit objectives.

1.8 Structure of the Audit Report

This audit report consists of six chapters as described in the **Figure 1.1**.

Figure 1.1: Structure of the Audit Report

Chapter One:
- Introduction

Chapter Two:
- System Description for Management of Government Funds and Programs

Chapter Three:
- Audit Findings-Implementation of Government Funds and Programs

Chapter Four:
- Audit Findings-Financing, Coordination, Monitoring and Evaluation

Chapter Five :
- Audit Conclusion

Chapter Six
- Audit Recommendations

CHAPTER TWO

SYSTEM FOR FINANCING AND MANAGING GOVERNMENT FUNDS AND PROGRAMS

2.1 Introduction

This chapter describes the system for Managing the Financing and Implementation of Government Funds and Programs. It provides details of the governing legal framework; key players and their mandates and processes in managing the Financing and Implementation of Government Funds and Programs in Tanzania.

2.2 Policies, Laws and Regulations Governing Financing and Management of Government Funds and Programs

2.2.1 Policies

a) The National Microfinance Policy, 2017

National Microfinance Policy (2017) intends to create a sound environment that promotes development of appropiate and innovative microfinance products and services to meet the real needs of the low income population and thereby enhancing economic growth and accelerating poverty reduction. The policy has mandated National Economic Empowerment Council to coordinate, monitor and evaluate implementantion of all Government Funds and Programs in the Country.

b) National Economic Empowerment Policy, 2004

The primary objective of this policy is to provide general guidelines which will ensure that the majority of the citizens of Tanzania have access to opportunities to participate effectively in economic activities in all sectors of the economy. Among other things the policy focuses on easing the availability of capital and enabling more Tanzanians to save and borrow money to finance economic activities. The policy highlights the needs for establishment of the Government Funds to bring about effective implementation of the economic empowerment initiatives with the intention of promoting a broad-based economic growth that ensures the prosperity of all Tanzanians.

Paragraph 5(g) of the National Economic Empowerment Policy of 2004, roman (i) state that, the government will use various funds to facilitate implementation of concept of citizen empowerment.

2.2.2 Legislations (Acts and Regulations)

a) The National Economic Empowerment Act no.16 of 2004

The enactment of the Act intended to put into force implementantion of the National Economic Empowerment policy of 2004. The Act indicates government measures designed to promote and facilitate economic initiatives aimed at empowering Tanzanians. It insists that, economic empowerment is a central means of bringing about economic and social justice among people, necessary for the promotion of peace, tranquility and social stability.

Section 4 of the Act provides for mandate of the National Economic Empowerment Council (NEEC) which is under the Ministry of Investment, Industry and Trade. The Act provides responsibilities of NEEC such as coordinating, supervising and conducting follow ups of the National strategies for econonomic empowerment.

b) The Microfinance Act, 2018

The Act was enacted to support smooth implementation of the National Microfinance Policy of 2017. The Act categorises microfinance institutions into four groups known as Tiers and provides the roadmap on the management of Microfinance service provision, licencing, registration ,management and supervision. It also provides the roadmap for consumers protection and offences and penalties in the overall management of microfinance sub sector including Government Funds and Programs.

c) The Microfinance Regulations, 2019

The Regulations provide legal directions on the operation activities of Microfinance sub sector in the country. It highlights the application procedure for licencing of the microfiance services, management of microfinance service providers, lending operations, supervision of microfinance services providers and handling issues of consumers protection.

2.2.3 Guidelines

Each fund had specific manual or standard operating procedure (SOP) which guide the whole process of loans extensions and other microfinance practices. The Manuals clearly explain who should do what as mentioned hereunder:

(i) Lending Framework for Agricultural Projects Financing Window used by TIB Development Bank;
(ii) Credit Manual and Policy used by SELF MF;
(iii) Guidelines for the Administration of the Smallholder Farmers Credit Guarantee Scheme used by TADB;
(iv) Policy and Operational Guidelines for Credit Guarantees Scheme used by BOT; and
(v) Credit Manual used by AGITF.

2.3 Key Players and their Responsibilities

The key stakeholders involved in the Implementantion of Government Funds and Programs in the Country include; Ministry of Investment, Industry and Trade– Investment (MIIT); National Economic Empowerment Council (NEEC); Ministry of Finance and Planning (MoFP); Entities implementing Government Funds and Programs; and beneficiaries of the Government Funds and Programs.Their roles and responsibilities are as explained below:

2.3.1 Ministry of Investment, Industry and Trade (MIIT)

Ministry of Investment, Industry and Trade (MIIT) is vested with responsibility among others, of coordinating, Monitoring, evaluating economic empowerment activities in the country.The Ministry exercise it function through the National Economic Empowerment Council (NEEC). It oversees implementantion of Government economic empowerment activities including management of the Government Funds and Programs in the Country.

Specifically the Ministry is obliged:

(i) To develop, monitor, evaluate and review policy, strategies, programs, laws, and guidelines on citizen empowerment;
(ii) To put in place, environment which facilitate effective participation of Tanzanians citizens in the formal economy;
(iii) To monitor and evaluate implementation of economic empowerment activities including those through empowerment funds and programs; and

(iv) To issue guidelines on the management of empowerment funds and programs.

2.3.2 National Economic Empowerment Council

The main role of the Council is to coordinate the implementation of the National Empowerment Policy. Specifically, the Council plays the following roles;

(i) Developing and facilitating the implementation of sector and multi-sector strategies for mobilization and utilization of resources for economic empowerment activities;
(ii) Providing advice to the Government, public and private sector institutions on specific Issues and measures aimed at the promotion of economic empowerment of Tanzanians;
(iii) To register institution or organization engaged in economic activities;
(iv) To facilitate Tanzanians with opportunity to participate in economic activities;
(v) To encourage and promote savings, investment and meaningful economic participation by Tanzanians;
(vi) Establish and maintain sector and multi-sector economic empowerment information dissemination; and
(vii) Receiving periodic reports on the performance of the Government Funds and Programs.

2.3.3 Ministry of Finance and Planning

The Ministry of Finance and Planning has the overall responsibility of coordinating the implementation of Government Funds and Program as well as private microfinance sector. Specifically the Ministry through Financial Sector Division is responsible for:

(i) Ensuring the Policy and Legal framework are adhered by the Government Funds/Program implementers;
(ii) Assessing if the developed Policy brings impacts to these Programs and Funds;
(iii) Receiving periodic reports on the performance of these Programs;
(iv) Disbursing funds to the Government Programs which rely on Government subsidies;
(v) Licence, regulate and supervise Non-Deposit Taking MFIs and Government Funds and Programs;
(vi) Develop and manage database of microfinance activities and institutions in the country;

(vii) Monitor and evaluate the progress of the microfinance sub-sector;
(viii) Prepare annual forum for microfinance service providers; and
(ix) Prepare periodic reports for microfinance subsector.

2.3.4 Entities Implementing the Government Funds and Programs (GFPs)

There are various entities obliged to implement Government Funds and Programs which fall under four (4) categories of Government Funds and Programs namely:

(a) Government Fund and Programs for Provision of Loans;
(b) Government Fund and Programs for Provision of Guarantee Scheme;
(c) Government Fund and Programs for provision of Grant; and
(d) Government Fund and Programs for Economic Empowernment.

However, as explained in the scope of this audit in section 1.3.2 the audit focused on Funds/Programs for provision of Loans and Guarantee schemes.

Generally, the implementing entities are responsible for:

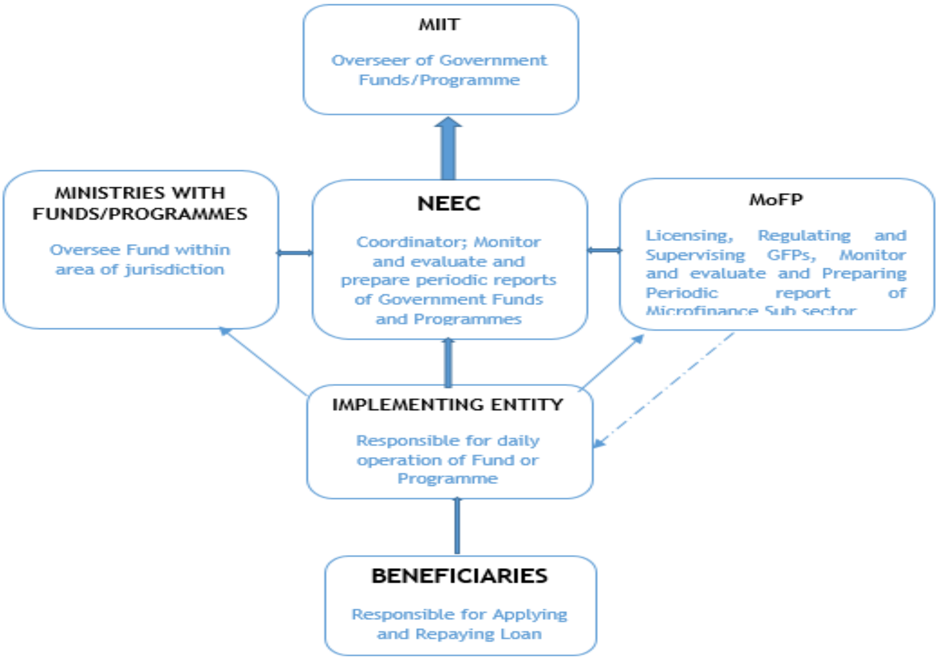
(i) Sensitization of Loans or Credit Guarantees offered.
(ii) Processing of Credit/ Credit Guarantees from Customers.
(iii) Approval of applications and disbursement of funds/ issuing of guarantee.
(iv) Monitor performance of customers.
(v) Follow up of loan repayment/Follow up of raised claims.
(vi) Recovering of unpaid balance/ Payment of claims.
(vii) Reporting on the performance of loans / Credit schemes.

2.3.5 Beneficiaries

The beneficiaries include induviduals/groups, SACCOS and VICOBA; these have obligation to apply for the loans after meeting the required conditions and they have to ensure that the loan is repayed with interest within the stipulated timeframe as agreed in the loan contract.

The summary of institutional set up for the Financing and implementantion of Government Funds and Programs is shown in **Figure 2.1.**

Figure 2.1: Relationship between Key Stakeholders in Financing and Management of Government Funds and Programs



Source: *Auditors' Analysis of Microfinance Policy,2017*

2.4 Process for Financing and Management of Government Funds and Programs

Key process involved in provision of Loans by Government Funds and Programs is described in **Figure 2.2.**

Figure 2.2: Key Processes in Financing and Management of Government Funds and Programs

Sources: *Information extracted from interviews held with different stakeholders*

Below are detailed explanation of the key process:

(a) Financing

Implementing entities are required to plan and budget for the amount of loan to be disbursed and number of beneficiaries expected to be covered in respective year. For the funds that depend on Government subsidies,they are supposed to submit their proposed budget for financing the Programs to the Ministry of Finance and Planning for approval.Then the Ministry of Finance injects capital to the Funds based on available budget in a respective financial year.

(b) Loan Application

Needy individuals/groups / SACCOS fills application form together with their business/project proposals and submit to respective officers of the fund/program.

(c) Loan Assessment

Upon receipt of loan application, responsible community /youth Development Officers/credit officers scrutinize the loan application to assess if applicants meets conditions for the loan.

(d) Loan Disbursement

Succesfully loan applicants are granted with loan to finance their established business.

(e) Loan Utilization

Loan beneficiaries are supposed to utilize the loan for the intended purposes. Beneficiaries commit themselves on how the loan will be utilized through developed business/project proposal submited during loan application. Provided loans are supposed to be utilized for establishment of projects/business identified during loan application.

(f) Monitoring /Supervision of Loans

Credit officers of the respective fund/program are supposed to supervise lending process by conducting frequent follow ups of the loans issued. They are also required to assist groups of loan beneficiaries in solving challenges emanating from established business and project, assessing the progress and keep records of all borrowers who benefited from the extended loans.

(g) Loan Repayment

After receipt of loans the benefiaciaries are supposed to repay loan within stipulated time frame with an interest rate stipulated in the loan contract. The beneficiaries are given grace period to allow their established projects to mature. However, this is subject to the requirement of the signed loan contract. Repayment of loan is done on monthly or weekly basis depending on the loan conditions. Responsible credit officers are required to conduct follow ups to ensure borrowers pay back the loan within the stipulated timeframe.

(h) Loan Recovery

All issued loans are supposed to be recovered within specified time. Credit officers /loan officers are supposed to conduct close follow ups of the induviduals who have defaulted. Penalties are imposed to defaulters as the mechanism to discourage defaulting habit and the amount of penalties differ from one fund to another depending on the loan contract.

(i) Loan Written Off

When the Funds Management has done all the necessary efforts to collect the loan and have assured itself that the loan (s) can not be recovetred then the debt becomes bad and is written off. This is done to clean up the Funds balance sheet and to reduce its tax liability.

(j) Reporting of Loan Performance

All Government Funds and Programs are required to prepare quarterly reports on the performance of the Funds and submit to the National Economic Empowerment Council. After working on submitted quartely reports NEEC is also required to prepare and submit reports to the MoFP on the performance of these Funds/Programs.

CHAPTER THREE

AUDIT FINDINGS ON THE PERFORMANCE OF SAMPLED FIVE GOVERNMENT FUNDS AND PROGRAMS

3.1 Introduction

This chapter presents findings which address specific audit objective one (as described in Section 1.3.1 of this report) related to management of Government Funds and Programs. The findings describe the performance of five Government Funds and Programme (GFPs), which were sampled in this audit namely; SELF Microfinance Fund (SELF MF); Agricultural Inputs Trust Fund (AGITF); Kilimo Kwanza Catalyist Fund (KKCF); Export Credit Guarantee Scheme (ECGS); and Smallholder Farmers' Credit Guarantee Scheme (SCGS).

Generally, findings on perforamance of each of these entities with regard to the implementation of the Government Funds and Programme (GFPs) are presented based on the four assessement areas covering:

- Provision of loans to the qualified and intended beneficiaries;
- Mechanisms to ensure all issued loans are timely recovered;
- Utilization of the Loans for intended purposes; and
- Outreach to ensure effective provision of financial services to the entire country.

3.2 Kilimo Kwanza Catalyst Fund (KKCF) at TIB Development Bank (TIB)

The Kilimo Kwanza Fund was established by the Government of the United Republic of Tanzania. The government injected TZS 42 billion to the Fund to finance agricultural initiatives. The government directed that an agriculture financing window be opened at TIB while it awaited the establishment of the Agricultural Development Bank, where the funds would be transferred to.

From its inception until 31st December 2021, a total of TZS 70.11 Billion was disbursed to various beneficiaries; and the Fund has managed to collect a total of TZS 48.19 Billion. As of 31st December, 2021 the outstanding balance was TZS 30.5 Billion.

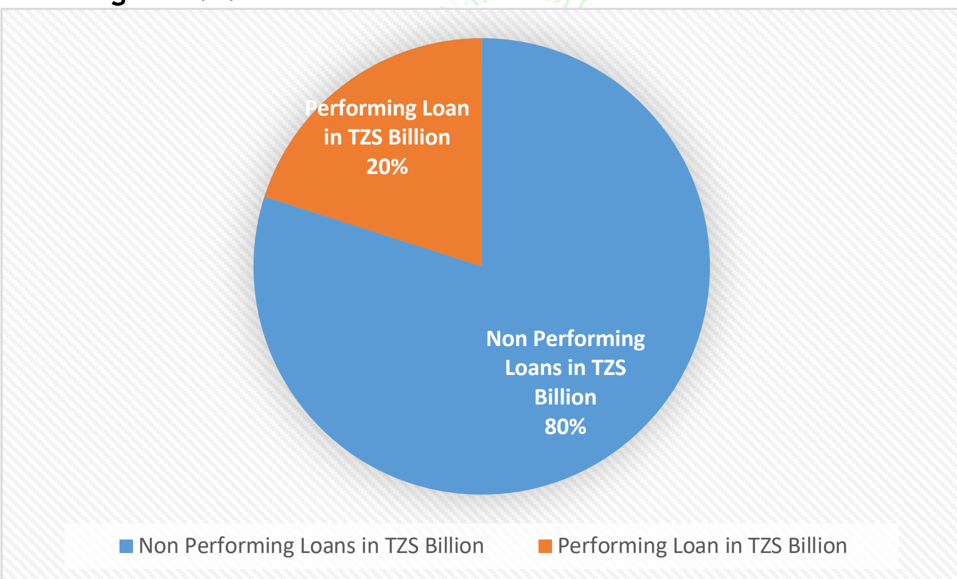
Despite the numerous efforts made by TIB to supervise and monitor Kilimo Kwanza in managing the Fund, the following weaknesses were noted during this audit which calls for further improvement:

3.2.1 Non-Performing Loans Accounted for 78% of the Outstanding Loan Portfolio Amounting to TZS 24.6 billion

Clause 4.1 (a) of the agreement[4] requires (TIB) to carry out comprehensive analysis of credit worthiness of the agricultural projects.

Audit noted that because of the failure to adequately conduct assessment to ensure loans were provided to qualified customers it non –peforming loans emerged. Review of loan Portfolio as at September 2021 indicated that, TZS 27.24 out of 34.07 Billion of total outstanding Portfolio which is equivalent to 80% were not recovered (*refer **Figure 3.1***).

Figure 3.1: Portfolio Performance of Kilimo Kwanza Fund



Source: *Analysis of KKCF Portfolio as at 31 October 2021*

Figure 3.1 shows that, only 22% of the outstanding loan portfolio performs well. Documents reviews and analysis made by the Audit Team revealed that, unsatisfactory loan portfolio performance was attributed by the following:

[4] Agreements Between TIB and MoFP

3.2.2 Provision of Loan to Unqualified Customers

According to Clause 8.2 (a) of the agreements between MoFP and TIB, a borrower has to have an agricultural business with a good track record and expertise, and likewise Clause 11.2 of the Agriculture Window Framework, borrowers to have positive competent management.

The audit, however, noted that some of the customers who got loans lacked required competencies and experience as explained in different cases as detailed below:

a) 53% of the Defaulted Corporates had Insufficient Experience and Management Competence in Agro Business

After review of 50 sampled customers files with the highest outstanding loans classified as loss, 15 out of 28 (53%) (under the category of Corporates/Small Medium Enterprises) it was noted that TIB approved and provided loans of TZS 6.4 billion to enterprises with either less than 3 years of experience in agricultural activities and or did not demonstrated management competence capable of managing the project's (***see Table 3.1).***

Table 3.1: Details of Customer's Experience

Name of the Customer	Age of Customer on Loan Approval Date (Months)	Approved Amount in TZS '000,000'	Outstanding Balance in TZS '000,000'
Fjs African Starch Development Co.Ltd	13	184.7	264.1
Centre For Practical Development Ltd	More than 36	457.7	548.8
Gummers Back Investment Ltd	More than 36	230.7	311.9
Kemali Poultry Products Co. Ltd	34	250	199
Kiwabu Farm Co. Ltd	23	489.1	252.4
Luhama Katoto Ranching Company Limited	11	618.6	837.1
Mbushi Business Management	11	150	155.9
Monarch Fishing Company Limited	30	257.6	333.2
Mpomonde Investment Company Ltd	20	686.5	670.7
Nyawa Farm Co.Ltd	33	320	367.5
Rkg Agrofarms Ltd	6	198	286.4
Ryangumbo Irrigation Farmers Association	More than 36 Months	130	192.7
Sop's Food And Grains Investment Ltd	15	220	279.6
Young Masitus Enterprises Ltd	33	1,023.2	1,289.6
Z.K. Enterprises	More than 36 Months	1,214.3	1,341
Total		**6,430.4**	**329.9**

Source: Auditors' *Analysis of Sampled Loan Files, 2021*

From **Table 3.1,** it can be seen that customers' experience in agricultural business ranged from 6 to 36 months. However, audit noted that, customers with more than 36 Months of experience since establishment were found to be dealing with activities such as technical training and agro forest, hotel business and firefighting which is contrary to the purpose of applied loans under the programs i.e. rice production, agro business and poultry activities respectively.

Furthermore, review of Customer's Loan Files, indicated that provision of loans to non -experienced and incompetent customers might be a result of either deliberate decisions of issuing loans to loan applicants despite knowing the customers failed to meet some of the conditions or inadequate analysis of the borrowers' capacity and operations as it is further explained in the following scenarios.

Scenario One: Loan was issued without demonstration of management competence; and despite being turned down by the Credit Officer

In January 2011, Young Masitus Enterprises Ltd was established. According to credit analysis report, the company generates income of TZS 205.8 million (2009); 268.4 million (2010); and 456.750 million (2011). According to the submitted audited accounts for the years ended 2008 to 2011, the business was functioning as a partnership majoring in timber supply to TANESCO, barley farming, and rice farming.

Net profit after tax was TZS 13.236 million in 2008, TZS 27.501 million in 2009, TZS 30.943 million in 2010 and TZS 53.47 million in 2011. Reviewed data on the requested loan, however, did not reveal how much was attributed to agriculture versus how much was contributed by a partner who was seeking funding. In addition, credit analysis report did not demonstrate management competency to oversee the agricultural projects.

Further, the Credit Officer first turned down the request since the project was unviable. The Managing Director, on the other hand, did not agree and recommended that a loan be issued. As result, a total outstanding sum of TZS 1,289,563,929 remained unpaid with 1899 days past due date (i.e over 5 years) as

Scenario Two: Inadequate analysis on why the loan applicant submitted two financial statements

As of December 31, 2012, Z.K. Enterprises had two financial statements. One financial statement suggested that the firm's principal activity was firefighting, whereas the second financial statement indicated that the primary activity was poultry, with the company selling eggs, chicks, and hens in various areas in Dar es Salaam region.

Z.K. Enterprises applied for a loan of TZS 699,378,678 for poultry farming activities, and the loan was accepted on January 1, 2014. Subsequently, other loans up to TZS 1,214,251,312 were issued. Credit analysis, on the other hand, did not investigate why there were two financial statements with separate core activities. In addition, the company's principal business after loan disbursement was firefighting services, according to its Audited Financial Statements for the period of June 2015 and 2016.

As a result, a total of TZS 1,340,971,375 was not repaid as of 30 August 2021, with 659 days past due date (i.e about 22 months).

Scenario Three: Business operations included a year which the company was not established and operational

The company MPOMONDE INVESTMENT COMPANY LTD was established on January 20, 2011. The company's business operations were evaluated for three financial years, from 2010 to 2012, while the company was established in January 2011 therefore it was wrong to include year 2010. But on September 6, 2013, the loan was approved.

Scenario Four: Decision was made to issue loan despite knowing the company lacked competent Personnel to manage the farm

LUHAMA KATOTO the company was established on 23rd February, 2011.TIB accepted the loan application on 3rd February, 2012 whereby the total amount approved and disbursed was TZS 618,593,850.

The company's prior financial performance was good, according to the credit analysis as it reported that, the company's operations during the previous three years (2008 to 2010) showed it was profitable. The revenue had increased from TZS 420 million to TZS 510 million. The analysis further indicated that the organization lacked suitable personnel to undertake the project, and it was suggested that a competent farm manager be hired and part-time expert to be hired. However, TIB provided condition in credit offer that, directed the client to employ a qualified and competent personnel to manage a farm.

The observation made by the audit is that, the company was founded in 2011, however the information used to support the company's performance was from year 2008 to 2010. Furthermore, it was noted that, despite being aware that, the company was lacking positive management competence as one of critical risk acceptance criteria to consider in loan assessment as stated in Agricultural Window Framework, TIB decided to approve the loan amounted TZS 618,593,850. As a result, TZS 837,071,959 has not been recovered with 2929 days (over 8 years) past due days as of 30th August 2021.

Scenario Five: Loan was issued despite for loan applicant having unsatisfactory performed loan with AGITF

TIB approved and disbursed TZS 457,654,000 through the Agricultural Window to Centre for Practice Development Ltd. Review of Credit application indicated that, the company was involved in farming activities such as livestock sheds, poultry houses, tick tree farms, mango tree farms, orange tree farms, banana tree farms, and mninga farms. The requested loan was to help implementation of activities related with irrigation system installation and operational capital for the start-up of Rice Farming.

According to the Credit Analysis the loan was disbursed to this company despite having another loan from AGITF that was not fully paid. As a result, TZS 548,783,329 was outstanding for 2,982 days (over 8 years).

Scenario Six : Loan was issued despite knowing that the information used to support analysis include a year before establishment of the company; and absence of competent staff

In June 2013, SOP'S FOOD AND GRAINS INVESTMENT LTD was established. The company had a loan with a CBA bank with an outstanding balance of TZS 200 million, according to the loan analysis report.

The Analysis Report further indicated that, the company's past performance shows that in 2012, the company had a gross profit of TZS 3,600 million and a net profit of TZS 221 million, which rose to TZS 5,344 million and TZS 398 million in 2013 respectively. The observation made by Auditors is that, the company was established in 2013, however the information used to support the company's performance was from year 2012 to 2013.

Also, it was indicated that, the promoter was in control of the project and will hire full-time trained people to manage the project on a day to day basis, hence was ranked well in the agriculture window. Despite being aware that, company is lacking competent staff as one of critical risk acceptance criteria to consider in loan assessment and approval as stated in Agricultural Window Framework, TIB decided to approve TZS 220,000,000.

As explained in the above scenarios, TIB officials revealed that the Agricultural Window Lending Framework did not prohibit the provision of loans to companies with short period of operation. The minimum number of years in agriculture activities was 1 year. Also, the framework allowed lending to start-up agribusiness. However, the audit noted that, apart from compliance with the Framework, TIB assessed the performance of companies by using information from the sole proprietor, which is a separate legal entity.

Furthermore, TIB responded that, regarding insufficient experience and management incompetence by borrowers, TIB's consideration for loan approval was based on the formal commitment by the borrower that they would put in place (employ) the competent personnel to run the business. The Audit noted that this was contrary to the Agricultural Window Framework, which identifies positive management competence as one of the critical risk acceptance criteria to consider in loan assessment.

Generally, according to the loan portfolio report dated September 30, 2021, companies failed to repay the loans within the agreed time, a total of TZS 7.3 billion (equivalent to 120%) of the TZS 6.4 billion loaned to companies with insufficient experience and management incompetence in agricultural business was not repaid with a due period ranging from 659 to 3040 days.

b) Borrowers with Unsatisfactory Performance were Issued with Loans Amounting to TZS 3.6 billion

Para 9.3 (a) (ii) and (b)(ii) of Agricultural Window Framework requires the borrower to have a satisfactory track record. In addition, para 9.12 stipulates that the organization must have a positive net cash flow.

In a review of 50 sampled customers' files with the largest outstanding loans classified as loss, loan requests from Six (6) out of the 50 borrowers (equivalent to 14%), were approved loans amounting of TZS 3.6 billion were disbursed with either unsatisfactory business operation or a poor record of paying outstanding loans (***Refer Table 3.2***).

Table 3.2: Approved Loans to Customers with either Unsatisfactory Business Operations or a Poor Record of Paying Outstanding Loans

Customer	Details of Performance	Loan Approved in TZS Million	Outstanding Balance in TZS Million	Past Due Days
Centre For Practical Development Ltd	Poor Track Record	444.6	548.8	2982
Euro Vistaa (Tanzania) Ltd	Unsatisfactory Performance	469	618	2223
Idodi Saccos	Poor Track Record	333	227.9	Charged Off
Ummakiso Saccos	Unsatisfactory Performance	281	359.6	2187
Wadoki Saccos Limited	Unsatisfactory Performance	1,055	705.6	3057
Young Masitus Enterprises Ltd	Poor Track Record	1,023	1,289.5	1899
Total		**3,605.6**	**3,749.4**	

Source: *Auditors' Analysis of Sampled Loan Files, 2021*

Table 3.2 indicates that, the total of TZS 3.6 billion was loaned to customers with poor track records and unsatisfactory performance.

Review of sampled customer's files, indicated that TIB issued loans to various applicants despite knowing that they had poor track records and unsatisfactory performance as shown in the following scenarios:

Scenario One: Loan was issued despite knowing the applicant had poor track records on loans repayment

IDODI SACCOS had poor track record as follows: it had loan of TZS 25,500,000 from Tanzania Postal Bank (TPB) with an outstanding balance of TZS 2,600,000. Also, had a loan of TZS 78,000,000 from Dunduliza MFI with an outstanding balance of TZS 12,300,000/; and a loan of TZS 91,000,000 from SCULLT with an outstanding balance of TZS 1,800,000/. Despite of the noted poor track records, on loan repayment on December 31st, 2013, the TIB granted a loan of TZS 333,145,849 to the SACCOS. It was noted that the SACCOS ceased operations in the year with TZS 227,993,870 unpaid balance.

Scenario Two: Loan was issued despite knowing the unsatisfactory performance of loan applicant

EURO VISTAA (TANZANIA) LTD's audited financial accounts revealed a loss before tax of 572,449,872 and 482,511,728 for fiscal years 2009 to 2010. But in years 2008 to 2009 TZS 597,000,000 loan was approved by the TIB and disbursed. Due to this as of 30th August, 2021, TZS 618,146,876 had not been paid for 2,223 days (as of April 25, 2014).

According to a TIB officials, it was explained that for entities with unsatisfactory performance, banks noted their performance was improving. That is why they decided to approve loans so as to stimulate their performance.

In addition, TIB revealed that IDODI SACCOS was considered to have experience in borrowing and repaying loans, as demonstrated by loan balances at the time they approached the TIB for a loan under the Agriculture window. The Saccos was able to repay the loan with 89% from TPB, 84% from Dunduliza, and 98% from SCULLT. This evidenced good repayment records for more than 80% from three lending institutions.

However, the audit noted that in two (2) out of three (3) lending institutions, Idodi Saccos had an outstanding balance past due, which was an indicator of poor loan repayment track records. With such unsatisfactory performance records, it was not surprising to see Idodi Saccos stopping operations despite being provided with loans.

c) Disbursement of TZS 407 Million Before Perfection of Security

Para 9.1(14) of the Agricultural Window Framework requires disbursement of fund to be done after submission of all documentation and their registration with the relevant authorities as well as the fulfilment of all other Conditions Precedent as stipulated in the credit approval.

On 21th October 2015 TIB approved aggregate credit facility of TZS 354.17 million (TZS 93.7million being farm implement and TZS 260.47 million for farm expansion and operation) to Antipa Investment Limited. On 24th February 2016 the Bank approved additional Loan Facility of TZS 50 million to Antipa Investment Limited.
Review of the TIB Follow Up Report of 2nd January 2017, noted that, two securities pledged by Antipa Investment limited were not genuine because one of the third part guarantee value at TZS 178,200,000 registered as a mortgage was not successful because the owner reported that he had lost his title deed. Also, TIB Follow Up Report indicated that, another security guarantee by third party guarantee with title valued at TZS 25,000,0000 was not verified. This was because promoter did not know the location of the plot for verification and valuation.

This situation implies that, TIB did not verify and register the pledged security prior to fund disbursements.

Also, the audit noted that, all tangible securities pledged by Antipa Investment Limited was a third party guarantee while the company owns farms only. This is contrary to para 9.1(11) of Agricultural Window Framework which require primary security to be owned by the project or its promoters. Third party property can only be accepted as supplemental security.

However, according to TIB Management responses, they managed to register three securities later with a total value of TZS 213,600,000. Based on audit analysis, the security registered did not cover the issued loan of TZS 407 million. As a result TZS 503,401,704 was not paid for 1,873 past due dates as of 30th August, 2021.

3.2.3 Loan Amounting to TZS 3,415,132,986 was Awarded to Borrowers with Multiple Loans

Tanzania Investment Bank Ltd (TIB) was required by clause 4.1 (a) of the agreement between MoFP and TIB to conduct a detailed credit analysis of the agricultural projects before approval of loans.

Review of 50 sampled clients files with the largest outstanding loans classified as loss noted that eight (8) out of 50 borrowers (equivalent to 16%), were given loans amounting to TZS 3.6 billion while having loans from other institutions. Below are few scenarios of customers with multiple loans but were issued with loans by TIB.

Scenario One: Loan was issued despite the customer having multiple loan with SELF -MF and NMB

At the time of credit analysis report, KASEME MABAMBA SACCOS had an outstanding balance of TZS 69 million from NMB and TZS 300,000,000 from SELF MF. However, TIB approved and disbursed loan of TZS 270,276,402. As of 30th August, 2021, about TZS 287,584,040 was not repaid, and the SACCOS was no longer operational and there were no security for loan recovery.

Scenario Two: Loan was issued despite the customer having other loan

CRDB, UDZUNGWA SACCOS had an outstanding loan of TZS 1,594,045,689.39. But, the TIB granted a loan of TZS 596,009,897 on 6th December, 2013. A total of TZS 803,778,159 had not been repaid for the 3190 past due date as of 30th August 2021(about 8.7 years).

Scenario Three : Loan was approved to Mwanza SACCOS by TIB despite having multiple loans with CRDB, OIKO Credit and SELF MF

MWANZA SACCOS had previously received three loans from CRDB i.e TZS 30 million, TZS 75 million, and TZS 150 million in different years. Same SACCOS had a loan of TZS 350 million from OIKO Credit and a loan of TZS 50 million from SELF MF at the time of the credit analysis. But, TIB also approved the loan to Mwanza SACCOS.

In 2019, the account was charged off because the SACCOS was no longer operational, and there is insufficient security to recover the loan. SACCOS had a total exposure of 568,969,973 as of September 2021.

One of the TIB officials, pointed out that the Agricultural Window lending framework does not prohibit the provision of loans to customers despite having many loans, what the bank does is to carry out analysis to assess whether the clients have the capacity to repay the loan, regardless of whether they have many loans or not.

Review of sampled customer files indicated that among the factors for issuing loans to customers with multiple loans was relying on the customer loan performance records from other bank where the customer had existing loans (which indicates good performance), without considering if the customer have capacity repayment of the existing and new loan. For instance, KIWABU FARM CO. Ltd was established on February 24, 2012. On March 26, 2012, the company applied for the loan of TZS 429,140,000 from TIB.

Reviewed Credit Analysis Report indicated that KIWABU had a banking relationship with CRDB Bank and has a strong account performance record. In addition, the company received a TZS 170 credit from CRDB to help finance the expansion of the cattle flattering business. According to the analysis, loan repayment went well. Based on this, on 1st January, 2014, TIB approved and disbursed TZS 489,080,000 but as of 30 August 2021, TZS 252,443,517 had not been repaid with 2171 past due days.

Another scenario is from the loan which was issued to, SOP'S FOOD AND GRAINS INVESTMENT LTD which was established in June 2013. According to the Analysis Report, the company had a loan with Commercial Bank of Africa (CBA) with an outstanding balance of TZS 200 million. The report further showed that, the company's past performance was good in the agriculture window because in 2012, the company had a profit of TZS 3,600 million and a net profit of TZS 221 million, which then increased to TZS 5,344 million and TZS 398 million in 2012 and 2013 respectively.

The Report also reported that, the promoter was in control of the project and would hire full-time qualified people to run the project on a day-to-day basis. The Company, however, failed to complete the project as anticipated and did not pay the outstanding balance of TZS 279,607,480 as of 30th September 2021.Furthermore, it was reported that sometimes the Bank reconsidered issuing loans to customers who did not meet all requirements or had multiple loans as a way of supporting smallholder farmers through cooperative societies.

Review of official files further revealed that the customers who were given loans amounting to TZS 3.6 billion despite having multiple loan had outstanding balance of TZS 3.3 billion (***see Table 3.3***).

Table 3.3: Outstanding Loan from Borrowers with Multiple Loans

Customer	Loan Approved in TZS Million	Outstanding Balance in TZS Million from disbursed loan	Past Due Days
Idodi Saccos	333	227.9	Charged Off
Kaseme Mabamba Saccos	270	287.6	Charged Off
Kiwabu Farm Co. Ltd	489	252	2717
Mwanza Saccos	471.6	568.9	Charged Off
Sop's Food And Grains Investment Ltd	220	279.6	2202
Tpwu Saccos Ltd	199.7	202.8	3617
Udzungwa Saccos	596	803.8	3190
Wadoki Saccos Limited	1,055	705.6	3057
Grand Total	**3,634.3**	**3,328.2**	

Source: Auditors' *Analysis of Sampled Loan Files, 2021*

3.2.4 Loans were Used for Un-intended Purposes

Article 4.1 (b) of the agreement requires Tanzania Investment Bank Ltd (TIB) to administer disbursed loans according to the project implementation plans and ensure that the funds are utilized for the intended purpose.

The audit assessed whether the loans provided were used for their intended purpose in order to achieve the objectives. The following were noted from the analysis:

a) 18% of Beneficiaries Did Not Use the Loans for Intended Purposes

Review of loan records from 50 sampled customers with the highest outstanding loans classified as loss, the audit noted that, 9 out of 50 borrowers (equivalent to 18% of customers) did not use the loan for intended purposes as shown in **Table 3.4**.

Table 3.4: Customers who did not Use Funds for the Intended Purpose

Name of Customer	Loan Disbursed in TZS Million	Fund Used for Unintended Purpose in TZS Million	Outstanding Balance in TZS Million	Delays in Loan Repayment (Days)
Anl (2007) Co Ltd	698	0.342	695.9	1996
Ayalabe Saccos Ltd	500	223	247	2509
Gummers Back Investment Ltd	230.6	Not disclosed	311.8	2279
Mlali Saccoss Ltd	156	55	165	Charged Off
Msingo Investment Ltd	1,159	639	1,363	1139
Nufaika Saccos	354.8	Not disclosed	363	Charged Off
Ryangumbo Irrigation Farmers Association	130	Not disclosed	192.7	1840
Young Masitus Enterprises Ltd	1,023	Not disclosed	1,289.6	1899
Total	**4,651.4**	**917.342**	**4,989.9**	

Source: Auditors' *Analysis of Sampled Loan Files, 2021*

NB: *Not Disclosed = TIB call reports and Memorandum did not disclose how much was spend for unintended purposes*

Table 3.4 shows that, about 917.3 million was used for unintended purposes by four customers while for other four customers their record did not quantify how much was used for the unintended purposes as per TIB site visit and technical reports. **Table 3.4** further shows that, as of 30th August 2021, the total of TZS 4.99 billion had not been repaid with 1,899 days overdue for those customers who used loans for unintended purpose. In addition, due to non-operations caused by poor performance, two customers loans were charged off.

Below are scenarios which provide details of cases showing utilization of funds for unintended purposes:

Scenario One: Approximately TZS 341,648,000 was not utilised for intended purposes

The TIB approved a loan of TZS 698,000,000 to ANL (2007) CO LTD on the 7th October 2014 for the construction of irrigation facilities, agriculture implements, and working capital.

According to the Call Report dated August 15, 2016, the customer (ANL (2007) CO LTD) modified the project concept without the bank's knowledge or agreement. Approximately TZS 341,648,000 was not utilised as required for construction of irrigation infrastructure, instead funds was used for other activities not related to the project.

Scenario Two: Infrastructures were not adequately installed as required

TIB authorized the loan for GUMMERS BACK INVESTMENT LTD on June 18, 2014. According to the TIB status report dated 23rd April, 2015, activities implemented do not match fully with disbursed funds. As of December 2015, just 13 acres out of 50 acres have been farmed. The irrigation infrastructure, on the other hand, was not adequately installed.

Scenario Three: TZS 94.5 million out TZS 147 million were used for intended purposes

Mlali SACCOS received a loan of TZS 147 million from TIB on 28th December, 2013. According to TIB Memorandum dated December 28, 2018, only TZS 94.5 million of the TZS 147 million allocated to Mlali SACCOSS members were used for the intended purpose. The remaining cash were utilized to pay off other lenders' loans. Furthermore SACCOS managed to collect TZS 83 out of 94.5 million from loan beneficiaries. However only TZS 41 million was transferred to TIB for loan repayment.

Scenario Four: Other funds were used for follow up of court cases

Similarly, TIB Memorandum dated on 18th January 2018 indicates that, NUFAIKA SACCOS Management did not use all funds for the intended purposes as it used certain amount for follow-up of court cases.

Scenario Five: Estimated TZS 639 million was not fully invested in the intended project

The TIB authorized a loan to Msingo Investment Ltd on January 13, 2015. According to TIB Memorandum dated on 25th February, 2020, only TZS 80.3 million of the TZS 158 million allocated for water intake and irrigation canal was estimated to be injected into the project. Similarly, TZS 314.4 million out of TZS 481 million allocated on the water reservoir, was estimated to be fully used into the project. Overall, report indicated that, around TZS 639 million was not fully invested in the intended project. In addition, no crops were seen in the farm region, and the land was dry.

On the other hand, the project was badly managed and controlled, according to the assessment done by TIB. Construction was poorly done; and purchased equipment's including the rice milling, planter and combine harvester were not operating.

The audit noted that, utilization of loan for unintended purposes was attributed to lack of close follow up after loan approvals and disbursements.

3.2.5 Inefficiencies of Mechanism for Loan Recovery

TIB was required by Article 4.1 of the agreement between MoFP and TIB to protect the government's interests and to take reasonable measures to collect the funds' maturing obligations from the Borrowers.
During the audit, the following were noted:

a) Delays in Loan Recovery for the Period Ranging from 87 to 3,617 Days

Review of Non-Performing Loans Recovery Strategies indicated that 112 customers did not repay their loan for the period of 87 to 3,617 past due days despite deployment of various loan recovery strategies as indicated in **Table 3.5**.

Table 3.5: Status of Loan Recovery for Non-Performing Loans (NPL) and Used Strategies

NPL Recovery Strategy Used	No. of Customers	% of Customers	Past Due Days	Amount in TZS
Charged Off-Due to non -Operational	20	18	N/A	3,547,915,451
Close Monitoring	8	7	433 - 3215	1,749,455,270
Disposition of Assets	66	59	271 - 3740	16,918,772,843
Litigation	1	0.8	3617	202,837,397
Restructuring	10	9	87 - 3190	1,544,554,887
Transfer to Recovery	7	6	529 - 2078	3,273,436,274
Total	**112**	**100**		**27,236,972,122**

Source: *Auditors' Analysis of NPL Strategy, 2021*

Table 3.5 indicates that, 20 out of 112 customers had not paid their loan and these companies' ceased operations, owing TZS 3,547,915,451 in outstanding liabilities. This amount is loss that cannot be recovered. Also, 66 customers owing TZS 16,918,772,843 assigned to asset disposition.

Also, it is shown from Table 3.5, eight (8) customers were closely monitored; and ten (10) customers' loans were restructured. Table further shows that, seven (7) customers were recently transferred to the recovery section; and one (1) customer was under litigation

However, review of 50 sampled customer's files with the highest outstanding loans classified as loss indicates that the loans for 24 out of 50 customers were secured with security like debentures, existing Loan Portfolio, Portfolio financed by TIB loan, asset financed by projects which is difficult to be recovered; and for the pledge value.

Furthermore, it was noted that there was no fixed deadline for placing NPLs for close monitoring, restructuring, and transfer to the recovery division, as well as asset disposition.

Due to this, according to TIB officials, the bank took several efforts to ensure the projects were revived and able to repay the loans before taking recovery measures like disposition of securities as this was the last resort after all other options had been used. For instance in 2017 the bank formulated

Special Recovery Team for SACCOS accounts and visited all accounts across the country which enjoyed TIB facilities through Agricultural Framework Window. However, this strategy did not work sufficiently as there were number of anomalies which hindered performance of the SACCOS and their ability in repayment of loans. Among of the noted anomalies was unsatisfactory management of SACCOs. Due to this reason TIB approached Tanzania Co-operative Development Commission (TCDC) to intervene on SACCOs governance issues and find mechanisms to ensure the outstanding dues were recovered.

Currently the Bank continues to implement the agreed strategies with the support from TCDC. But TIB Management declared that, despite having strategies and further efforts shown by the TIB management, there were still some delays in implementing the recovery measures due to different reasons like lack of potential buyers who could buy the assets at the required rate of at least 75% of the market value.

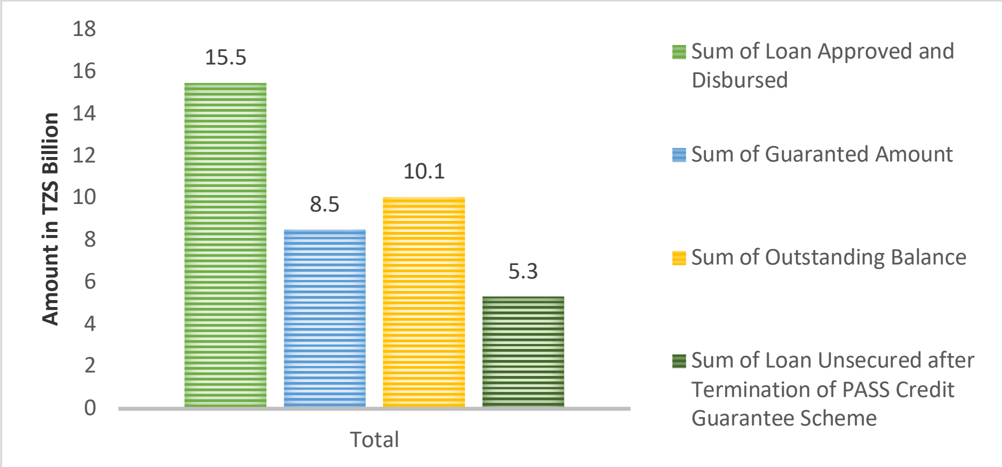
This situation has devastating effects to the Fund because customers can cease operations, pledged assets can depreciate the value of debentures, companies with poor performance can decline and beneficiaries for the existing loan portfolios can be difficult to locate.

b) Loss of TZS 5.3 Billion due to Non-Adherence to the Security Conditions with the Private Agricultural Sector Support Trust (PASS)

Agreement was made between PASS and TIB, in which PASS promised to provide 30% to 80% credit guarantee to TIB customers. PASS fees of 1% of the principal loan balance or outstanding balances were required to be paid by TIB each quarter.

According to Loan Portfolio for PASS-guaranteed customers, it was noted that TZS 5.3 billion of the TZS 10.1 billion outstanding debt was unsecured, and customers had defaulted (refer **Figure 3.2**).

Figure 3.2: Status of loans Guaranteed by PASS Credit Guarantee



***Source:** Auditors' Analysis of Loan Portfolio under PASS Guarantee, 2021*

Figure 3.2 Shows that, loan amounting to TZS 15.5 billion was approved and disbursed for the PASS guarantee of TZS 8.5 billion. As at 30th August 2021, TZS 10.1 was outstanding balance which was not secured for 50% to 60%, due to termination of the Agreement between TIB and PASS on Credit Guarantee Scheme caused by TIB failure to pay PASS fees as agreed.

According to TIB officials, the failure of borrowers to pay the PASS fee to TIB constrained TIB to adhere to PASS Agreement of paying 1% of PASS fee; this resulted in the termination of PASS Credit Guarantee.

As a result, there was a loss of TZS 5.3 Billion that cannot be recovered by the pledged security.

3.2.6 Provision of Financial Services Did not Reach the Entire Country

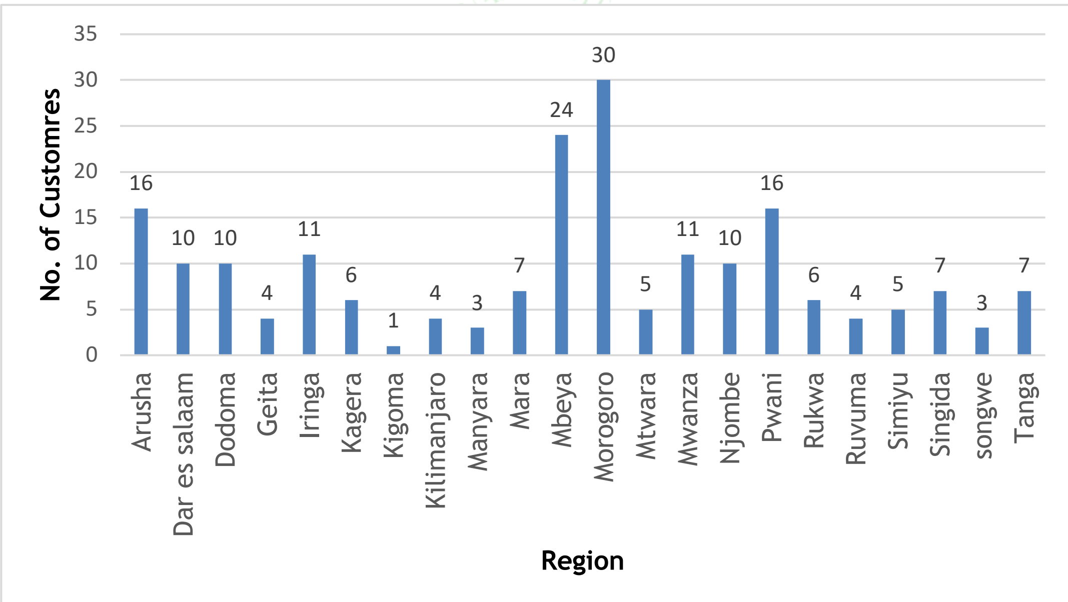
Section 4.0 para 3 of the Agricultural Window Lending Framework require the utilization and allocations of funds based on viability and economic impacts of the projects. The Framework further provides that whenever possible consideration will be made for the need to achieve some degree of geographic balance.

Review of KKCF Portfolio from financial years 2016/17 to 2020/21 revealed that, only 18 customers were provided with loans for the entire period of five (5) financial years. In average, it mean that TIB through KKCF issued loan to 3-4 customers yearly.

Furthermore, audit noted that, 42% (59 out 139) of Districts were never served by TIB through KKCF; and 38% of the loan was disbursed to SACCOS and Non SACCOS Microfinance Institutions which could reach many customers as compared to 62% of the loan which was issued to CORPORATES/SMEs (Individual companies).

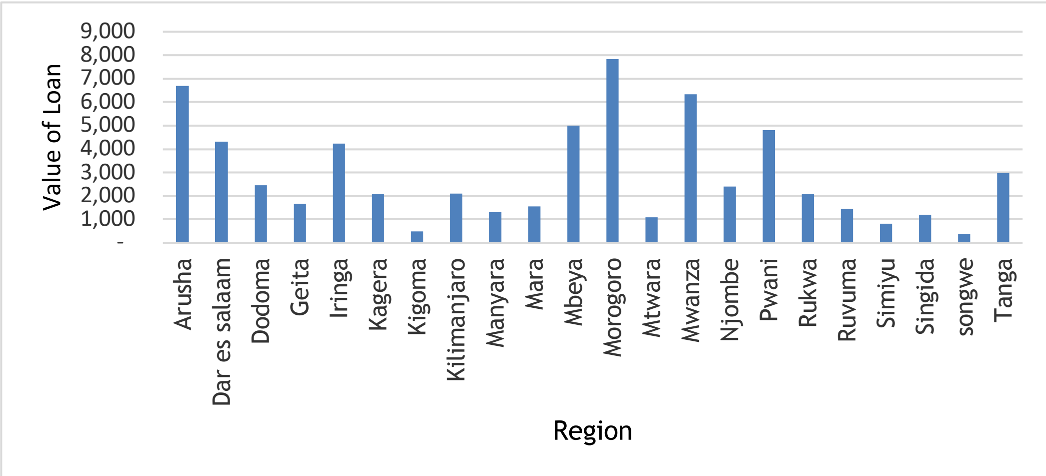
Review of Loan Portfolio Indicated that, 42% (59 out 139) of Districts were never served by TIB through KKCF. Furthermore analysis indicated that, large number of customers served by TIB through KKCF were found in Morogoro, followed by Arusha, Mwanza, Mbeya and Pwani Regions (*refer* **to Figures 3.3 and 3.4**).

Figure 3.3: Distribution of Customers Served by TIB through KKCF Regional wide



***Source**: Auditors' Analysis of Customer Base, 2021*

Figure 3.4*:* Distribution of Fund Disbursed Customers by TIB through KKCF Regional wide



Source: *Auditors' Analysis of Customer Base, 2021*

Figures 3.3 and **3.4** show that Morogoro, Arusha, Mwanza, Mbeya and Pwani were far better served by TIB through KKCF in terms of number and amount of funds disbursed to customers. On the other hand, Songwe, Kigoma and Simiyu were the least served Regions by TIB. It was noted that, this was contributed by the fact that TIB is currently operating from four zones Dar Es Salaam, Mbeya, Mwanza, and Arusha countrywide which limit easy reach out for other regions (especially those located far from the established Branches).

On the other hand, the audit noted non-compliance with the Credit Concentration Policy. This is because according to guide 11.2 of the Agricultural Window Framework, project finance should range from 30% to 35% for each group in order to spread risk. Review of loan portfolio indicates that, corporate farmers (private companies) made up 62% of the portfolio, which is contrary to the requirements of the framework as shown in **Table 3.6**.

Table 3.6: Concentration of the Group Category in Credit Portfolio

S/N	Category	Amount in Tzs	Percentage (%)
1	CORPORATES/SMEs	39,356,296,878	62
2	NON SACCOS MFIs	7,800,000,000	13
3	SACCOS	16,108,455,134	25
	Total	**63,264,752,012**	**100**

Source: Auditors' *Analysis of TIB Progress Report, June, 2021*

Table 3.6 further indicates that, only 38% of the loan was disbursed to SACCOS and Non-SACCOS MFI which could reach many customers as compared to 62% of loans which were issued to Corporates/SMEs (Individual companies). Furthermore, it was noted that, before issuing the loans beyond the set limit to Corporates/SMES, TIB requested approval from the Ministry of Finance and Planning (MoFP), and the approval was granted via letter Ref. No. TYC/T/200/846/19.

As a result, the TIB Performance Report of June, 2021 indicated that corporate loans accounted for 58% of non-performing loans. This was caused by the tendency by TIB's to provide large amount of funds to the corporates categories as compared to other categories. It was learned that the non – SACCOS MFI and SACCOS were provided with only 38% of the loans although they provided loans to majority of the needy citizens compared to corporates.

3.3 Agricultural Inputs Trust Fund (AGITF)

Agricultural Inputs Trust Fund (AGITF) was established in 1994 by an Act of Parliament No. 9 of 1994 which was then reviewed in 2002, CAP 401 RE 2020. The Government established the Fund because of various reasons which include: Weakening and finally collapse of the cooperative system in 1994 which was the major agro-inputs credits provider and the distribution channel to smallholder farmers at villages level through Primary Societies. The fund started with initial capital of TZS 2 billion in 1995/96 .However ,from financial year 2003/04 to 2020/21 the Fund issued loan of TZS 53,312,068,409[5] to Individual farmers; registered farmer groups/water user association); Public institutions; Private Organisations; Community Banks and Cooperative Organisations (SACCOS and AMCOS) engaging in Agricultural activities.

[5] AGITF Loan Portfolio 2003-2021

Despite the efforts made by the fund, which include improvement in loan recovery, the introduction of loan insurance covering 0.8 percent of the principal loan prior disbursement, and introduction of a loan category that is secured by employees' salary. Audit noted the following weaknesses regarding implementation of AGITF activities:

3.3.1 Non-Performing Loans Accounted for 72% of the Outstanding Loan Portfolio Amounting to TZS 20,140,891,959

Review of Portfolio Report indicates that, TZS 20.1 billion out of TZS 27.87 billion (equivalent to 72%) of outstanding loan portfolio had expired loan tenure. This implies that only TZS 7.73 billion out TZS 27.87 billion (equivalent to 28%) of loan portfolio had not expired at the time of this audit refer **Table 3.7.**

Table 3.7: Aging Analysis of Outstanding Loan Portfolio

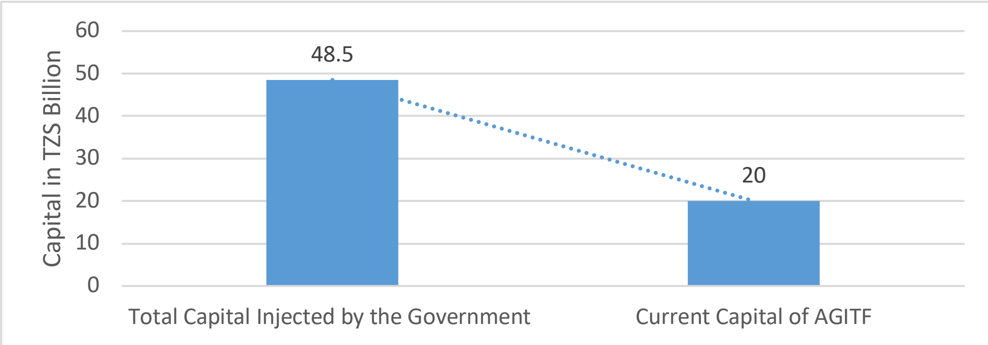
Loan category	Aging Analysis of Outstanding Portfolio in TZS 'Billion'				Total Outstanding
	<1 Instalment	1 - 2 Instalments	3 - 4 Instalments	>4 Instalments	
Direct Loans	5.01	0.51	1.34	16.015	22.87
Banks and other financial institution	0.04	0.55	0.28	2.31	3.18
Old loans 1995/96 - 1998/99	-	-	-	1.78	1,78
Powertiller-Korean Loan,Morogoro	-	-	-	0.04	0.04
Total	5.50	1.06	1.62	20.14	27.87

Source: *Aging Analysis as at 31 June, 2021*

Table 3.7 indicates that, about TZS 20.14 billion, had more than four instalments unpaid, which implies that loan tenure was expired.

Non - performing loan resulted to decline of AGITF capital. According to MoFP report, 2020, the total capital injected by the Government for AGITF activities from its establishment was TZS 48.5 billion; and the current capital as at 30th December, 2020 was TZS 20 Billion only which implies that, the AGITF capital is decreasing (refer **Figure 3.5**).

Figure 3.5*:* Decline of the Capital Injected for AGITF Activities



Source: *MoFP Report, 2020*

Figure 3.5 indicates that, total capital injected for operations of AGITF is declining which implies, un-sustainability of Fund operations. The total capital injected is 48.5 billion of which 35.5 billion were allocated to loan and 13.0 billion were allocated for operating expenses. According to AGITF ,the Net asset declines was due to the increase of loan impairment.

According to the audit team, unsatisfactory loan portfolio performance was attributed by the following factors:

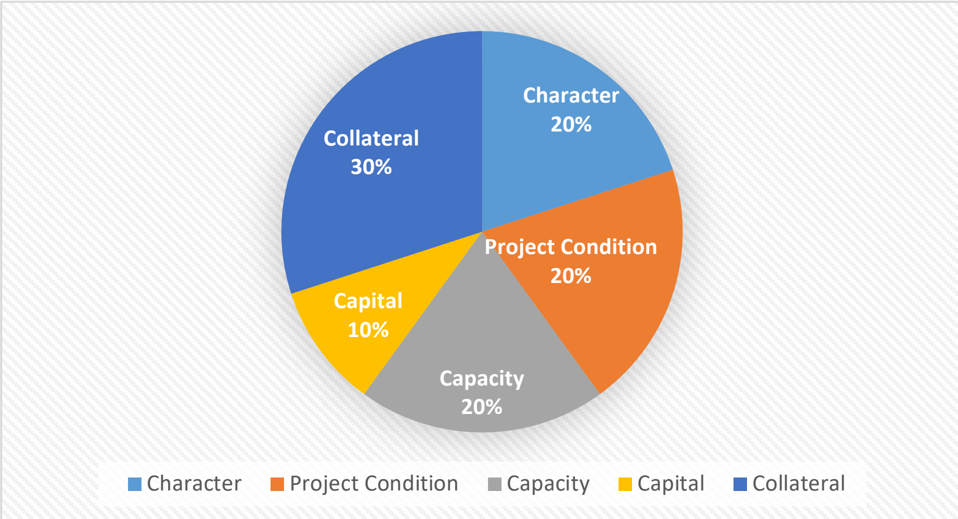
3.3.2 Provision of Loans to Unqualified Customers

The audit noted that some of the customers provided with loans lacked required qualifications as described below:

a) 30% of Assessments Focused on Collateral

On review of customer files, noted that, AGITF used Site visits and loan analysis card to assess customer ability and capacity to repay the loan. However it was noted that, 30% of clients scores were allocated by considering collateral as among of the prerequisite for securing loans refer (**Figure 3.6**).

Figure 3.6: Score allocation for AGITF Loan Assessment



Source: *Auditors' Analysis on Credit Score Card, 2021*

Figure 3.6 shows that, 30% of the score which is the largest of all was allocated to Collaterals. There was no minimum score allocated for each category, however, overall minimum score was 50%. Based on assessment tool used by AGITF, clients can attain minimum requirements by having collateral and any other perimeter except capital. As result, the client that had collaterals, capital and either character or capacity or knowledge of project conditions were given loan but did not have capacity to repay the loans as required.

b) Loan of TZS 279,997,400 was Granted to Customers with Poor Track Records

According to the Credit Policy (2009) AGITF is required to review the application /business plans for ascertaining viability of the businesses and ability to repay the loan from the crop/livestock proceeds. Also AGITF is required to obtain indicators on past performance of the applicants using financial statements and bank references.

For instance, review of Tunduru Agricultural inputs(TAI) Loan files showed that, in the financial year 2006/07 and 2007/08 AGITF issued loan of TZS 180,000,000 and TZS 99,997,400 to TAI respectively (refer **Table 3.8**).

Table 3.8: Status of Loan Issued to Tunduru Agricultural Inputs Trust Funds

Financial Year	Principal Loan Amount in TZS	Interest in TZS	Total Amount in TZS	Outstanding Balance in TZS
2006/07	180,000,000	14,400,000	194,400,000	98,095,680
2007/08	99,997,400	7,9999,792	107,997,192	107,997,192
Total	**279,997,400**	**94,399,792**	**302,397,192**	**206,092,872**

Source: *Auditors' Analysis of the Loan Portfolio, 2021*

Based on **Table 3.8**, Tunduru Agricultural Inputs (TAI) has not paid a total of TZS 206,092,872 out of TZS 302,397,192. After review of TAI files, audit noted that, AGITF granted loan to TAI despite having a debt with Exim Bank. Furthermore, it was noted that, the Ministry of Finance (through the letter with reference number No.TYC/1/115/9) dated 8th June 2007 directed AGITF to issue Loan to TAI despite the poor credit records the organization had. The letter instructed AGITF not to consider previous repayment records in loan appraisal.

The audit noted that the directive from the Ministry of Finance to AGITF showed that AGITF has been interfered/influenced by the Ministry of Finance and planning to issue loan to Tunduru District Agricultural input Fund despite poor credit history which disqualified him from to getting loan from AGITF.

As a result, TZS 98,095,680 of the first loan and 107,997,192 of the second loan have not been recovered up to the time of this audit with 5110 past due days.

c) 34% of the Loan Application Amounting to TZS 1,544,863,850 were not Adequately Assessed Prior to Approval

According to Agricultural Inputs Trust Fund Act (1994), AGITF is required to grant loans on sound principles, and in particular, with regard to ensuring timely recovery of the principle sum and any interest payable on any loan. Also AGITF Credit Policy (2017) requires AGITF to review the applications /business plans for ascertaining viability of the business and ability to repay loans from the crop /livestock proceeds.

After review of the 50 sampled customer files, audit noted that the files of 17 out of 50 Customers (equivalent to 34%) with loan value of TZS

1,544,863,850 had no evidence that the customers were appraised before getting the loans (refer **Table 3.9**).

Table 3.9:Customers Awarded Loans without Appraisal of Loan Applications

Name of Lonee	Type of Loan	Loaned Amount in TZS	Outstanding Balance in TZS
Chama cha Msingi Mgambo	Tractor	50,000,000	27,100,000
William Adam Mahenge	Farm structure	48,000,000	39,120,000
Mngeta Wafanyabiashara SACCOS	3tractors	135,000,000	9,830,800
Kaduduma SACCOS	Power tiller	45,000,000	15,190,000
Notikely Mlelwa	Agricultural inputs	42,750,000	47,880,000
Godfrey Ndendya	Agricultural inputs	49,500,000	51,730,000
Frank David Mdesa	Tractor	53,361,000	53,361,000
Hamis Ismail Msigwa (Young Masitus)	Agricultural implements	373,420,000	212,554,805
UMMAKISO SACOSS	Tractor	110,992,850	82,368,021
Yusuph Valentino Kipangule	Agricultural inputs	47,250,000	52,400,000
Lusilile SACCOS	Tractor	90,000,000	74,941,600
Kambona E Mgala/Msense Co.LTD	Agri inputs	68,690,000	68,890,000
Kenneth Mwazembe	Tractor	42,000,000	32,938,000
Kifi SACCOS	Tractor	90,000,000	42,200,000
Kagera Tea Co.ltd	Fertilizer loan	200,000,000	125,000,000
Renatus Lupenza	Agri inputs loan	49,000,000	40,670,000
Emmanuel Frank Urassa	Tractor	49,900,000	53,841,100
Total		**1,544,863,850**	**1,030,015,326**

Source: *Auditors' Analysis of sampled Customers at AGITF, 2021*

Table 3.9 shows that, AGITF issued loans to customers with the amount ranging from TZS 42,750,000 up to TZS 373,420,000 without scrutinizing their performance and ability to repay loans which were granted. When AGITF officials were interviewed, they claimed that appraisal exercise was mandatory before issuing loans, since establishment of the Fund. However there was no evidence availed to substantiate that the loan appraisal process was conducted.

As a result, 17 customers with no record of assessment had an outstanding balance of TZS 1,030,015,326 out of TZS 1,544,863,850. Among other factors, this outstanding loan is attributed to inadequate customers assessment prior to loans approvals and disbursements. This is because loan assessment would assist to assess business sustainability, market of products produced and level of productivity and provide a clue on capacity of the organisation to repay the loan.

d) Un-recoverability of 65% of the Outstanding Loan Balance Amounting to TZS 418 Million at the Pledged Value

According to the AGITF Credit Policy (2017), the Fund must conduct a collateral analysis, which includes confirming the physical and legal existence of assets in the names of applicants, spouse approval to use the assets as collateral, and marketability of assets in the event of default.

According to the Loan Collateral Verification Report done by AGITF, TZS 418 million out of TZS 647 million of the remaining loan debt (equivalent to 65%) cannot be recovered at the pledged value.

This means that the pledged security was not sufficient to recover 65% of the outstanding portfolio.

According to the Site Visit Report prepared by AGITF covering Katavi, Mbeya, Songwe, and Rukwa regions (2021), there was a challenge of overvaluing of the pledged security during loan application compared to their true values.

According to AGITF management it was revealed that, this was attributed by economic recession at the time when the collaterals were auctioned and purchasing power of the mass population in a particular region/ district.

As a result, promised recovery was not attempted because the pledges had a lower values than the outstanding debt.

3.3.3 The Use of Debt Collectors did not Ensure Timely Loan Recovery

Agricultural Inputs Trust Fund (1994) requires AGITF to grant loans on sound principles, particularly, to ensure timely recovery of the principle sum and any interest payable on any loan. In the other hand, AGITF Credit Policy (2017) requires loan monitoring to be carried out to ensure proper utilization and timely repayment of loans according to the agreed schedule in the credit agreements.

Review of Loan Recovery Reports (2017/18 to 2020/21) loan recovery mechanisms were insufficient to ensure that NPLs were recovered. The audit found the mechanisms used for loan recovery insufficient due to the following facts:

(i) PCCB Collected 50% of the Loans Amount Equivalent to TZS 1.26 Billion within Three Months while Debt Collectors Recovered the Same Percentage in a Span of Three Years

According to the AGITF Loan Recovery Reports, from financial year 2017/18 to 2020/21, PCCB recovered 50% of the loan amount (TZS 1,264,813,047 out of TZS 2,519,512,322, similarly, debt collectors recovered 50% of the total i.e (TZS 1,254,699,275 out of TZS 2,519,512,322) (See **Table 3.10**).

Table 3.10: Loan Recovery Status of AGITF

Recovery Approach Adopted	No. of Loan Defaulter	Amount in TZS	Percentage (%)
PCCB	101	1,264,813,047	50
Debt Collectors	85	1,254,699,275	50
Total	186	2,519,512,322	100

Source: *Auditors' Analysis of Loan Recovery Reports from 2017/18-2020/21*

However, the audit, noted that debt collectors were less efficient in collecting outstanding loan as they took three (3) years to recover almost the same amount PCCB recovered in three (3) Months only.

Interview with AGITF officials indicated that this was attributed to the fact that Debt collectors are not law enforcing agents unlike PCCB which is a law enforcing institution. Therefore, upon engagement of PCCB stubborn debtors who were non-responsive to debt collectors paid their debts immediately. However, the used loan recovery strategy was not sustainable .According to AGITF management PCCB are no longer involved in recovery of NPL.

(ii) Un-recoverability of Outstanding Balance of TZS 595,296,101 for Loans Guaranteed by Local Government Authorities

Review of 50 sampled files from AGITF (2003-2021) revealed that, 9 out of 50 customers (equivalent 18%) guaranteed by Local Government Authorities (LGAs) have not recovered TZS 595,296,101 out TZS 885,770,457 (equivalent 67%) (refer **Table 3.11**).

Table 3.11: Unrecovered Loans Issued to SACCOS with LGA's Guarantee

Customer's Name	Loan(P+I)[6] in TZS	Receipt in TZS	Balance in TZS
Chama Cha Msingi Mgambo	53,100,000	26,000,000	27,100,000
Kaduduma Chita SACCOS	47,790,000	32,600,000	15,190,000
Kifi Saccos Ltd	74,400,000	32,200,000	42,200,000
Luponde AMCOS	207,677,700	105,529,500	102,148,200
Lusilile SACCOS	92,752,000	17,810,400	74,941,600
Maposeni SACCOS	80,660,000	23,200,000	57,460,000
Mfuko wa Pembejeo Tunduru	107,997,192	0	107,997,192
Mngeta Wafanyabiashara SACCOS	121,500,000	29,160,000	92,340,000
Ummakiso SACCOS	99,893,565	23,974,456	75,919,109
Total	**885,770,457**	**290,474,356**	**595,296,101**

Source: *Auditors' Analysis of Sampled Customer Files from AGITF, 2021*

Table 3.11 shows that nine (9) Customers guaranteed by LGAs have not recovered TZS 595,296,101.

The interviews conducted with AGITIF officials and review of AGITF Loan correspondences indicated that, the SACCOS were guaranteed by their respective Local Government Authorities by pledging letter of guarantee as loan security. It was further noted that in case of default, respective LGAs were responsible for recovery of loaned amount issued to the guaranteed SACCOS.

However, the audit noted that, the case was different because AGITF did not manage to recover all issued loan from these SACCOS due to various reasons such as disintegration of SACCOS (some SACCOS were no longer existing, malfunctioning of the loaned tractors (mechanical fault of the tractors) and embezzlement of loan collection by SACCOS leaders.

[6] *P=Principal and I=Interest*

Conversely, responsible LGAs did not pay the loan guaranteed to SACCOS as per agreement between AGITF and LGAs.

Despite the strategy applied by AGITF to recover the loan from these SACCOS by suing their guarantors to Court, this strategy did not work because of the circular with reference number J/C60/4/6733 which was issued by the Government (Office of Attorney General) which restricted Government entities to sue another Government entity.

This was evidenced through the review of Letter from the Office of Attorney General with reference No JC60/4/6733 Dated 8th June, 2011. The letter advised AGITF to settle the cases with their counterparts outside the Court because they are both Government entities. Also, the letter instructed AGITF to settle their case with borrower which is Tunduru Agricultural Input Fund.

3.3.4 Financial Services were not Provided to the Entire Country

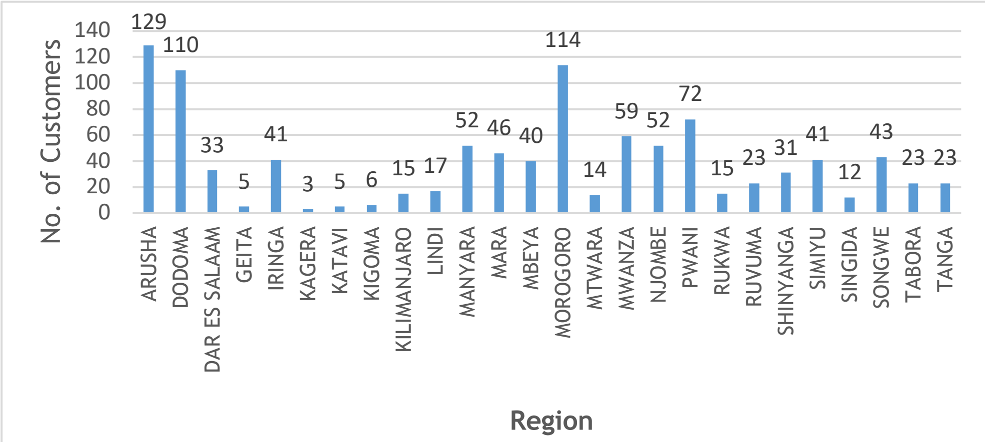
The audit assessed whether financial services offered by AGITF covered the entire country. It was noted that, AGITF did not reach all intended beneficieries countrywide as indicated below:

a) 80% of Districts were Served by AGITF

Section 4 of Agricultural Input Trust Fund Act No.9 1994, stated that, the fund was established in order to provide loans for financing importation and distribution of agricultural inputs in Tanzania.

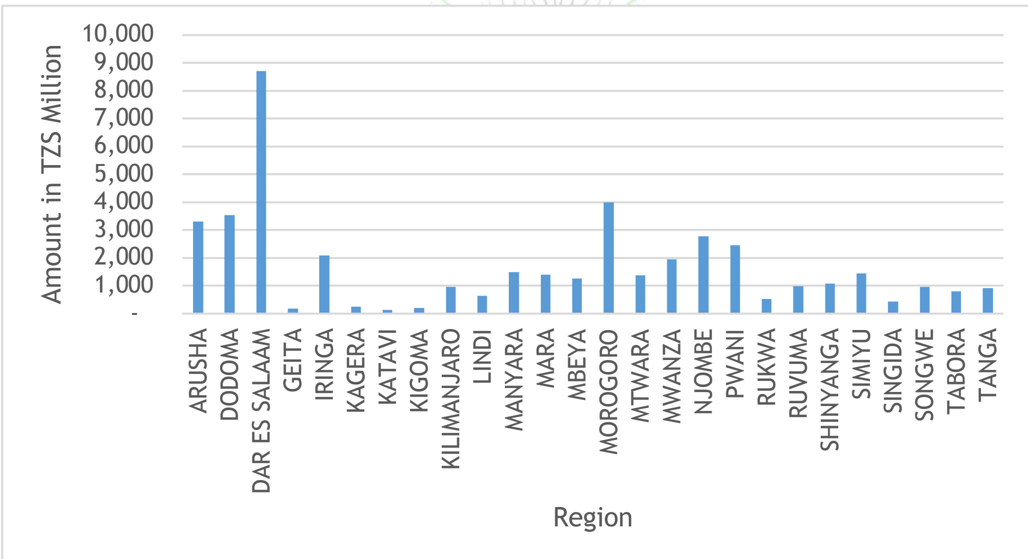
Review of Loan Portfolio Indicated that, 20% (28 out 139) of Districts were never served by AGITF. Furthermore analysis indicated that, Arusha, Morogoro and Dodoma had large numbers of customers served by AGITF (Refer **Figure 3.7**). However, large amount of fund was disbursed in Dar es Salaam, followed by Morogoro, Dodoma and Arusha Region (refer **Figure 3.8).**

Figure 3.7*:* Distribution of Customers Served by AGITF Regional wide



Source: *Auditors' Analysis of Customer Base, 2021*

Figure 3.8*:* Distribution of Fund Disbursed to Customers by AGITF Region wide



Source: *Auditors' Analysis of Customer Base, 2021*

Figures 3.7 and **3.8** show that Dar es Salaam was far better in terms of amount of funds disbursed by AGITF despite being ranked number 33 on number of customer's distribution region wide.

Interviewed officials from AGITF revealed that, this was because, previously before shifting to Dodoma AGTIF was operating from Head Office located in

Dar es Salaam and there were no branches at Zonal or Regional level. This situation limited the provision of services to the entire country.

Furthermore, the audit noted the following with regards to the operations of AGITF:

(i) Unfavourable Operational Self-Sufficiency Ratio (OSS)

Operational Self-Sufficiency Ratio measures the degree to which internally generated operational revenue covers all operating expenses from the Microfinance Institutions (MFI's) core business of providing financial services. This ratio measures the degree to which the institution is able to function independent of grant support. A ratio of 100% is the MFI's break-even point and indicates that the MFI's income is equal to operating expenses. This ratio is supposed to show a gradual increasing trend, and not fluctuate.

AGITIF receives government supports including Other Charges (OC), Personnel Enrolment (PE), and Development to ensure smooth operations. However review of the AGITIF financial statements revealed that, the fund had recorded unfavorable Operational Self-Sufficiency Ratio throughout the period under review (See **Table 3.12**).

Table 3.12: Unfavourable Operational Self-Sufficiency Ratios (TZS Million)

Item	2017/18	2018/19	2019/20	2020/21
Operating revenue	653	724	664	562
Operating expenses	3,694	3,662	2,968	3,398
Operational Self Sufficiency (%)	18%	20%	22%	17%

Source: *Auditors' Analysis of the Audited Financial Statements 2017/18-2020/21*

Findings from **Table 3.12** showed that, during the period under review, AGITF recorded OSS ratios below breakeven point (100%) down to 17% which is far that point. These ratio suggested that AGITIF was at critical point meaning that sustainability of the Fund is at high risk.

This was caused by the fact that, AGITIF had 72% of Non Performing Loans (NPLs) which was caused by various reasons including weaknesses on loans appraisal, recovery and inadequate loans monitoring.

As a result of unsatisfactory Operational Self-Sufficiency Ratio, the Fund was found to be at risk of being unsustainable, which might in turn affects the achievement of its ultimate goals.

(ii) Management Information System Did Not Ensure Effective Loans Monitoring

Agriculture Inputs Trust Fund use manual (Excel) for managing loans. However, the Fund decided to develop new system (AGITF MUSE LOAN MODULE-0T650000) to address weaknesses of manual system. MUSE-0T650000 AGITF MUSE LOAN MODULE-0T650000 covered all key business processes/items for Loan Module as per system requirements such as: loan setting, loan application, loan appraisal, loan backlog, loan authorization, loan disbursement, fee payment, payment, loan monitoring and case management, liquidation, title discharge, and credit agreement.

The review of the AGITF MUSE LOAN MODULE-0T650000 revealed that, during the course of loan monitoring through the system, Head of Department is supposed to assign customers to loan officers. Thereafter, the Loan officer can perform his/her monitoring activities such as view, print repayment schedules, print charges, and change status of the customer. However it was noted that, the Head of Department can assign customers to loan officers in live environment, but loan officers cannot perform monitoring functions effectively as most monitoring activities through system are not working as indicated in **Table 3.13.**

Table 3.13: MUSE-0T650000 System Components Which are Not Functioning as Par January, 2022

Issue	Status
Penalty calculation and report	Not working
Separation of principal and interest upon receiving of loan repayment	Not working
Loan Rescheduling	Not working
Backlog data	Not working
GEPG and MUSE should interact to enhance auto updation of repayment (recent chalenge: control number created by muse are not seen in gepg and customers posted via backlog cannot generate control number via muse)	Not working

Issue	Status
Client Statement and repayment schedule are not updated when customers make payment.	Not working
Repayment from salariers customers,their deductions (repayments) are not auto updated to the customer account	Not working
Repayment list should separate between Principal and Interest	On progress
Aging Analysis Report is missing	Not working
Case register	Not working depends on loan monitoring of legal cases.
Case management register	Not working depend on loan monitoring of legal cases.
Debt collection List	Not working depend on loan monitoring activities. Current there are no data in the report.
Liquidation list	Not working depend on loan monitoring activities. Current there are no data in the report.
Discharge list	Not working depends on loan monitoring activities. Currently there are no data in the report.
Accounting Entries for loan is pending until the completion of above issues.	Pending
Failure to generate control number for down payments eg. 10% and one third(1/3)	In progress

Source: *AGITIF, 2020*

Furthermore, customers who applied loans when AGITF was using Loan Backlog system were uploaded in MUSE. At that time control numbers for these customers were created from Generic GePG system before uploading them in the MUSE. However the audit noted that some of control numbers had expired; and MUSE could not generate control numbers to these customers and update repayments status to the respective loans.

This was caused by delay in finalization of development of the system to ensure it is functioning effectively. As a result loan officers were unable to perform loan monitoring through computer system.

3.4 SELF Microfinance Fund (SELF MF)

SELF MF as an entity began its operations in July 2015 under the auspices of the Ministry of Finance and Planning. During 2019, SELF MF took over the operations and obligations of Small Entrepreneurs Loan Facility (SELF) Project that ran from 1999/00 to 2014/2015.

The fund started with initial capital of TZS 62,371,121,038 in financial year 2014/15. Whereas the ultimate goal of SELF MF was to contribute towards reducing poverty in Tanzania through facilitation of microfinance services that enhance economic opportunities.

This audit noted various efforts done by SELF MF which include development, installation, data migration, and commissioning and post implementation of a fully functional Core Microfinance Solution (CMS). This system facilitated to address weaknesses of Oracle and Imfas system. Also in financial year 2020/21 the Fund had experienced favourable operational self-sufficiency ratio of about 138% above the target ratio of 135% which made the Fund able to cover operating expenses from operating revenue.

However, this audit noted various weaknesses regarding provision of loans to customers; usage of loans; provision of financial services to the entire country; and mechanisms of loans recovery. These weaknesses are as explained below:

3.4.1 SELF MF Allocated 56% of its Funds to Non-Core Activities and Untargeted Groups

Based on Section 1.6.2 of SELF MF Credit Policy of 2019, small entrepreneurs in rural and urban areas were the targeted clients. Similarly, Strategic Plan of 2018/19 to 2020/21 stated that SELF MF aimed at reaching out to un-served and under-served communities with financial services, especially those in rural areas.

Review of Audited Financial Statements revealed that, SELF MF invested significantly into market securities through FDR, bonds and T-Bills which does not tall with its core activities from 2016/17 to 2019/20 (refer **Table 3.14**).

Table 3.14: Investment in Market Security and Net Loan Portfolio

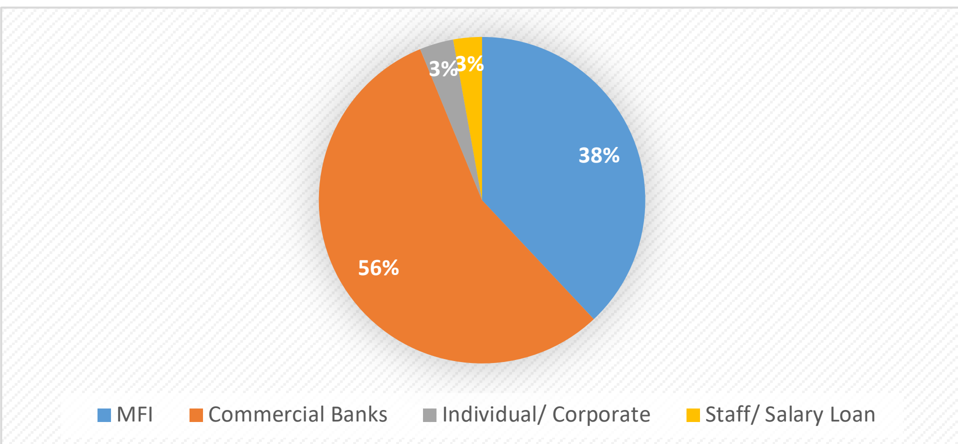
Financial Year as at	Gross Loan Portfolios in (TZS Billion)	Investment in Market Securities (TZS Billion)	Total (TZS Billion)	Percentage of Investment in Market Security (%)
30th June 2017	12	47	59	80
30th June 2018	17	30	47	64
30th June 2019	26	36	62	58
31st December 2020	47	16	57	28

Source: *Auditors' analysis of Audited Financial Statements 2016/17 -2019/20*

Table 3.15 shows that in financial year 2016/17, 80% of funds were invested in market securities leaving only 20% of the funds to finance its core activities, which was provision of loans. However, analysis also indicated that the trend of investment in market security declined to 28 % in year 2020.

It was also noted that, after CAG Report of the financial year 2016/17 which queried about investing in non-core functions, SELF MF changed from allocating significant funds into Market security to loan portfolio. However, Review of disbursement Reports from June 207/18 to 2020/21 indicated that, TZS 72.2 out of TZS 129.4 billion (equivalent to 56%) of the loan were disbursed to Commercial Banks contrary to strategic objective of the company of reaching out to un-served and under-served communities, especially those in rural areas refer **Figure 3.9**.

Figure 3.9*:* Distribution of Loan Portfolio



Source: *Disbursement Reports 2017/18-2020/21*

Figure 3.9 shows that, during the period 2017/18 to 2020/21, SELF MF invested 56% of its funds into commercial banks contrary to the requirements of Credit Policy of 2019.

Interviews with SELF MF Officials revealed that, investments in market security were done for the purpose of liquidity management. Also, according to SELF management, loans provided to Commercial Banks were intended to serve underserved market such as SMEs and individuals. However, evidence provided by management did not justify loans were provided to underserved market. Management further acknowledged that, the Fund lacked tracking mechanisms to ensure loans granted to intermediaries reaches the targeted beneficiaries as per agreed terms.

As a result, SELF MF failed to fulfil its primary objectives to the extent that some of the districts were not reached as explained in **Section 3.4.3** of this report.

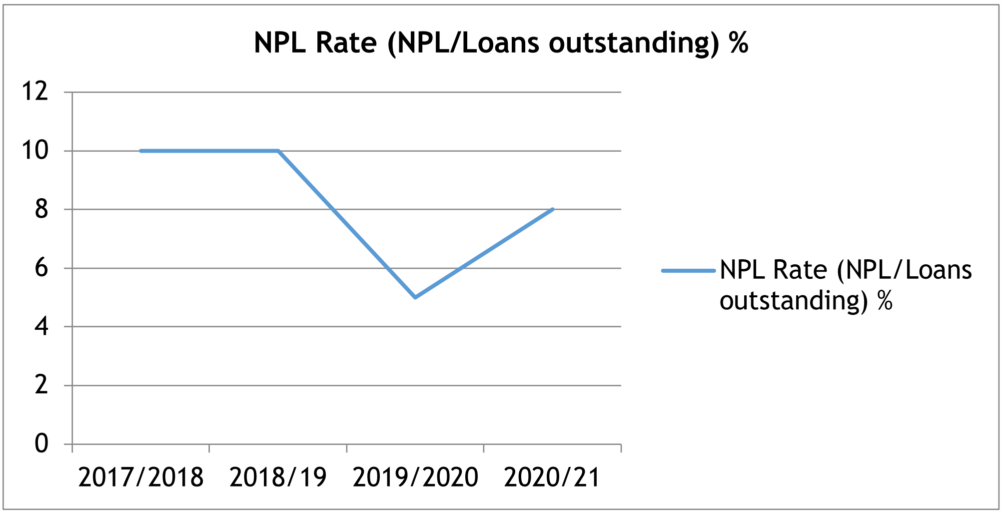
Apart from allocating 56% of its funds to non-core activities and untargeted groups, SELF MF had a number of other weaknesses related to operations of the Fund noted during the audit. These are presented below:

a) Fluctuation Trend of NPL Rates

According SELF MF Credit Policy of 2019 Loans which have been classified as Substandard, Doubtful or Loss (past due over 90 days) have to be re-categorized from Performing to Non-Performing Loans (NPLs).

Review of the Loans Overdue Reports for the period of 2017/18 to 2021 it revealed that there was increasing trend of non-performing loans. It was noted that NPL increased from TZS 2,125,951,601 in 2017/18 to TZS 2,785,330,167 in 2020/21. However, further analysis indicated that NPL rates were fluctuating within this period. This was attributed to the increase and decrease of loans outstanding as shown in **Figure 3.10**.

Figure 3.10: Status of NPL Rates



Source: *Auditors' Analysis, 2022*

The audit found out that, fluctuation of NPL rates was caused by inadequate loans monitoring as detailed in **Section 3.4.2 (b)** of this report.

Increase in NPLs implied that loan quality was deteriorating. The increase in NPLs is not a desirable situation as it will affect sustainability of the Fund. For instance, review of Financial Statements revealed that, income from loan interests as a core source would not cover administration and personnel expenses of the Fund's as indicated in **Table 3.15.**

Table 3.15: Comparison between Interests from Loans and Expenses of the Fund

Item	Financial Year in TZS Million			
	2016/17	2017/18	2018/19	2019/20
Interest on Loans	1,481	1,965	1,721	8,063
Personnel Expenses	2,982	3,202	2,563	5,997
Admin Expenses	1,530	1,108	1,175	2,714
Total Personnel +Administration Expenses	4,512	4,311	3,738	8,711
Ratio	**0.33:1**	**0.46:1**	**0.46:1**	**0.93:1**

Source: *Auditors' Analysis of SELF Financial Statements*

Findings from **Table 3.15** shows that, even though the ratio between interests on loans to expenses[7] of the Fund improved from 0.33:1 in the year 2017 to 0.93:1 in 2020 yet, that income from loan interests was not sufficient to cover personnel and administration expenses of the Fund for the entire period under the review.

b) Portfolios at Risk (PAR) Above the Required Rate of 5%

According to the SELF MF Strategic Plan of 2017/18 to 2020/21, by 2021 the Fund was supposed to achieve less than 5% of portfolio at risk (PAR).

The rate shows the portion of the portfolio which have arrears and therefore at risk of not being repaid. The older the delinquency, the less likely that the loan will be repaid. Therefore based on best practices in microfinance industry, any portfolio at risk exceeding 10% should be a cause for concern, because unlike commercial loans, most microcredits are not backed by bankable collateral.

Review of Loan Portfolio Performing Reports, Client Wise Aging Report and Loans Overdue Reports both of 2021 revealed that SELF MF registered PAR of 11% above the target of less than 5% as shown in **Table 3.16**.

Table 3.16: Status of Loan Portfolios at Risk as at December 2021

System	Outstanding Principal in TZS	Amount of Loans in Arrears in TZS	Actual PAR 30 Days (%)	Target PAR 30 Days (%)
Oracle	35,501,719,989.63	3,301,348,969.23	0.9	5
Imfas	1,443,279,655.75	730,713,049.65	51	5
Total	**36,944,999,645.38**	**4,032,062,018.88**	**11**	**5**

Source: *Loan Portfolio Performing Reports, Client Wise Aging Report and Loans Overdue Reports, 2021*

According to the management this was caused by inadequate due diligence in loan appraisal, inadequate training to staff in credit management, and inadequate timely loan follows ups to borrowers and recovery of loan in arrears.

[7] *Personnel and administration expenses*

As a result of decline of loan quality, the Fund's sustainability will be at risk. Also the Fund will be unable to fulfil its primary objective of empowering underserved group especially those located in rural areas as explained in **section 3.4.3** of this report.

c) Delays in Processing of Loans

According to section 3.3 of SELF MF Strategic Plan (2017/18 to 2020/21), in order to improve business process SELF set target to achieve 30 days; 26 days; 20 days and 19 days loan turnaround rate by 2017/18, 2018/19, 2019/20, 2020/21 respectively. Loan processing time is computed starting from the date when the customer submits a completed loan application form.

The review of Internal Audit Report of 2020/21 noted that, there were delays of loan processing ranging from 6 to 57 days (Refer **Table 3.17**).

On the other hand, review of 50 sampled customer files and loan portfolios extracted from Oracle system revealed that SELF MF could not establish turnaround rates for their customers in order to assess their efficiency in service delivery. This was because, Oracle system recorded the same date of loan application and loan disbursement which was not realistic since it took some days to process the loans.

Table 3.17: Processing Time for Business Loans

Customer Name	Loan Received Date	Disbursement date	Agreed Loan turnaround time	Actual Loan turnaround time	Extra Days
Nuru Finance And Business Services Limited	24th June, 2019	9th September, 2019	20	77	57
Hochad Company Limited	25th September,2019	6th December, 2019	20	72	52
Business Finance And Insurance Ltd	7th October, 2019	25th November, 2019	20	49	29
Mmj Company Limited	3rd July, 2019	28th August, 2019	20	44	24
Tpb Bank Plc	31st October, 2019	19th December, 2019	20	44	24

Customer Name	Loan Received Date	Disbursement date	Agreed Loan turnaround time	Actual Loan turnaround time	Extra Days
Pli Microfinance Company Ltd	14th August, 2019	26th September ,2019	20	43	23
Unicredit Microfinance Limited	3rd October, 2019	15th November, 2019	20	43	23
Hp Microfinance Company Ltd	25th September, 2019	27th November, 2019	20	41	21
Tujijenge Tanzania	22nd May, 2019	10th July, 2019	20	41	21
Tepro Microfinance Limited	27th - September, 2019	27th November, 2019	20	40	20
Matare Credit Limited	22nd July, 2019	12th September , 2019	20	38	18
Manyanya Kitalala And Sons Company Limited	25th September, 2019	31st December, 2019	20	35	15
Enterprise Finance Limited	8th October, 2019	21st November, 2019	20	34	14
Kisasi Finance Limited	1st August, 2019	1st October, 2019	20	30	10
Sharp Financial Services(T) Limited	10th September, 2019	9th Oct0ber, 2019	20	29	9
Ruangwa Teachers Saccos	27th February, 2019	9th July, 2019	20	27	7
African Microfinance Limited	8th April, 2019	27th September , 2019	20	26	6
Gateway Insurance Agency Limited	5th August, 2019	5th September , 2019	20	23	4
Pamoja Financial Services Limited	14th August, 2019	10th October, 2019	20	23	3
Micro Trust Finance Ltd	9th August, 2019	5th September , 2019	20	14	-6
Maendeleo Bank Plc	10th October, 2019	5th November, 2019	20	14	-6

Source: *Auditors' Analysis of Internal Audit Reports, 2022*

According to the management delays in processing of loans were attributed to several factors including; Delays in submission of additional collaterals, irregularities on submitted documents, registration issues in legal mortgages, insufficient number of staff, and incomplete loan applications. For example, **Table 3.18** shows the reasons for delays in processing loans of few selected clients for the period of more than 29 days.

Table 3.18: Reasons for delays in Processing Loans

Customer Name	Reasons for Delay
Nuru Finance and business services Ltd	Insufficient collateral pledged during loan application, additional collaterals requested were not provided on time.
	Late submission of valuation report for the additional collaterals prolonged the loan processing time.
Hochad microcredit company Ltd	Insufficient documents during loan application prolonged the loan processing time.
	Irregularities on Audited report submitted was not rectified on time and hence prolonged the loan processing time.
Business finance and insurance Ltd	The registration of legal mortgage took more than a month to complete.

Source: *SELF MF, 2022*

Delays in processing of loans was a threat to customer satisfaction and to the SELF MF's target of retaining its customers by 85% by the 2021.

d) Weaknesses on the Management Information Systems

SELF MF uses Oracle System to support its operations. The system is enterprise based which can perform some key processes of the Fund. However, through review of the various reports generated by this system and interview with management, the following weaknesses were noted:

(i) ***Failure of the system to perform loan restructuring***: According to paragraph 8.3.3.1 of the SELF Credit Policy of 2019, Restructured Loan is defined as any loan that has been rescheduled, modified or refinanced in accordance with the new agreement between the Fund and the borrowing MFI, thus setting forth a new repayment plan involving both the principal and interest thereof. The modification may include, but not limited to, change in maturity, interest rate, collateral or an increase in the face amount of the loan.

Once the agreement regarding loan restructuring is reached between the Fund and the customer, then amendment is supposed to be done through the system to reflect the changes. However, the audit found that the existing system was not able to perform loan restructuring by making all necessary amendments.

This resulted into inadequate loan monitoring and credit risk management to the extent of increasing the number of non-performing loans increased.

(ii) ***Failure of the system to charge penalties***: Based on paragrapg 5.6 of the SELF Credit Policy of 2019, SEL MF is supposed to charge a penalty of 3% per annum above the interest rate on the missed principal instalment (s) if the borrower fails to repay on time. Charging penalties to overdue loans is one of the key business processes with respect to credit management. This process was supposed to be integrated in the system. However review of the system reports revealed that the system cannot charge penalties to overdue loans. According to SELF Management penalty is calculated manually for all borrowers who fail to repay on time.

Therefore, it was difficult to account for the penalties, monitor how much was collected and account for the outstanding balance for each overdue loan. As a result, SELF MF may lose revenue from penalties.

(iii) ***Failure of the system to perform loan aging analysis***: Paragraph 5.3.3 of the SELF Credit Policy of 2019 requires that, among of the key reports to be submitted to Branch Management Credit Committee (BMCC) is Loan portfolio analysis, which shows details such as age analysis, loan loss provision, non-performing loans and loan write off.

However, review of system reports revealed that the System could not perform loan aging analysis. This may result into inaccurately classification loans according the requirement of the credit policy. In turn might hinder effective loans monitoring.

(iv) ***The system was not integrated with other systems:*** Section 5 (g) of the e-Government Act 2019 requires the e-Government Authority to ensure integration and interoperability of Government ICT systems and other systems offering services to the Government.

However, it was noted that the System was not integrated with Government payment systems. The audit saw that this has undesirable effects as it may lead to inaccurate tracking of reports on instalments due; outstanding balance and portfolios at risk.

3.4.2 Mechanisms for Loan Recovery were not Sufficient

In relation to loan recovery, the following were noted:

a) Employed Strategies Proved Failure to Facilitate Loan Recovery from Difficult Customers

SELF MF Recovery Unit is responsible for recovery follow ups, customer communications, and management of the Debt Collectors and preparations of all recovery reports. In case of taking action against customers the approval must be obtained from the approving authority in the Fund basing on the recommendations from Recovery and Legal Units.

Review of SELF MF Credit Procedural Manual, 2019 showed that, Recovery Unit used the following strategies to collect both non-performing and written off accounts: Close loan follow up by phone calls and customer visits; conduct face to face meetings; negotiations and loan rescheduling to those who cooperate.

On the other hand, according to the management, sometimes these strategies were not effectively functioning; and for the case of difficult customers whose loans were secured with collaterals "only landed collateral and/ or Motor vehicles" were recovered; the Fund appointed Auctioneers to make follow up by selling the collaterals. Other collaterals like Loan Portfolio Class A and Debenture were yet to be exercised in recovery processes.

According to SELF MF, it is difficult to recover loan through debenture because it is a security whose value depends on the performance of the borrower. It's also difficult to locate and arrange for recovering from Class A Loan Portfolio defaulted customers because SELF lacked control over customers of the Class A Loan Portfolio assigned as security.

It was further noted that, in 2020/2021 financial year the Fund stopped working with Auctioneers because this strategy was not performing well, and submitted the files to Taskforce from the Ministry of Finance and Planning for recovery assistance by the use of law enforcers. This strategy was performing well compared to working with auctioneers, but it was not sustainable because the Fund lacked legal mandate to do so.

Because of ineffective loan recovery mechanisms, reviewed Recovery Reports indicated that SELF MF recovered only TZS 1,161.6 Million out of TZS 2,770 Million (equivalent to 42%) of NPLs and TZS64.7 out of TZS 2,167 Million (equivalent to 3%) of written off loans (refer **Table 3.19**).

Table 3.19: NPL and Written off Loans Recovery in TZS Million

Year	NPL				Written Off		
2021/22	Outstanding loan	Cumulative collection		% of Recovery	Outstanding loan	Cumulative collection	% of Recovery
	2,770	Recovery unit	1,033	37.3%	2,167	Nil	0
		Auction	48	1.7%		Nil	0
		Task force	80.6			64.7	3%
Total	**2,770**		**1,161.6**	**3%**	**2,167**	**64.7**	

Source: *Recovery Report, 2020/21*

Table 3.19 showed that, the use of auction was not effective recovery strategy because it covered only 1.7% of cumulative collection as at 2020/21 when compared to other strategies such as task force and recovery unit.

The failure of this strategy was attributed to the fact that assets pledged as collateral were of low values at the time of actions. This might be due to improper valuation during loan appraisal or due to asset depreciations. Also according to SELF management auction was not effective because, most customers launched legal proceedings immediately after they received demand notes. However, SELF MF management did not provide evidence to support their explanation.

Generally, SELF experienced loss of revenue (interest from loans) due to failure to recover NPLs and written off loans managed by recovery unit.

b) **Monitoring of Loans Performance as among the Strategies was not Adequately Implemented**

According to paragraph 9.2 of the SELF MF Credit Policy of 2019, all outstanding loans in the portfolio were supposed to be closely monitored with the aid of the computer system. The Branch and Head Office staff were expected to use system generated reports on a daily, weekly and monthly basis, for monitoring and controlling the loan portfolios. Also, paragraph 9.3.1 (b) of the same Policy requires the Branch Officer to visit the borrower's business premises at least once every quarter in order to oversee business performance.

However, review of 50 sampled customer files indicated that monitoring which aimed at assessing performance of the customers' loans was not adequately conducted. The audit did not find any monitoring reports of such nature in the reviewed customer files. Furthermore, through interviews with officials, it was also revealed that monitoring with the aim of assessing the performance of customers was not conducted, although when they carry out field visits with other objectives such as awareness campaigns about the fund, sometimes they do monitoring of some customers. However, review of field visit reports showed that such monitoring processes were not adequately documented.

Moreover, the review of customer files showed that loans provided to the Commercial Banks were also not adequately monitored because the reviewed quarterly reports submitted by Commercial banks to SELF MF, showed that SELF MF did not verify whether beneficiaries are existing and belong to the intended groups.

Inadequate monitoring was caused by weaknesses of computer systems used by SELF MF because some system modules were not compatible with business processes and some processes were not part of the system. This fact is further explained in **Section 3.4.1 (d)** of this report.

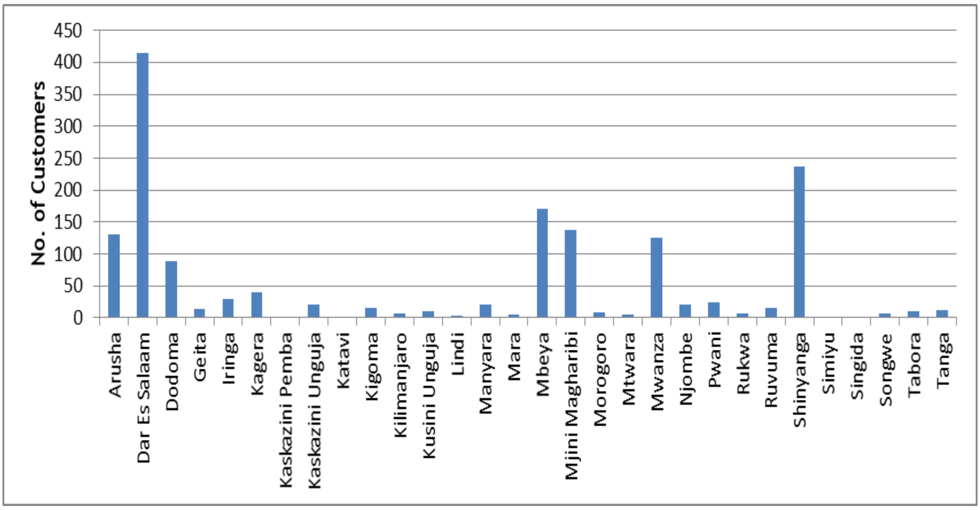
3.4.3 57% of Districts Were Served by SELF MF

According to Strategic Plan (2018/19 to 2020/21), SELF MF is supposed to reach out to un-served and under-served communities with financial services, especially those in rural areas. It is also obliged to enhance the capacity of Microfinance Institutions (MFIs) to render better services to these targeted clients. The business model was wholesale lending to eligible MFIs which in turn lend the money to entrepreneurs with income generating activities. SELF MF was also envisaged to extend lending to SMEs.

However, review of Loan Portfolio indicated that, 64 out 150 (equivalent to 43%) of districts (*both in Tanzania Mainland and Islands*) were never served by SELF MF.

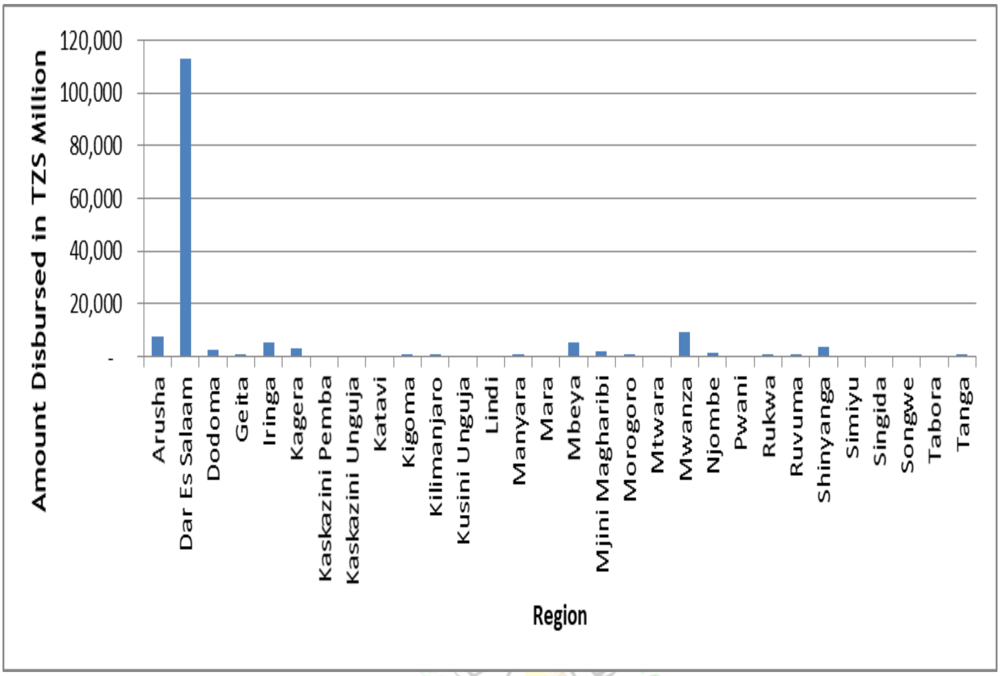
Review of Disbursement Report of September, 2021 indicated that Dar es Salaam is the region which was served the most in term of number of customers and funds. This is shown in Figures **3.11** and **3.12** respectively.

Figure 3.11*:* Distribution of Customers Served by SELF MF



Source: *Auditors' Analysis, 2022*

Figure 3.12*:* Amount of Fund Disbursed by SELF MF in Regions



Source: *Auditors' Analysis of Customer Base, 2022*

Figure 3.12 shows that, Dar es Salaam was the most served region whereby TZS 112,744 Million which is equal to 68%of total funds were disbursed.

Similarly, the audit noted that, SELF MF reached a total of 415 customers in Dar es Salaam which is 25% of all customers served by the Fund as it is further shown in **Appendix 4*.***

Generally, it was noted that 64 District Councils out of 150 all over the country which represent 43% were not reached at all.

Failure to reach 43% of the districts was attributed to the fact that SELF MF operates only in seven (7) branches namely Mwanza Branch, Mbeya Branch, Dar es Salaam Branch, Arusha Branch, Kahama Branch, Dodoma Branch and Zanzibar Branch. Furthermore, according to SELF MF management, most of the intermediaries (banks and MFIs being among their key customers) are located in Dar es Salaam which make most of the application for loan to be done in Dar es Salaam. But upon receipt of the loan, they distribute to their branches outside Dar es Salaam, however, SELF –MF system is not capable of capturing their respective geographical areas.

On the other hand, review of SELF Performance Report for Quarter 1, of 2020 revealed that the ratio of staffing at managerial levels in head office (back office) to that of zonal offices (front office) stood at 28:27. This implies that the Fund placed more staff at managerial level at headquarters and fewer staff worked in the zonal offices. This arrangement limited proximity to clients. It also undermined loan portfolio quality assurance and outreach of services to the needy people as indicated in **Table 3.20**.

Table 3.20: SELF Branches Network and Number of Employees

Branch Name	Coverage Region	Number of Employees
Dar es Salaam	Dar es Salaam, Coast, Mtwara and Lindi	5
Arusha	Tanga, Kilimanjaro, Arusha and Manyara	4
Mbeya	Mbeya, Songwe, Iringa, Ruvuma, Rukwa, Katavi, and Njombe	4
Mwanza	Mwanza, Geita, Kagera, Simiyu and Mara	5
Dodoma	Dodoma, Morogoro and Singida	2
Kahama	Shinyanga, Tabora and Kigoma	3
Zanzibar	Pemba North, Pemba South, Zanzibar North, Zanzibar South & Central and Zanzibar West	4
Headquarters		28
Total		**55**

Source: *Auditors' Analysis of SELF Performance Report Q1, 2020*

Analysis from **Table 3.20** shows that 51% of staff were located at the Headquarters of the Fund. This might lead to the fund to incur more travelling costs for the field visits to clients. Also the targeted groups could not be adequately served since not all targeted areas were reached by SELF MF.

3.5 Smallholders Credit Guarantee Scheme (SCGS) at Tanzania Agricultural Development Bank (TADB)

In February 2011, the Ministry of Finance and Planning signed loan agreements with International Fund for Agricultural Development in order to reduce poverty and enhance income for the rural people and secure food security on sustainable basis. This was done through Marketing

Infrastructure, Value Addition and Rural Finance Support Programs implemented by the Ministry of Investment, Industry and Trade. The programme introduced the Smallholder Credit Guarantee Scheme (SCGS) administered by the Tanzania Agricultural Development Bank (TADB) for loans extended to smallholder farmers by the Eligible Banks (EB) to mitigate credit risk of the underlying loans extended to the agricultural sector. Initial fund injected was TZS 36.5 billion. As at 31st September, 2021 fund grew to TZS 42.8 Billion.

On November 2020, TADB issued revised Guidelines for the Administration of the Smallholder Farmers' Credit Guarantee Scheme. This effort was made by TADB in order to provide guidelines that facilitate the smooth attainment of the intended objectives.

The audit noted, the following weaknesses regarding implementation of Scheme.

3.5.1 Guarantee were Provided to Unqualified Customers

Paragraph 1.3 of the Guidelines for the Administration of the Smallholder Farmers Credit Guarantee Scheme established limit of TZS 50,000,000 that can be borrowed.

The audit assessed whether guarantees were offered to qualified personnel and the following were noted:

a) Loans worth TZS 14.103.2 Billion were Guaranteed to Unqualified Individual Smallholder Farmers

According to the auditor analysis of the loan portfolio, 71 smallholders were guaranteed loans with more than the set limit of TZS 50,000,000.

Based on a review of Loan Portfolio, it was noted that individual smallholder farmers secured guaranteed for a loan of up to TZS 2,500 million contrary to the requirements of the guideline. In total loans of TZS 14,103.2 Million were guaranteed to unqualified customers.

According to a TADB officials, the guidelines allow for transactions over the thresholds if the transaction is determined to be a project with a significant impact on the agriculture sector and/or value chain. However, guidelines allow loan guarantees to be issued beyond set limits with the condition of that TADB will guarantee the loan beyond the set limits.

Furthermore, review of approval records showed that, approval was granted for the aforementioned loan requests, just like any other loan, but not for loans exceeding the stipulated cap. There was no rationale stated for approving guarantee over the specified limit. This might limit the provision of guarantee to a large number of Smallholder Farmers.

b) Loans of TZS 47.0836 Billion were Guaranteed to Unqualified SMEs and Corporates

According to Para 1.3 of the Guidelines for the Administration of the Smallholder Farmers Credit Guarantee Scheme, private organizations enterprises (SMEs and Corporates) operating along the value chain can be guaranteed for a loan amount of up to 1,000,000,000 or more if they can demonstrate linkages with smallholder farmers or farmers organizations. For instance taking of smallholder farmer's produce under contract farming, supply smallholder farmers with inputs and technology, provide technical support, rent farming equipment, engage in nucleus farming or out growers scheme), and utilize the financing to expand their business with smallholder farmers.

Review of Loan Portfolio indicated that, 21 SMES/Corporates were granted with loans amounting up to TZS 9.186 billion despite failing to follow the aforementioned conditions.

According TADB Management, SCGS guideline provides example of how such linkages can be identified but the list of examples stated is not exhaustive with many of the SMEs preferring to off-take through market driven prices as opposed to pre-agreed off-take agreements. Audit noted that, failure to abide to stated factors for demonstrating it limits the provision of guarantee to a large number of Smallholder Farmer.

Other weaknesses relating to provision of guarantees noted during the audit were as follows:

a) Different Interest Rates Ranges from 2% to 30%

The agreement between Government and TADB highlighted that, the overall goal of the Smallholder Farmers Credit Guarantee Schemes was to alleviate poverty by increasing rural people's incomes and ensuring long-term food security.

Review of loan portfolios indicated that, the Banks charged interest rates ranging from 2% to 30%. TADB Management disclosed that in 2020, TADB launched an effort for SCGS to obtain affordable interest rates, with rates not exceeding 16% to be eligible for cash cover guarantees.
The audit noted that, the Eligible Bank (EB) charged a wide variety of interest rates to the schemes. The dilemma was addressed by TADB by introduction of an interest rate ceiling for cash cover guarantees[8], but not for paper cover guarantees.

b) Claims of TZS 87 Million were Raised by Banks From Unguaranteed Customers

According to para 3.12.1 of the SCGS guarantee, Eligible Bank (EB) must submit a claim for payment of the guarantee amount only after the loan has been in "default" for more than one hundred fifty (150) days. Then, EB has to initiate recovery actions in accordance with its standard collection and recovery procedures, which include written notification to the borrower pending legal action and sale/disposition of security assigned to EB.

Review of Guaranteed Portfolio and raised claims noted that, one of the Eligible Banks filed claims for 165 non-guaranteed clients which amounted to TZS 87 million.

According to letters between TADB and the Eligible Bank, TADB instructed the Eligible Bank to begin recovery actions in accordance with the agreement.

According to a TADB officials, no claim had been paid up to the time of this audit, thus TADB has instructed the EB to initiate recovery action first.

[8]A guarantee facility that requires the guarantor/ THE ADMINISRATOR to deposit cash (the amount that is proportional to the agreed coverage ratio) to THE ELIGIBLE BANK as a cash cover collateral for the loan extended to the Eligible borrower

However, the audit noted that TADB did not communicate with EB about claims that were not guaranteed.

Furthermore, TADB highlighted that, the currently SCGS operations were done manually but the bank is in process of implementing a system that will support more seamless claim submissions and reporting which will restrict eligible banks from submitting non-existing claims. This could result in a payment to a non-guaranteed client.

3.5.2 A total of TZS 7 Billion of SCGS Funds were Not Used for Intended Purposes

According to para 2.4 of the Guidelines for the Administration of the Smallholder Farmers Credit Guarantee Scheme. The Administrator will keep CC as interbank placement or Fixed Deposit placements with the Eligible Banks (EBs); for short tenors which would be rolled over in a manner so as to cover the guaranteed loans at all times and at an interest rate to be agreed upon between Tanzania Agricultural Development Bank (TADB) and the EB prior to placement. Likewise para 2.5.2 (a and b) requires SCGS funds to be used for Settlement of claims and (b) any other purpose, as may be approved by the Government or TADB Board as long as it contributes to the objectives of the SCGS.

According to TADB third quarter financial report 2021, other source of income for SCGS were Interest Income from SCGS Cash Cover, SCGS Call Accounts, and SCGS Funds in the Main TZS Call Account. Review of Bank Statement for SCGS Call Account audit noted that, TZS 10,824,394,500 was transferred to TADB Development Account as shown in **Table.3.21.**

Table 3.21: Fund Transferred from SGSS Call Account

Date of Transaction	Transferred Amount (TZS)
22nd October, 2021	3,824,394,500
28th December, 2021	7,000,000,000
Total	**10,824,394,500**

Source: Auditors' Analysis of *Bank Statement and TADB Responses*

Table 3.22 indicates that, the total of TZS 7,000,000,000 and 3,824,394,500 was transferred from the SCGS Call Account to the TADB Account. According to TADB responses, TZS 3,824,394,500 was invested with NMB as SCGS Cash Cover Fixed Deposit as condition for provision of guarantee for SCGS, and

TZS 7,000,000,000 was transferred from SCGS Call Account to the TADB Main Account for effective liquidity management.

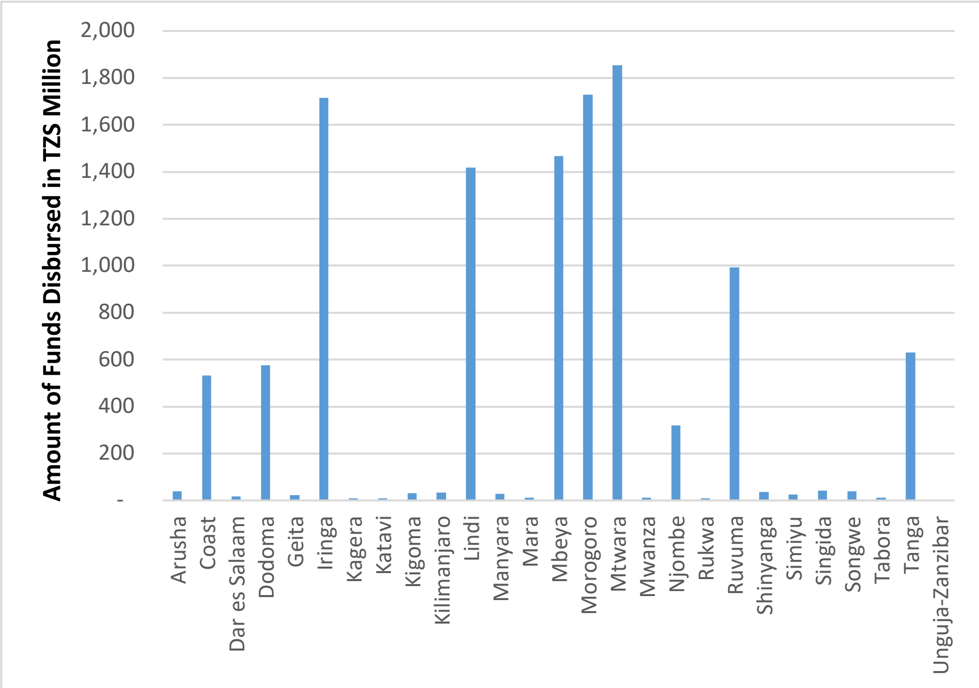
Also, TADB explained that, effective liquidity management is a key function of the bank, so TADB makes investments that are aligned to ensure the bank is effectively managing its liquidity positions at any point in a time. However, audit noted that this was contrary to para 2.5.2 (a and b) of the Guidelines for the Administration of the Smallholder Farmers' Credit Guarantee Scheme, which requires SCGS funds to be used for purposes/activities that contributes to the objectives of the SCGS and not for the liquidity position of the Bank.

Furthermore, TADB insisted that all SCGS funds were well accounted for in their books of accounts. But the audit noted that this was contrary to article 2.4.4 between MIIT, MoFP and TADB, which requires TADB to provide separate, accurate and complete information in respect of all transactions under SCGS.

3.5.3 89% of Districts were Served by TADB through SCGS

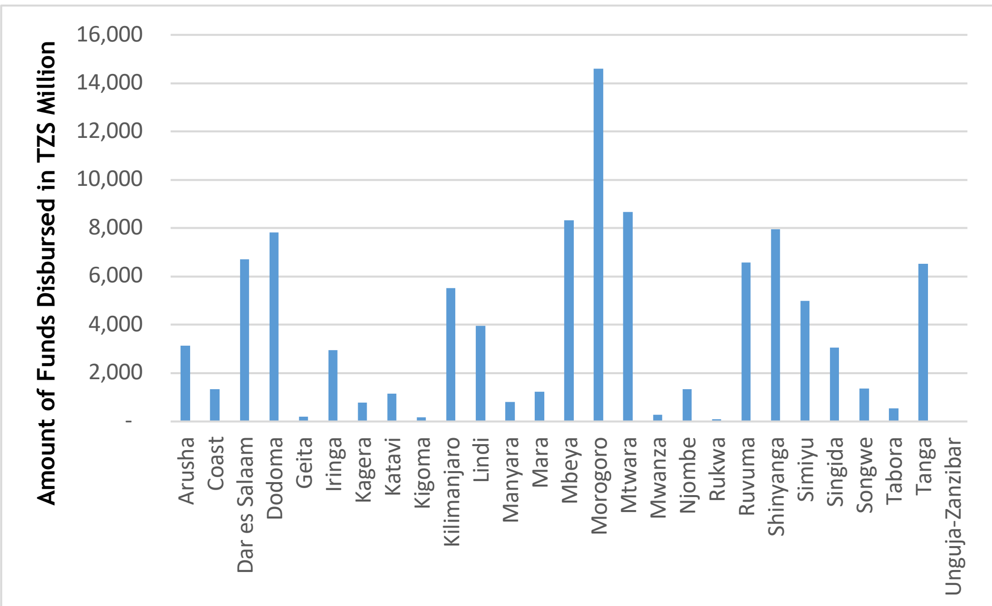
Review of Loan Portfolio Indicated that, 11% (17 out 150) of Districts were never served by TADB through SCCGS. Furthermore, analysis indicated that, Mtwara followed by Morogoro, Iringa, Mbeya, Lindi and Ruvuma had large number of customers served by TADB through SCGS (*Refer* **Figure 3.13***)*. However, large amount of fund was disbursed to Morogoro, followed by Mwanza, Mara, Shinyanga and Geita (*refer* **Figure 3.14).**

Figure 3.13: Distribution of Customers Served by TADB through SCGS



Source: *Auditors' Analysis of Customer Base, 2021*

Figure 3.14: Distribution of Fund Disbursed Customers by TADB through SCGS



Source: *Auditors' Analysis of Customer Base, 2021*

Figures 3.13 and 3.14 show that, Katavi, Rukwa, Kigoma, Geita, Tabora and Zanzibar were less served by TADB through SCGS.

Further analysis done by the auditors revealed that smallholder farmers dealing with Cashewnut crops were largely served by TADB through SCGS getting 15% of the total disbursement followed by cotton by 10% (**Refer Appendix 5**), because these crops were sold through a warehouse receipt system, which was less risky for banks.

3.6 Export Credit Guarantee Scheme (ECGS) at Bank of Tanzania (BOT)

Export Credit Guarantee Scheme (ECGS) was established in fiscal year 2002/2003 through Cabinet Order with the objective to provide guarantees to special projects which can increase employment opportunities and stimulate economy. The BoT was assigned to manage the scheme for provision of guarantees of 50% to 75% of the loans to potential borrowers who have not managed to access bank loans due to inadequate collateral.

The scheme was mainly financed by the Government of Tanzania and contribution from BoT and Development Finance Guarantee Facility (DFGF). Since its inception up to financial year 2020/21 a total of TZS 36.5 Billion was injected to the scheme.

Various efforts have been noted during the course of implementation of the scheme; among others these efforts include, engagement of Cardno Emerging Markets USA, Ltd (Formerly Emerging Markets Group, Ltd) during year 2009 to provide assistance in strengthening the management of the credit guarantee schemes and to help determine the best way to transform ECGS into an independent and sustainable entity.

However, the Audit noted the following areas for improvements regarding management of Export Guarantee Credit Scheme.

3.6.1 Pending Guarantees Applications Amounted TZS 227 Billion

Section 3.1 (a) of the Agency Agreement states that, during the tenure of this agreement the agent shall consider guarantee application from financing institutions and on behalf of the principal issue guarantees to the financing institutions. The Guarantee will cover short and medium term finance under SME-CGS; and short, medium and long term finance under ECGS as long as the capital in the ECGS account are not leveraged in the ratio more than 1:5. The ratio may be changed from time to time upon approval of the principal.

However, review of the Guarantee Application Report, 2021, revealed that the total of TZS 302 Billion worth of loan applications from various Commercial Banks were not guaranteed from financial year 2018/19 to 2020/21 as shown in **Table 3.22**. The audit noted that, applications were received by BoT for appraisal, evaluation of the financial Institution's credit assessment was done and due diligence of the projects were carried out but the guarantees were not approved.

Table 3.22: Pending Guaranteed Applications since July 2018 to January 2022

Financial Year	Financial Institution	Sector	Loan Amount (TZS Billion)	Guarantee Amount supposed to be granted (TZS Billion)
2018 – 19	NMB	Agriculture	22	17
	Azania	Agriculture	11	8
	CRDB	Agriculture	52	39
	CRDB	Manufacturing	17	14
	TADB	Manufacturing	9	6
Sub-Total			**111**	**84**
2019 – 20	NMB	Agriculture	20	15
	Azania	Agriculture	6	4
	CRDB	Agriculture	76	57
Sub-Total			**102**	**76**
2020 – 21	CRDB	Agriculture	79	59.2
	Azania	Agriculture	9	7.1
	NBC	Agriculture	1	0.6
Sub-Total			**89**	**66.9**
Grand Total			**302**	**227**

Source: *Auditors' Analysis of BoT performance Report 2021*

From **Table 3.22,** the total of TZS 227 Billion were supposed to be guaranteed if the applications were approved.

Failure to grant guarantees approval for the submitted applications was caused by the fact that the Scheme was not operational since 8th July 2018 due to expiry of the Agency Agreement between the Ministry of Finance and Planning and the BoT.

Therefore, the objectives of the scheme to promote export oriented economic development in general by encouraging high value exports that will generate high level of employment and foreign exchange earnings was not adequately achieved.

3.6.2 Potential Conflict of Interest

According to Section 5(1) of the Bank of Tanzania Act, 2006, the principal functions of the Bank is to exercise the functions of a central bank and, without prejudice to the generality of the foregoing. The BoT is expected to formulate, implement and be responsible for monetary policy, issuance of currency; regulation and supervision of banks and financial institutions including mortgage financing, development financing, lease financing, licensing and revocation of licenses; and also holding and managing gold and foreign exchange reserves of Tanzania.

However, BoT was assigned by the Government to be the implementer of the scheme. Therefore managing the scheme was not mandatory function of the Bank and was not within the scope of its functions as stipulated by the Bank of Tanzania Act 2006.

Review of Advisor Report of 2011 revealed that, the Government understood the potential for conflict that would arise for allowing BoT to manage guarantee schemes and encourage banks to utilize government guarantees. According to the Report, the Government assigned BoT to manage the scheme, because at the time when the scheme was established there were no other government entity with technical expertise and management capacity necessary to manage the schemes.

Furthermore, review of ECGS Annual Performance Report 2020, revealed that on 6th August 2012, the Ministry of Finance and Planning vide a letter Ref. No TYC/B/60/1/01/95 approved the process of transforming the Credit Guarantee Scheme into an independent Credit Guarantee Agency outside the Bank of Tanzania.

The Ministry set up a Task Force Team comprising members from the Ministry of Finance and Planning and the Bank of Tanzania (Credit Guarantee Scheme Department) to prepare the Cabinet Paper for Credit Guarantee Scheme transformation process. The First draft of the Cabinet paper was developed and subsequently submitted to the Cabinet Secretariat on 21st May 2013 for review and subsequent submission to the cabinet for approval. And until the period under review the transformation status was yet to be decided.

As a result the BoT may be subjected to political pressure. For example, the BoT may be forced to guarantee loans to borrowers who are not creditworthy, deny legitimate claims, or extend guarantees beyond a prudent period. Moreover, in its role as a scheme manager, the BoT might be more prone to encourage Commercial Banks to postpone making claims as long as possible, even when it is apparent that the borrower cannot repay in full.

3.6.3 Status of Non-Performing Guarantees

According to Section 3.1 (e) of the Agent Agreement, the Agent is supposed to monitor the performance of guaranteed projects.

Review of Annual Performance Reports revealed that, there was slight decreased trend of the projects which were in default. That is, during 2018/19 and 2019/20 the ECGS' portfolio was still over-burdened by projects which are in default (but cannot be paid off). About TZS 37,141 Million guarantee amount in default was reported in that period. Also during 2020/21 ECGS' guarantee amount in default decreased to TZS 32,923 Million (***see*** *Table 3.23*).

Table 3.23: Non-performing Loans as at 30th June, 2021

SN	Financing Institution	Loan Approved (TZS Million)	Guarantee Issued (TZS Million)	O/S Guarantee Amount in Default (TZS Million)		
				2018/19	2019/20	2020/21
1	CRDB Bank	15,469	11,602	11,602	11,602	11,602
		49,692	37,269	2,169	2,169	1
		46,093	34,570	902	902	33
		50,141	37,606	380	380	0.00
		42,708	32,031	84	84	84
		26,303	19,727	32	32	32
	Sub Total	**230,406**	**172,804**	**15,168**	**15,168**	**11,751**
2	NMB	40,858	30,643	651	651	651
		54,086	54,086	4,900	4,900	4,900
		52,945	39,709	5,463	5,463	5,463
		3,551	2,663	1,443	1,443	1,443
		29,049	21,787	548	548	548
		28,912	21,684	911	911	911
		25,184	18,888	7	7	7
	Sub Total	**234,586**	**189,461**	**13,921**	**13,924**	**13,924**

SN	Financing Institution	Loan Approved (TZS Million)	Guarantee Issued (TZS Million)	O/S Guarantee Amount in Default (TZS Million)		
				2018/19	2019/20	2020/21
3	Exim Bank	4,801	3,600	3,600	3,600	2,799
	Sub Total	**4,801**	**3,600**	**3,600**	**3,600**	**2,799**
4	PTA Bank	1,218	914	914	914	914
		3,596	2,697	2,697	2,697	2,697
		1,676	838	838	838	838
	Sub Total	**6,490**	**4,449**	**4,449**	**4,449**	**4,449**
GRAND TOTAL		**476,282**	**370,314**	**37,141**	**37,141**	**32,923**

Source: *Auditors' Analysis of BoT performance Report 2021*

Based on such Performance Reports, the defaulted loans in the manufacturing sector were due to poor management, power outages and poor marketing strategies among others in the manufacturing industries; while the agricultural sector default was caused by unfavorable weather, drop in price for agricultural produces, and unreliable market for the case of Cashewnut; poor management and side selling for the case of tobacco crop.

This resulted into outstanding claims amounting to TZS 32,923,320,635.70.

3.6.4 Guarantees Issued Above Required Coverage Rate

According to paragraph 8.1 of Export Credit Guarantee Scheme Policy and Operational Guidelines, 2003 the maximum guarantee cover is supposed to be, unless otherwise determined by the scheme, as follows: (i) Pre-shipment credit guarantee - 80%; (ii) Export production credit guarantee - 85%; (iii) Post-shipment credit guarantee - 75%; and (iv) Export performance guarantee – 75%.

However, review of Annual Performance Report of 2020 showed that a total of TZS 84 Billion worth of guarantees were issued at rates that were above the required rates as indicated in **Table 3.24**.

Table 3.24: ECGS Guarantees Issued Since 2002 and Beneficiary Projects above Required Level of Guarantee

Project	Product	Institution (Lender)	Loan Amount TZS	Guaranteed Amount TZS	Level of Guarantee
Star Apparel	Textile	CRDB Bank	4,870,821,246	4,870,821,246	100
Tanzania Pyrethrum Board	Pyrethrum	Standard Chartered	1,480,000,000	1,480,000,000	100
La Fleur D'afrique Ltd	Flower	Tanzania Investment bank	393,000,000	385,000,000	97
158 Coop. societies	Cashew nut	NMB	18,723,439,476	23,300,280,237	125
216 PCS in Mtwara, Lindi, Ruvuma, Coast & Tanga	Cashew nuts	NMB	54,086,290,526	54,086,290,526	100
Total			**79,553,551,248**	**84,122,392,009**	

Source: *Auditors' Analysis of BoT performance Report, 2021*

The audit further noted that, MoFP interventions were the cause for issuance of guarantee above prescribed rates. For instance on 29th March, 2012, the Minister of Finance, BoT and NMB executives held a meeting regarding guarantee issued to 216 PCS in Mtwara, Lindi, Ruvuma, Coast and Tanga. Through letter with Ref. No IA.30/229/01 of 13th April, 2012 this guarantee was issued contrary to the requirements of the operational manual. Furthermore, BoT was not provided with the minute of the said meeting and reasons for the decision.

Issuance of guarantees of higher values might limit number of beneficiaries of the scheme. Also in case these guarantees defaulted the BoT would substantially suffer and, ultimately capital of the scheme will be reduced.

CHAPTER FOUR

FINANCING, COORDINATION AND MONITORING THE PERFORMANCE OF GOVERNMENT FUNDS AND PROGRAMS

4.1 Introduction

This chapter presents key findings regarding Financing of Government Funds and Programs by the Ministry of Finance and Planning; and Coordination, Monitoring and Evaluation on the Performance of Government Funds and Programs as performed by the Ministry of Investment, Industry and Trade (MIIT) through National Economic Empowerment Council (NEEC) and the Ministry of Finance and Planning (MoFP).

The findings are presented and discussed in details below:

4.2 Financing of Government Funds and Programme by the Ministry of Finance and Planning

The Audit Team assessed to find out how financing for the various Government Funds were managed by the Ministry of Finance and Planning (MoFP).The audit came up with a number of findings in this regard as discussed below:

4.2.1 Funds/Programs were Disbursed with Less of the Requested Amount

Public Investment Management Operational Manual (2015), requires MoFP to ensure funds are timely disbursed and used in line with the existing guidelines. Generally, the Evaluation Report on the Performance of the Funds/Programs 2021 , indicated that 7 out of 9 GFPs that directly provide loans to small and medium enterprises (SMEs) in the country have inadequate financing capacity due to inadequate funds allocations from the Ministry of Finance and Planning (Refer to **Table 4.1**). Inadequate financing is one of the challenges in implementation of the community empowerment goals as planned by the Government.

Table 4.1: Financing Status of GFPs

Name of the Fund	Financial Status[9]	Operating Status
SELF MF	Adequate	Operate
SIDO RRF	Inadequate financing	Operate
Youth Development Fund	Inadequate financing	Operate
Women Development Fund	Inadequate financing	Operate
National Entrepreneurship Development Fund (NEDF)	Inadequate financing	Operate
Agricultural Inputs Trust Fund	Inadequate financing	Operate
Kilimo Kwanza Catalyst Fund	Adequate	Operate
National Fund for Disabled	No Financing	Not operating
Arts and Cultural Fund	No Financing	Not operating

Source: *NEEC Evaluation Report on the Performance of the Government Funds/programs, 2021*

Based **on Table 4.1**, two Funds namely; the National Fund for disabled and Arts and Cultural Fund were not operating due to lack of financing.

Furthermore, review of the Evaluation Report of GFPs (2021) indicated that, from 2014/15 to2019/20, only TZS 69,000,000 was disbursed to the Women Development Fund (**Refer to Table 4.2**).

Table 4.2: Status of Funds Disbursed to WDF from MoFP from Financial Year 2014/15 to 2019/20

Financial Year	Government Contribution(TZS)
2014/15	0
2015/16	0
2016/17	69,000,000
2017/18	0
2018/19	0
2019/20	0
Total	**69,000,000**

Source: NEEC *Evaluation Report on the Performance of the Government Funds/programs, 2021*

Table 4.2 shows that, for the period of 6 years, WDF did not receive anfunds from MoFP, with the exception of the 2016/17 financial year.

Inadequate funding was also found in National Entrepreneurship Development Fund (NEDF). As indicated in the SIDO Performance Report (2021) NEDF was established in 1994/1995 and financed by the government

[9] No figure was given, but report just indicate adequate/inadequate

through the yearly budget under the Ministry of Trade and Industries. From financial year 1994/95 to 2020/21, the total of TZS 18,049,000,000, equivalent to 73.3% of all funds approved by the National Assembly for Financing NEDF, was not disbursed (refer to **Table 4.3)**.

Table 4.3: Approved Budget Vs Disbursed for Financing NEDF

Financial Year	Approved Budget in TZS	Disbursed Amount in TZS	Deficit in TZS
1994-1995	800,000,000	500,000,000	300,000,000
1997-1998	300,000,000	300,000,000	-
2005-2006	1,000,000,000	1,000,000,000	-
2006-2007	1,000,000,000	500,000,000	500,000,000
2007-2008	500,000,000	300,000,000	200,000,000
2008-2009	500,000,000	500,000,000	-
2009-2010	500,000,000	500,000,000	-
2010-2011	500,000,000	451,000,000	49,000,000
2011-2012	500,000,000	500,000,000	-
2012-2013	500,000,000	500,000,000	-
2013-2014	1,000,000,000	-	1,000,000,000
2014-2015	1,000,000,000	-	1,000,000,000
2015-2016	500,000,000	-	500,000,000
2016-2017	1,500,000,000	-	1,500,000,000
2017-2018	2,000,000,000	-	2,000,000,000
2018-2019	10,000,000,000	-	10,000,000,000
2019-2020	1,000,000,000	-	1,000,000,000
2020-2021	1,597,886,000	1,597,886,000	-
Total	**24,697,886,000**	**6,648,886,000**	**18,049,000,000**

Source: *Analysis of SIDO Report, 2021*

Table 4.3 further indicates that, for the last 8 financial years, the government, through the Ministry of Finance and Planning (MoFP), has financed NEDF only once in a year. As a result, the total of 8,758 qualified loan applicants (equivalent to 49%), were not served due to financial constraints; ***see table 4.4*** for more information.

Table 4.4: Qualified Loan Applicants Vs Loans Issued through NEDF

Financial Year	Loan Application Received		Loan Amount Issued		Unserved Loan Applicants	
	No. of Applicants	Value in TZS "000,000"	No. of Applicants	Value in TZS "000,000"	No. of Applicants	Value
2017-18	6,702	12,166.5	3,306	5,918.5	3,396	6,249
2018-19	4,392	8,994.0	2,434	4,462.5	1,958	4,531.2
2019-20	**3,807**	**7,870.9**	**2,020**	**3,885.4**	1,787	3,985.5
2020-21	3,115	6,855.7	1,498	3,141.7	1,617	3,714.0
Total	**18,016**	**35,887.1**	**9,258**	**17,408.1**	**8,758**	**18,479.7**

Source: Auditors' *Analysis of SIDO Report, 2021*

Table 4.4 shows that 8,758 loan applicants did not receive loans with a value of TZS 18,479.7 million. Furthermore, the audit noted that the trend of loan applications through NEDF declines yearly. An interview with a SIDO official revealed that loan applicants have lost hope of getting loans due to failure to receive loans in previous applications. Also, the audit revealed that effort to promote loan products has been minimized due to lack of financial capacity to serve the current customers.

Likewise, only TZS 3,306,274,000 out of 10,259,536, 061 equivalent to 32% were disbursed to the Youth Development Fund for the period covering five financial years, from 2015/16 to 2019/20 as indicated in **Table 4.5**.

Table 4.5: Status of Requested versus Disbursed Funds for the Youth Development Fund

Financial Year	Requested Amount in TZS	Disbursed Amount in TZS	Percentage (%)
2015-16	2,653,200,000	967,887,000	36
2016-17	2,407,536,000	997,104,000	41
2017-18	2,893,532,000	783,283,000	27
2018-19	1,036,405,300	0	0
2019-20	1,268,862,761	558,000,000	44
Total	**10,259,536,061**	**3,306,274,000**	32

Source: *Evaluation Report on the Performance of Government Programs, 2021*

The audit noted that inadequate financing was attributed to the presence of many GFPs offering the related services and depending on government subsidies on the yearly budget.

4.3 Coordination, Monitoring and Evaluation of the Performance of Government Funds and Programs (GFPs) by MIIT through NEEC

MIIT through NEEC and MoFP employed several measures to Government Funds and Programs (GFPs) to ensure that they are performing well. Such measures include assessment on the performance of GFPs for the period of five (5) years from 2015/16 to 2019/20; the enactment of the Microfinance Act and Regulations; the development of National Economic Empowerment Regulations (Draft level); and the development of Guidelines for Monitoring GPFs in the year 2021. During the audit, the following were noted:

4.3.1 Inadequate Coordination in Establishment and Operations of GFPs

The National Microfinance Policy (2017) requires the Ministry responsible for Private Sector Development, Investments and Economic Empowerment and National Economic Council (NEEC) to coordinate all Government Funds and Programs responsible for microfinance services.

Review of MIIT Report 2022, showed that there were 52 Government Funds and Programs dealing with economic empowerment in Tanzania focusing on provision of loan provision and recovery services (refer to **Table 4.6).**

Table 4.6: Number and Status of Government Funds and Programs

Government Fund and Programs	Active Providing Services	Loan Repayment	Total
Provision of Loan	17	4	21
Provision of Guarantee Scheme	7	2	9
Provision of Grant	17	0	17
Economic Empowernment Programs	5	0	5
Total	**46**	**6**	**52**

Source: *Analysis of MIIT Reports of Government Funds and Programme, 2022*

From **Table 4.6** it is seen that, 88 % (46 out of 52) of Government funds and programs were actively providing loans, guarantees, grants, and other economic empowerment initiatives. 12 % (6 out of 52) of Government Funds and Programs focused on loan recovery and do not provide new loans.

After the review of the NEEC Evaluation Report (2020), the audit found that, nine (9) of the 12 current Funds targeted nearly the same category of beneficiaries as they all focused to finance small businesses (Refer ***Table 4.7***).

Table 4.7: Analysis of the Funds Providing Loans to Small and Medium Enterprises (SMEs)

Name of Fund	Objective	Target Group
Youth Development Fund –YDF	Provide Loan to youth for introducing or developing economic projects	Youth, Male and female with the age between 15 and 35
Women Development Fund – WDF	Provide Loan to women for introducing or developing economic projects	Women above 18 years old
National Entrepreneurship Development Fund - NEDF)	Provide loan to Small Industries Holders and Small business Enterprises	Small Industries Holders and Small business Enterprises
Agricultural Inputs Trust Fund –AGITF)	Provide loan for agricultural inputs	Farmers; AMCOS and SACCOS ;Agents and Entities dealing with Agribusiness
SELF Microfinance Fund	Provide whole sale loan to MFI dealing with provision of loan to SME	SACCOS; Community Banks; and Microfinance Companies.
Kilimo Kwanza Fund-KKCF	Promoting Agriculture Sector.	Small and Medium Farmers; AMCOS and SACCOS
SIDO Regional Revolving Fund (SIDO RRF)	Provide loan to Small Industries Holders and Small business Enterprises	Small Industries Holders and Small business Enterprises
National Disable Fund	To eradicate the relationship between poverty and disability	Provide loan to disable people

Source: *NEEC Summary Report, 2020*

Table 4.7 shows that, it is very possible for one person to be eligible to access loan from more than one fund. The audit noted that, most of the government funds especially those offering loans, focus on special groups like women, youth and small businessmen which expand the likelihood of them to have a wider scope of getting loans. For example, a woman who is disabled and works in agribusiness and is under the age of 35 could borrow from all nine (9) funds.

Audit noted that, presence of many GFPs were attributed by non operation of National Empowerment Fund for 17 Years. Sections 16 and 17 of the National Economic Empowerment Act of 2004 established the National Economic Empowerment Fund (NEEF). The Fund was mandated to monitor economic operations and provide technical and/or facilitation help as needed for the progress or expansion of economic activities in the country, among other things. Since its establishment the NEEF remained dormant for the past 17 years. According to officials, from the NEEC, the government has never invested any funds to NEEC since its formation.

Consequently, coordination was not done and each Fund/Program performed its activities separately without considering what other funds were offering. This has resulted in duplication of efforts and the existence of various performance weaknesses by the Funds and Programs as it was explained in Chapter three (3) of this report.

4.3.2 Lack of National Economic Empowernment Regulations

Section 4 (1) of the National Economic Empowerment Act No. 16 of 2004 mandated NEEC to provide Tanzanians with the opportunity to participate in economic activities; through encouraging and promoting Tanzanians' savings, investments, and meaningful economic participation; and managing, administering, and identifying sources of grants and donations for the Fund.

The audit noted that monitoring role assigned to NEEC were difficult to be achieved due to absence of the Regulations that would ensure that the assigned roles were carried out smoothly and effectively as defined in the NEEC Act No.16 of 2004. Interviews with NEEC officials indicated that the draft of the National Economic Empowerment Regulations was in place, undergoing review. The draft incorporates issues of compliance and enforcement as well as offences and penalties regarding institutions engaged in economic empowerment activities in the country.

4.3.3 Inadequate Monitoring and Evaluation of GFPs by MIIT Through NEEC

The National Microfinance Policy of 2017 requires the Ministry responsible for private sector development, investments and economic empowerment and National Economic Council (NEEC) to supervise, monitor, evaluate and prepare periodic reports on the performance of all Government Funds and Programs responsible for microfinance services.

The audit noted that MIIT and NEEC, as the organs responsible for monitoring and evaluation of GFP's, did not adequately monitor the performance of government funds and programs for the period of audit from financial year 2017/18 to 2021. This is because there was no plan in place for monitoring of the implemented activities. The audit noted that, the conducted monitoring were on an ad hoc basis. However, for the financial year 2021/22 the MIIT has allocated funds for undertaking M&E of economic empowerment Funds and Programs. The Ministry has also prepared a plan for undertaking M&E activities.

On the other hand, NEEC officials indicated that, monitoring and evaluation was done through quarterly reports received from GFP's. However, the audit did not see any evidence of feedback or recommendations made by MIIT or NEEC to GFPs regarding the analysis made through the said monitoring and evaluation programs.

It was further noted that MoFP, in collaboration with MIIT and NEEC, conducted a performance evaluation of government funds and programs for the period covering five years, i.e. from 2015/16 to 2019/2020. However, this was a government directive that aimed at assessing the performance of GFPS and not initiative taken by entities responsible for M&E.

Interview with a NEEC official revealed that the budget and legal framework limited the effective execution of the monitoring role. However, the audit noted that there was no plan on how GFPs would be monitored and evaluated.

Furthermore, according to the National Microfinance Policy, 2017, NEEC is obliged to monitor and evaluate the implementation of government funds and programs in the country. However, the Microfinance Act of 2018 and

Microfinance Regulations of 2019 are silent on how NEEC can implement its obligation as stated in the policy.

As a result, there is prolonged unsatisfactory performance of GFPs in the country, as explained in **Chapter 3** of this report.

4.4 Monitoring and Evaluation of the Performance of Government Funds and Programs by MoFP

MoFP has employed several measures to ensure that the Government Funds and Programs (GFPs) are performing well. Recognizing the importance of this sector in building the economy and reducing poverty, the government decided to establish this new division namely Financial Sector Development within the Ministry of Finance and Planning specifically for overseeing financial sector matters, including government funds and programs, in 2020. To ensure effective management of the government funds, among other things, the Division of Financial Sector Development developed Master Plan 2020/21-2029/30 to guide the direction of the sector for the next 10 years.

The Financial Sector Development has also conducted a study on government funds and programs to identify existing challenges and advise the government on the best way to address them. Moreover, the Department conducted an assessment of each fund to see their performance and the best way to manage them. During the audit, the following were noted regarding the coordination, monitoring, and evaluation of the performance of GFPs as performed by MoFP as shown hereunder.

a) Inadequate Periodic Monitoring on the Performance of Government Funds and Programs by MoFP

The National Microfinance Policy of 2017 requires the MoFP through the Microfinance Unit to have overall responsibility for regulating and supervising government funds and programs. This should specifically be done by keeping a database, monitoring, evaluating, and preparing periodic reports on the performance of microfinance sub-sector. Accordingly, Financial Sector Development Master Plan 2020/21-2029/30, recognize GFPs as one of the categories of Microfinance Institutions.

The audit noted that, MoFP through the Microfinance Unit did not adequately monitor the performance of government funds and programs. This is because there was no plan in place for monitoring of the implemented activities. Not only that but also, the Key Performance Indicators (KPIs) to assess the performance of GFPs were not available.

It was also noted that, there was no periodic reporting regarding performance of GFPs to show that monitoring and evaluation of GFPs was done. Regarding the ad hoc monitoring that were conducted by the Ministry, up to the time of this audit, there were no evidence of feedback or recommendations made by MoFP to the monitored GFPs.

The two performance evaluation of the Government Funds and Programs with supportive evidences which were observed by the Audit Team was conducted. One (1) conducted by MoFP in collaboration with MIIT and NEEC, for the period covering five years, from 2015/16 to 2019/2020. This was conducted as a fulfilment of the government directive that aimed at assessing the performance of GFPS; and the second report was produced by MoFP in 2020.

Generally, the audit found out that monitoring of GFPs through the Ministry of Finance and Planning is not adequate enough to guarantee effective management of the funds.

Due to inadequate monitoring of GFPs, there is prolonged unsatisfactory performance of GFPs without taking appropriate actions as explained in Chapter 3 of this report.

Furthermore, according to the National Microfinance Policy (2017), MoFP has an overall responsibility for regulating and Supervising the Government Funds and Programs in the country. However, the Microfinance Act (2018) and Microfinance Regulations of (2019) are silent on how those obligations can be implemented as stated in the policy. On top of that, there was no clear demarcation of roles between MoFP, NEEC and MIIT which distinguish who was supposed to do what with regard to database keeping, monitoring, evaluation, coordination and preparation of periodic reports on the performance of all government funds and programs.

CHAPTER FIVE

CONCLUSIONS

5.1 Introduction

This chapter draws the audit conclusions based on the findings presented in the previous chapters. The basis for drawing the audit conclusions is the overall and specific objectives of the audit as presented in chapter one of this report.

5.2 General Conclusion

The general conclusion from this audit is that, there are efforts shown by the selected implementing entities, Ministry of Investment, Industry and Trade (MIIT), National Economic Empowerment Council (NEEC), Ministry of Finance and Planning (MoFP) in fulfilling their designated roles regarding management of government funds and programs. However,there are critical challenges facing the GFPs which calls for strong interventions to further improve implementation, coordination and monitoring of government funds and programs. Furthermore, MIIT through NEEC and MoFP are required to strengthen coordination and monitoring of Government Funds and Programme in order to achieve economic empowerment.

Given these challenges, there is no assurance that, the GFPs dealing with provision of Loans have achieved or will achieve the intended objective of economic empowerment as planned. This is because the GFPS are not effectively and efficiently managed by the MIIT,NEEC and MoFP; and respective Implementing Entities (IEs).

5.3 Specific Audit Conclusions

The following are specific conclusions based on the three specific objectives:

5.3.1 Government Funds and Programs are not Suficiently Financed by the MoFP to Facilitate Economic Impowerment

Despite the government efforts, the findings from the audit indicated low possibility of achieving economic empowerment for the people of low income in Tanzania due to inadequate financial allocations from the MoFP to the GFPs. MoFP has insufficiently financed the GFPs leading to the failure to reach all individuals and groups in need of loans for various economic activities. As a result of financial constraints, other funds have failed to serve the qualified customers on time thus making them fail to implement their economic activities as planned.

The audit concludes that, financial constraints faced by the MoFP are attributed to the the tendency to have many GFPs targeting almost the same groups, which in turns contributes to the duplication of efforts and increase in the use of government funds without significant economic returns.

5.3.2 Responsible Implementing Entities failed to Adequately Implement the Government Funds and Programs

Implementing Entities did not ensure that Government Funds and Programs achieved their intended goal of providing financial services to low-income households and micro enterprises to ensure that they are economically empowered.

Moreover, outreach services to ensure effective provision of financial services to the entire country were not adequately addressed since four (4) implementing entities (IEs) out of five (5) indicated that not all district were reached by their services. Statistics showed that coverage of the IEs services countrywide stood at 58% for TIB through KKCF; 80% for AGTIF; 89% for TADB; and 57% for SELF MF.

Furthermore, provision of loan to unqualified customers, disbursement of loans before perfection of security; non-adherence to security conditions with Private Agricultural Sector Support Trust (PASS); and beneficiaries' tendency to use the loans for unintended purposes resulted to the presence of non – performing loans of TZS *24.6 billion* by TIB Bank through Kilimo Kwanza Catalyst Fund; TZS 20.1 billion by AGITF and TZS 2.7 billion by SELF MF.

The audit further concludes that, inadequate efforts were noted to all implementing entities to ensure timely recovery of loans and utilization of loan for the intended purposes. Use of PCCB and Taskforce from the Ministry of Finance and Planning for loans recovery assistance implies the failure of the mechanisms used by the implementing entities to make the borrowers repay their loans within the agreed time lines.

5.3.3 MIIT through NEEC and MoFP have Shown Inadequate Efforts to Ensure Government Funds are well Coordinated and Monitored

The audit concludes that coordination mechanisms for the GFPs are still not effective enough to ensure optimal performance by the Implementing entities of GFPs. This being the case, MIIT through NEEC and MoFP need to establish coordinated efforts to strengthen the coordination mechanisms for the Funds. Strengthening of coordination is important as it will result to having few GFP which are well resourced (both financial and human resources) and capable to increase their performance and ensure that all the intended beneficiaries get their services as required. Also this will help to avoid duplication of efforts by the implementing entities by offering the services to similar groups. It was evidenced in the finding chapter that nine (9) of the 12 current loan funds target nearly the same categories/groups of beneficiaries.

Failure to coordinate implementing entities responsible for implementation of GFP implies that NEEC did not manage to perform its core activity of coordinating their operations, monitoring their economic operations and providing them with technical support. Failure to operationalise the National Empowerment Fund for 17 Years was one of the strong evidencies the audit noted, showing how coordination of the funds was still not effective. .

The audit further concludes that that, MIIT and NEEC, as the organs vested with the monitoring and evaluation of GFP's, did not show sufficient efforts to monitor the performance of government funds and programs. Failure to have monitoring plans in place implies conduct of monitoring in adhoc basis. However, MIIT expects to have monitoring plan from 2021/22 after the completion and approval of the draft monitoring plan currently under preparation.

It is further concluded that, failure to clarify how NEEC can implement its obligations as stated in the policy, is a critical gap which calls for urgent improvement measures.

CHAPTER SIX

RECOMMENDATIONS

6.1 Introduction

This chapter contains recommendations to the Ministry of Finance and Planning (MoFP); and Ministry of Investment, Industry and Trade (MIIT) through National Economic Empowerment Council (NEEC). The audit acknowledges the Government's efforts towards improving implementation and monitoring of GFPs by responsible entities. However, more interventions are needed to bridge the observed gaps so as to ensure achievement of economic empowerment to the entire country.

The National Audit Office believes that these recommendations need to be fully implemented to ensure improvements towards implementation, coordination and monitoring of Government Funds and Programs.

6.2 Recommendations Regarding Financing, Coordination, Monitoring and Evaluation of GFPs

Ministry of Finance and Planning (MoFP) should:

1. Liaise with TIB to improve the Lending Framework of Kilimo Kwanza Catalyst Fund especially on aspect of management competence, experience, critical criteria for starts up capital; and Loan Securities in order to get potential customers capable to facilitate attainment of Funds objective;

2. Strengthen its mechanism for monitoring activities to ensure adequate planning and periodic supervision of the overall performance of GFPs and take actions timely;

3. Conduct follow –ups GFPs to ensure Funds are used for unintended objective;

4. Expedite establishment of independent entity/board to manage the Export Credit Guarantee Scheme so as to enable BOT to perform its regulatory role;

5. Liaise with MIIT and NEEC to ensure that, GFPs that offer related services to same customers are merged to avoid financial constraints caused by duplication of economic empowerments efforts; and renew operation of ceased GFPs, such as the Export Guarantee Credit Schemes;

6. Strengthen controls to ensure disbursement of fund is done after validation of all necessary securities requirements and documentation of all process involved and disbursed funds are used for the intended purpose and loan recovery is done timely; and

7. Liaise with BOT to ensure all claims for Export Credit Guarantee Schemes are verified and paid.

The Ministry of Investment, Industry and Trade (MIIT) should:

1. Strengthen mechanisms in place to ensure periodic follow -up of NEEC operations on GFPs.

National Economic Empowerment Council should:

1. Ensure GFPs develop Strategies to serve the intended customers;

2. Ensure GFPs strengthen recovery mechanisms to ensure all Non-performing loans for GFPs are recovered;

3. Ensure GFPs Strengthen loan appraisal system to ensure loaned beneficiaries have capacity to service their loans;

4. Liaise with MoFP and MIIT to ensure that, GFPs that offer related services to same customers are merged to avoid financial constraints caused by duplication of efforts; and renew operation of ceased GFPs, such as the Export Guarantee Credit Schemes; and

5. Strengthen its mechanism for monitoring activities to ensure adequate planning and periodic monitoring and evaluation of the performance of GFPs and suggest appropriate action.

REFERENCES

1) Agriculture Inputs Trust Fund: Credit Policy 2017.

2) SELF Microfinance Fund: Credit Policy of 2019.

3) SELF Microfinance Fund: Strategic Plan 2017/18-2020/21.

4) Tanzania Agricultural Development Bank: Guidelines for the Administration of the Smallholder Farmers Credit Guarantee Scheme.

5) Tanzania Agricultural Development Bank: Small Credit Guarantee Scheme.

6) Tanzania Investment Bank: Agricultural Window Framework.

7) United Republic of Tanzania: National Microfinance Policy 2017.

8) United Republic of Tanzania Public Finance Act 2001.

9) United Republic of Tanzania: Agriculture Inputs Trust Fund Act 1994.

10) United Republic of Tanzania: Bank of Tanzania Act, 2006.

11) United Republic of Tanzania: BOT Export Credit Guarantee Scheme Agency Agreement.

12) United Republic of Tanzania: e-Government Act 2019.

13) United Republic of Tanzania: Microfinance Regulation 2019.

14) United Republic of Tanzania: National Agriculture Policy 2013.

15) United Republic of Tanzania: National Economic Empowerment Act No. 16, 2004.

16) United Republic of Tanzania: National Economic Empowerment Policy 2004.

17) United Republic of Tanzania: National Microfinance Act 2018.

APPENDICES

Appendix 1: Responses from Ministry of Finance and Planning (MoFP); Ministry of Investment, Industry and Trade (MIIT), National Economic Empowerment Council (NEEC)

Appendix 1.1: Responses from Ministry of Finance and Planning

General Responses

The Ministry of Finance and Planning appreciate the good job that is being done by your office. Together with this, the Ministry of Finance and Planning agrees with Auditors' recommendations and will closely continue making follow ups to ensure GFPs improve performance and all funds are used for the intended objectives

Specific Responses

NO	RECOMMENDATION	MOFP-COMMENTS	ACTION	TIMELINES
1.	Liaise with TIB to improve the Lending Framework of Kilimo Kwanza Catalyst Fund especially on aspect of management competence, experience, critical criteria for starts up capital; and Loan Securities in order to get potential customers capable to facilitate attainment of Funds objective	MoFP agrees with Auditors' comments.	MoFP agrees with Auditors' comments. MoFP will communicate with TIB on improvement of the same.	June, 2022
2.	Strengthen its mechanism for monitoring activities to ensure adequate planning and periodic supervision of the overall performance of GFPs and take actions timely	MoFP agrees with Auditors' comments.	MOFP has directed GFPSs to periodically submit performance reports to ensure adequate planning and supervising of the overall performance of GFPs and take actions timely.	Sept, 2022
3.	Conduct follow -ups GFPs to ensure Funds are used for unintended objective.	MoFP agrees with	MoFP will continue making follow	Sept, 2022

NO	RECOMMENDATION	MOFP-COMMENTS	ACTION	TIMELINES
		Auditors' comments.	ups of GFPs to ensure all funds are used for the intended objectives.	
4.	Expedite establishment of independent entity/board to manage the Export Credit Guarantee Scheme so as to enable BOT to perform its regulatory role.	MoFP agrees with Auditors ' comments.	The Government is working on the submitted proposals on sustainable Management of these Schemes.	June, 2022
5.	Liaise with MIIT and NEEC to ensure that, GFPs that offer related services to same customers are merged to avoid financial constraints caused by duplication of economic empowerments efforts; and renew operation of ceased GFPs, such as the Export Guarantee Credit Schemes	MoFP agrees with Auditors' comments.	MoFP agrees with Auditors' comments. However, the Ministry of Finance and Planning had formed a Task Force to review the performance of GFPSs. The Task Force has provided recommendations to the Government on how best to operate the Schemes in an efficient and effective manner. The Government is working on the recommendations provided.	December, 2022
6.	Strengthen controls to ensure disbursement of fund is done after validation of all necessary securities requirements and documentation of all process	MoFP agrees with Auditors' comments.	MoFP agrees with Auditors' comments. However, disbursement of funds is also	N/A

NO	RECOMMENDATION	MOFP-COMMENTS	ACTION	TIMELINES
	involved and disbursed funds are used for the intended purpose and loan recovery is done timely		dependent on availability.	
7.	Liaise with BOT to ensure all claims for Export Credit Guarantee Schemes are verified and paid	MoFP agrees with Auditors' comments.	The Government is working on the submitted proposals on sustainable Management of these schemes. This issue will be addressed once decisions have been made.	December, 2022

Appendix 1.2: Responses from Ministry of Investment, Industry and Trade

General comment

The Ministry of Investment, Industry and Trade will follow up the merging of empowerment funds and programs which have the same or related roles, objectives, services and share the same targeted groups in order to improve performance of empowerment funds and programs as well as to enhance access of services to intended groups.

Specific Comments

NO.	RECOMMENDATION	MIIT COMMENT(S)	ACTION(S) TO BE TAKEN	TIMELINES
	Strengthen mechanisms in place to ensure periodic conduct of follow -up to NEEC operations on GFPs	MIIT agrees with recommendation	(i) To finalize development of Guideline for Management of Empowerment Funds and Programs for the aim of improving operation of empowerment funds and programs.	October, 2022
			(ii) To coordinate implementation of recommendations highlighted on report to enhance efficiency of empowerment funds and programs of 2021 in order to have few GFP which are well resourced and capable to increase their performance and ensure that all the intended beneficiaries get their services as required.	December, 2022

			(iii) To appoint staff at MIIT Headquarters in the Department of Economic Empowerment and Private Sector Development who will be responsible to oversee performance of empowerment funds and programs	March, 2022
			(iv) To enhance evaluation of performance of empowerment funds and programs.	December, 2022
			(v) To coordinate amendment of National Economic Empowerment Act No.16 of 2004	June, 2023

Appendix 1.3: Responses from National Economic Empowerment

Specific Comments

NO.	RECOMMENDATION	NEEC COMMENT(S)	ACTION(S) TO BE TAKEN	TIMELINES
1	Ensure GFPs develop Strategies to serve the intended customers	Noted for implementation	(i) NEEC will issue directives to Institutions which oversee GFPs to develop strategies for the aim of delivering services to the intended customers (ii) NEEC will make follow up on the availability of GFPs strategies.	By June, 2023
2	Ensure GFPs strengthen recovery mechanisms to ensure all Non-performing loans for GFPs are recovered	Noted for implementation	(i) NEEC will direct Institutions which oversee GFPs to develop recovery strategies for Non - performing loans; (ii) NEEC will monitor the implementation of recovery strategies; (iii) NEEC will monitor to identify institutions that do not have	By June, 2024

NO.	RECOMMENDATION	NEEC COMMENT(S)	ACTION(S) TO BE TAKEN	TIMELINES
			electronic credit management system as well as institutions that do not have guidelines for issuing and managing Credit (iv) NEEC will provide directives for reviewing guidelines and development of electronic System	
3	Ensure GFPs Strengthen loan appraisal system to ensure loaned beneficiaries have capacity to service their loans	Noted for implementation	(i) NEEC will direct Institutions which oversee GFPs to issue entrepreneurship training to SMES before the loan issue and continue to do monitoring on performance of the project financed to make sure the loan issued is serviceable (ii) NEEC will direct institutions which oversee GFPs to develop or review operational Manual governing	By June, 2023

NO.	RECOMMENDATION	NEEC COMMENT(S)	ACTION(S) TO BE TAKEN	TIMELINES
			management of loans (iii) NEEC will direct the Institutions which oversee GFPs to be registered in Credit Reference Bureaus so as to identify the dishonest clients during the loan appraisal	
4	Liase with MoFP and MIIT to ensure that, GFPs that offer related services to same customers are merged to avoid financial constraints caused by duplication of efforts; and renew operation of ceased GFPs, such as the Export Guarantee Credit Schemes	Noted for implementation	(i) NEEC and MIIT will conduct bilateral meetings with MoFP in order to discuss the operation of ECGS; (ii) NEEC and MIIT will continue to make follow up to the relevant authorities regarding the implementation of recommendations of merging GFPs	By June, 2022
5	Strengthen its mechanism for monitoring activities to ensure adequate planning and periodic monitoring and evaluation of the performance of	Noted for implementation	(iii) NEEC will set budget for M & E; (iv) NEEC will prepare M & E Plan every year;	By June, 2023

NO.	RECOMMENDATION	NEEC COMMENT(S)	ACTION(S) TO BE TAKEN	TIMELINES
	GFPs and suggest appropriate action		(v) NEEC will conduct monitoring and evaluation of GFPs; (vi) NEEC will prepare periodic reports on performance of GFPs; and (vii) NEEC will convene periodic meetings with GFPs	

Appendix 2: List of Documents Reviewed

Entity	Name of Document	Reasons
AGITF	National Agricultural Policy	To extract the information that enabled the audit team to evaluate performance of AGITF in achieving directives of the policies.
	AGITF Act 1994	To extract the criteria for measuring performance of the audited entities.
	Credit Policy	To assess if conditions stipulated in the policy are adhered to
	• Site visits Monitoring and Evaluation Reports • Progress Reports	Evaluate the progress of implementing the planned activities and extent of doing monitoring in AGITF loans and to identify various challenges emanating from the visits.
	Loan Portfolio Reports	To understand the pool of loans that are managed by the Fund vs recovered amount
	Financial Progress Reports	To find out the liquidity of the Fund and if the Fund is able to execute its function
	Client/customers loan files	To find out categories of loan offered, loan beneficiaries qualification and check if the loan issuance process were conducted as per stipulated procedures
	Internal Audit Reports	To find out various problem/weaknesses facing AGITF in execution of its functions and corrective actions taken
MIIT	• Progress reports • Evaluation reports	To assess the performance of Government Funds and Programs.
NEEC	• Progress reports • Monitoring &Evaluation reports	To assess the role of NEEC in monitoring the performance of Government Funds and Programs.
Ministry of Finance and Planning(MoFP)	• Progress reports on Government Funds • MOU between MOFP and TIB • Budget documents on capital injected on various Fund/Program • Audited Financial Statement for Kilimo Kwanza	-To assess oversight role conducted by the Ministry -To check capital injected to various GFP -To asses if MoFP have monitoring plan

Entity	Name of Document	Reasons
	Catalyst Fund (KKCF) • Plan for M&E of GFP's	
SELF MF	SELF Strategic Plan	To extract the information that enabled the audit team to evaluate performance of AGITF in achieving directives of the policies.
	Credit Policy / Manual	To assess if conditions stipulated in the policy are adhered to
	• Site visits Monitoring and Evaluation Reports • Progress Reports	Evaluate the progress of implementing the planned activities and extent of doing monitoring in AGITF loans and to identify various challenges emanating from the visits.
	Recovery Reports	To understand status of loan recovery
	Loan Portfolio Reports	To understand the pool of loans that are managed by fund vs recovered amount
	Financial Progress Reports	To find out the liquidity of the fund and if the fund is able to execute its function
	Client/customers loan files	To find out categories of loan offered, loan beneficiaries qualifications and check if the loan issuance process was conducted as per stipulated procedures
	Internal Audit Reports	To find out various problem/weaknesses facing SELF MF in execution of its functions and corrective actions taken
TIB	TIB Strategic Plan	To extract the information that enabled the audit team to evaluate performance of AGITF in achieving directives of the policies.
	Contract between MoFP and TIB Bank	To extract the criteria for measuring performance of the audited entities.
	Agricultural Window Lending Framework	To assess if conditions stipulated in the Policy are adhered to
	• Site visits Monitoring and Evaluation Reports • Progress Reports	Evaluate the progress in implementation of the planned activities and extent of doing monitoring in AGITF loans and to identify various challenges emanating from the visits.
	Recovery Reports	
	Loan Portfolio Reports	To understand the pool of loans that are managed by the Fund vs recovered amount

Entity	Name of Document	Reasons
	Agreement between TIB and PASS	To evaluate the implementation of agreements
	Financial Progress Reports	To find out the liquidity of the Fund and if theFfund is able to execute its function
	Client/customers loan files	To find out categories of loan offered, loan beneficiaries qualifications and check if the loan issuance process was conducted as per stipulated procedures
	Internal Audit Reports	To find out various problem/weaknesses facing TIB in execution of its functions and corrective actions taken

Appendix 3: List of Interviewed Officials

S/N	Title of Interviewew	Entity	Reasons
1	Commisioner of Financial Sector Development (FSD)	MoFP	Ministry had overall responsibility of regulating and supervising government funds and programs
2	Assistant Commissioners from FSD		
3	Financial Officer		
4	Management of SELF MF	SELF MF	SELF MF had overall responsibility of providing and ensure timely recovery of loans
5	Manager of Managed Fund	TIB	TIB had responsibility of providing and ensure timely recovery of loans issued through Kilimo Kwanza Catalyst Fund (KKCF)
6	Director of Credit Services		
7	Manager of Economic Empowerment	NEC	NEEC had responsibility of coordinating, monitoring, evaluation and periodic reporting of the performance of Government Funds and Programs
8	Manager of Managed Fund	TADB	TADB had responsibility of providing guarantee for smallholder farmers through Smallholders Farmers Credit Guarantee Scheme(SCGS)
9	Director and Assistant Director	MIIT	MIIT had responsibility of coordinating, monitoring, evaluation and periodic reporting of the performance of Government Funds and Programs
10	Managers and Principal Officers responsible for Guarantee Scheme	BOT	TADB had responsibility of providing guarantee for promoting of export through Export Credit Guarantee Scheme (ECGS)
11	Director of Credit Services and entire Management	AGITF	AGITF had overall responsibility of providing and ensure timely recovery of loans issued by Agricultural Input Trust Fund

Source: *Auditors' Analysis 2022*

Appendix 4: Percentage Loan disbursements in term of No. and Value Region wise by SELF MF

Region	Number of Customers	Percentage (%) of Customers	Funds Disbursed in Tzs	Percentage (%) 0f Funds Disbursement
Arusha	135	8.24	7,824	4.75
Dar Es Salaam	433	26	113,263	68.75
Dodoma	90	5	2,549	1.55
Geita	14	1	914	0.55
Iringa	33	2	5,570	3.38
Kagera	45	3	3,015	1.83
Kaskazini Unguja	20	1.22	399	0.24
Katavi	1	0	80	0.05
Kigoma	17	1	1,185	0.72
Kilimanjaro	6	0.37	804	0.49
Kusini Unguja	11	1	117	0.07
Lindi	4	0	400	0.24
Manyara	20	1.22	885	0.54
Mara	6	0	495	0.30
Mbeya	175	11	5,458	3.31
Mjini Magharibi	141	8.61	1,959	1.19
Morogoro	9	1	746	0.45
Mtwara	5	0	490	0.30
Mwanza	131	8	9,175	5.57
Njombe	22	1	1,513	0.92
Pemba	2	0	130	0.08
Pwani	24	1	483	0.29
Rukwa	8	0	844	0.51
Ruvuma	17	1	890	0.54
Shinyanga	239	15	3,450	2.09
Simiyu	1	0	2	0.00
Singida	1	0	50	0.03
Songwe	6	0	465	0.28
Tabora	10	1	479	0.29
Tanga	12	1	1,118	0.68
	1638	100	164,752	100

Source: *Disbursement Reports*

Appendix 5: Project Guaranteed by SCGS

Project Category	Loan Approved in TZS	Percentage (%)
Agro-inputs	2,137,500,000	2.1
Avocado	110,000,000	0.1
Banana	5,000,000	0.0
Barley	417,204,000	0.4
Beans	394,598,500	0.4
Cashew nut	15,443,870,000	15.4
Cassava	3,126,870,250	3.1
Cereals	9,614,800,000	9.6
Cocoa	2,314,664,463	2.3
Coffee	6,834,388,500	6.83
Cotton	10,531,058,350	10.52
Dairy	672,200,000	0.67
Fishing	281,500,000	0.28
Forestry	4,000,000	0.00
Ginger	557,000,000	0.56
Grape	240,556,000	0.24
Horticulture	360,103,000	0.36
Lemongrass	5,000,000	0.00
Livestock	1,853,383,433	1.85
Maize	7,408,030,318	7.40
Mixed crops	784,700,000	0.78
Onion	681,192,000	0.68
Orange	699,317,650	0.70
Paddy	10,438,150,887	10.43
Palm Oil	11,000,000	0.01
Potatoes	857,700,000	0.86
Poultry	6,162,125,000	6.16
Pulses	121,000,000	0.12
Sesame	1,550,735,000	1.55
Sisal	2,179,592,700	2.18
Sorghum	181,317,141	0.18
Soya Beans	1,000,000,000	1.00
Sugar Cane	6,980,492,784	6.97

Project Category	Loan Approved in TZS	Percentage (%)
Sunflower	5,728,726,162	5.72
Tea	422,640,000	0.42
Total	100,110,416,138	100

Source: *Auditors' Analysis 2022*