The Wheel

TIB QUARTERLY MAGAZINE

TIB Your Partner for Growth

DEVELOPMENT FINANCING | CORPORATE BANKING | RASILIMALI

Issue No.05 July 2015

The African DFI Experience

The role of development banks- challenges of governance and financing

Achieving vision 2025- the future of Tanzania

Africa arising- 'from billions to trillions'

Our beautiful country- Mbeya

The Wheel is a FREE quarterly magazine published by TIB Development Bank

A story about the future of Tanzania.

Contents

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Vision

To be the premier national development financing bank for promoting sustainable economic growth and poverty alleviation.

Mission

To provide development financing and complementary services for a diversied, vibrant and competitive national economy.

Editor's **note**

From May 25th through to May 29th Ivory Coast, the world's leading producer of cocoa hosted the combined forums of the Annual General Meeting of the African Development Bank (AfDB) and the Annual General Assembly of the Association of African Development Finance Institutions (AADFI).

Sarah Majengo
Head of Marketing and Corporate Affairs

I was fortunate enough to have attended with the bank and was first hand witness to discussions taking place amongst Africa's most senior financial authorities who included key political figures, heads of states, senior business men and other influencers, on financing the continent's sustainable development goals.

The gathering in Ivory Coast was significant for many reasons among which it marked; - the 50th anniversary of the AfDB and a return to its original headquarters; the commemoration of the 40th anniversary of AADFI; the inauguration of the association's new headquarters in Abidjan; and our very own Managing Director, Mr. Peter Noni, stepping down from his position as Chairman of AADFI after serving two consecutive terms; and the announcement of the new President of the AfDB.

The momentum from the meetings inspired the theme for this issue of The Wheel. It is dedicated to exploring the experience of African Development Finance Institutions (DFIs) against the backdrop of the emerging issues from the AADFI Annual Workshop whose discourse was on 'Corporate Governance in African DFIs: Issues and Prospects.' In the feature story, the challenges facing DFIs in governance and financing are discussed. The success of the Brazilian Development Bank (BNDES) is illustrated in the feature as an agent of best practice of corporate governance that has turned it into a diversified bank.

The bank's role as a DFI remains critical, as the UN's Millennium Development Goals (MDGs) will no longer be applicable after January 2016 and the newly formed Sustainable Development Goals (SDGs) will be adopted, these are both outlined in the discussion piece, Africa arising. Our focus and alignment to these goals will be pertinent for the country to becoming a substantial player on the global market.

Our competencies as employees will be essential to the work the bank does in projects that will accelerate the economic development of the country. The Director of Human Resources and Administration gives us an overview of the capacity building programs that will enhance and complement the skill set of staff in order for them to excel in the performance of their tasks.

In one of my favorite sections, our beautiful country, we highlight the Mbeya region as recent developments in infrastructure, agriculture, and mining caught our attention.

I hope you find this issue informative.

Message from the **Managing Director**

Fifteen years ago the leaders of member states of the United Nations, including Tanzania committed to attain the eight Millennium Development Goals (MDGs) by 2015 with a view to address extreme poverty in its many dimensions-income poverty, hunger, disease, lack of adequate shelter, and exclusion-while promoting gender equality, education, and environmental sustainability.

In January 2016 these eight MDGs will be replaced by seventeen Sustainable Development Goals (SDGs). The goals will cover a broad range of sustainable development issues which include ending poverty and hunger, improving health and education, making cities more sustainable, combating climate change, and protecting oceans and forests.

The bank was designated as a Development Finance Institution (DFI) in 2005, that is, ten years ago, and since then it was undergoing transformation that was concluded this year. Indeed the bank's efforts towards supporting the attainment of the MDGs in Tanzania may not have had a big impact. After the transformation, the bank is now in a better position to effectively support the development of the country in line with the newly formulated global development goals.

According to the IMF and the multilateral development banks (MDBs), more than USD400 billion in financing will be extended towards financing and mobilizing resources towards achieving the Sustain Development Goals (SDGs) over the next three years. Meeting the staggering but achievable needs of the SDG agenda requires everyone to make the best use of each dollar from every source. The MDBs, who are also the engines of development finance, are looking at a range of options for scaling up these resources, which will obviously be channeled through regional and national development finance institutions.

Hence, the TIB Development Bank's role towards accessing these resources and channeling them for purposes of achieving the SDGs from a Tanzanian perspective is extremely pertinent. By maintaining and strengthening our support towards the attainment of the Tanzanian Development Vision 2025, the bank will naturally and largely fulfill elements of the SDGs. We will also be able to accomplish these by engaging more with private sector partners on a wider range of interventions, such as connecting investors with opportunities, making investments more attractive as well as strengthening the local financial markets.

In May of this year I concluded my four year tenure as chairman of the Association of African Development Finance Institutions (AADFI), a position I took over from Mr. Mvuleni Geoffrey Qhena, the CEO of the Industrial Development Corporation of South Africa (IDC). The end of my term concurrently marks the beginning of a new era in the role of DFIs in Africa, in line with SDGs objectives.

When I assumed my role as Chairman of the AADFI in 2011, the association had taken a decision in 2009 at its 37th OGA to construct a new headquarters building. At the 41st OGA in May this year in Abdijan, Cote D'Ivoire I was happy to announce the completion of the construction and renovation of the AADFI complex.

One of my other mandates was to promote awareness and application of the Prudential Standards Guidelines and Rating Systems (PSGRS), by member DFIs in order to improve their governance. During my tenure, awareness on the use and application of the PSGS instrument was deepened, and there was a considerable improvement in the use of the PSGRS in the DFIs. An annual self-assessment was also introduced and much progress was recorded in the ratings of most DFIs. For instance, there was a 55% improvement in 'best performing DFIs' between 2011 and 2013. Through sustained campaigns and advocacy by AADFI, the PSGRS rating is now recognized by some Multilateral Finance Institutions when evaluating which DFIs to do business with. You can read more about the rating system in the feature article which also provides an informative outline of DFIs and the role of the Association.

The Association's relations with other partner institutions continued to improve. A number of agreements were entered into with other Associations, while the existing partnerships with other development finance organizations were sustained.

The capacity building activities organized by AADFI aiming at sustaining efforts to improve the Association's capacity-building program have continued to yield results. We increased the number of organized programs, improved quality, increased the level of attendance, increased institutional participation and made our presence known across the various sub-regions of Africa. As a result, general awareness of the Association and the member DFIs has improved, particularly due to the consistency we have maintained in implementing AADFI programs across the various sub-regions of the continent and the globe. The Association continues to maintain recognition at the World Bank and recently was appointed as member of the World Bank Task Force for developing the Principles for the Design, Implementation and Execution of Public Partial Credit Guarantee Scheme for SMEs in Emerging Markets and Developing Economies. As a result of improved impact and visibility of the Association, most of the inactive member-institutions renewed their membership and new members were also recorded.

A number of challenges remain, the most prominent being a lack of adequate funding for implementation of the Association's activities. Strengthening the governance structures of DFIs al so remains a challenge in Africa and is directly related to our inability to bridge the financing gap that exists in our organizations. The dialogue with our shareholders and stakeholders has to be continuous as it becomes more critical to adhere to corporate governance practices. As DFIs we must continuously adapt to changes in the operating environment as we continue to embrace best practice in corporate governance and management of our shareholders.

Lastly, I am pleased that the work of AADFI will continue under the capable leadership of Mr. Patrick Dlamini the CEO of the Development Bank of Southern Africa (DBSA). Mr. Dlamini will ensure that the Association and its members grow in strength and sustainability. Having been appointed Honorary Chair, I also look forward to playing my part in the continued growth of AADFI and its members in this era whereby African DFIs are expected to assist their governments in attaining the SDGs.

Peter M. Noni
Managing Director

Agro processing is a key sector for DFI funding. Women at a factory in Southern Africa prepare mango slices to be dried.

> 'Spurring sustainable economic development and social progress in its regional member countries, thus contributing to poverty reduction...'
> **- excerpt from the mission statement for the Association of African Development Financial Institutions (AADFI)**

The African DFI Experience

Overview of the role of development banks

IN AFRICA IT has become clear that development financial institutions (DFIs) play a key role in developing infrastructure. They are generally owned and funded by state governments and target long-term investment projects in the sectors that support national priorities. They also play a role in guarding market failure in instances where national governments are required to intervene and facilitate industrial and economic growth.

Between 2008 and 2014, 250 000 households in various rural communities around Tanzania were connected with electricity, through a project called the Rural Electrification Project. The project was financed by the World Bank and a Dutch based development financial institution. The impact of rural electrification has been nothing less than profound on people's lives. The benefits range from improved educational performance through to improved security, health and reduced fertility rates. This example illustrates that there are significant opportunities for successful social impact and investment in Africa. The success of the Rural Electrification Project could not have happened without investments and the support from development financial institutions.

Most African countries, like Tanzania in the aftermath of decolonization were keen to accelerate industrial growth and productivity as well as raise the GDP. This was a requirement for alleviating poverty and reducing the developmental gap that separated them from the developed countries. To realize this goal, industrialization was an important prerequisite. This stemmed from the European notion that economic growth was a process characterized by

A focus area for DFI funding is in the manufacuring sector. A welder producing woven wire screens used in industry.

the majority of the population engaged in the non-agricultural sector, the growth of factory production and a shift from personal enterprise to the impersonal organization of economic firms.

Development finance has played a key role in developing infrastructure, energy, transport, health and education on the continent. According to a recent article in Forbes Magazine, fifty years ago, the development 'industry' relied almost solely on foreign aid in the form of loans and grants given to governments and NGOs. Today with less wars, more stable governments and improved infrastructure, Africa has become attractive for foreign direct investment (FDI), which accounts to more than $135 billion a year.

More governments are seeking to share risk and are encouraging private enterprise to use DFIs. The use of DFIs has expanded significantly over the past few years. Total annual commitments from DFIs to the private sector have grown. DFI's in Africa are now more involved in the process of development rather than just the financing, from project design, to technical assistance and the ability to leverage additional funds.

There are more than 140 DFIs in Africa, encompassing a wide array of institutions such as government-owned banks, development banks, insurance companies, guarantee funds etc. Their common denominator is represented by a policy mandate to foster economic development in the jurisdictions in which they operate. African DFIs can make an important contribution to lengthen the time frame of loans in the financial sector and mobilize resources for underserved segments of the economy.

'Fostering sustainable and competitive development in the Brazilian economy, generating employment while reducing social and regional inequalities...'

- excerpt from the mission statement for the Brazil Development Bank (BNDES)

The role of the AADFI

The Association of African Development Finance Institutions (AADFI) was founded in 1975 under the auspices of the African Development Bank. It was founded to meet the need of African economic solidarity by strengthening information flow and cooperation between its members. Some of its activities include training in finance and banking as well as offering policy advice to African bankers and financial officers.

The combined forums of the AADFI general assembly and the AfDB annual meeting are the authorities on development finance for the continent. The platform provides the opportunity for member-institutions and invitees from multilateral institutions, international organizations and donor countries to hold bilateral discussions and exchange ideas.

In 2015, the AADFI comprises of 55 DFIs operating on the continent, mandated by their governments to:

- Promote economic and social development in Africa throughout cooperation among banks and financial institutions
- Stimulate cooperation for the financing of economic and social development
- Establish among its members a machinery for systematic interchange of information
- Accelerate the process of economic integration in the African region
- Encourage studies that address common interests and/or problems

The Association is composed of a General Assembly, an Executive Committee and a General Secretariat.

The General Assembly lays down the policies, determines the regulations and other necessary provisions. Ordinary meetings are held once a year in one of the African countries where its members are located.
Pursuant to the Association's by laws, 'Extraordinary Assemblies' or other meetings are also held. The General Assembly comprises all the members of the Association.

The Executive Committee is responsible for conducting the Association's activities and supervising the General Secretariat. It comprises the Bureau, composed of the Chairman and two Vice-Chairmen. Five members representing the five sub-regions of the Continent as defined by the UN Economic Commission for Africa or as may be determined from time to time by the General Assembly; and a member elected by the Special and Honorary members.

The General Secretariat is responsible for implementing and managing day-to-day activities of the Association.

Mr. Peter Noni MD of TIB Development Bank served as the chairman to the AADFI from 2011 to 2015. He was replaced by Mr. Patrick Dlamini, the current CEO of the Development Bank Southern Africa.

A development bank has at least five major roles in the economic development of a country:

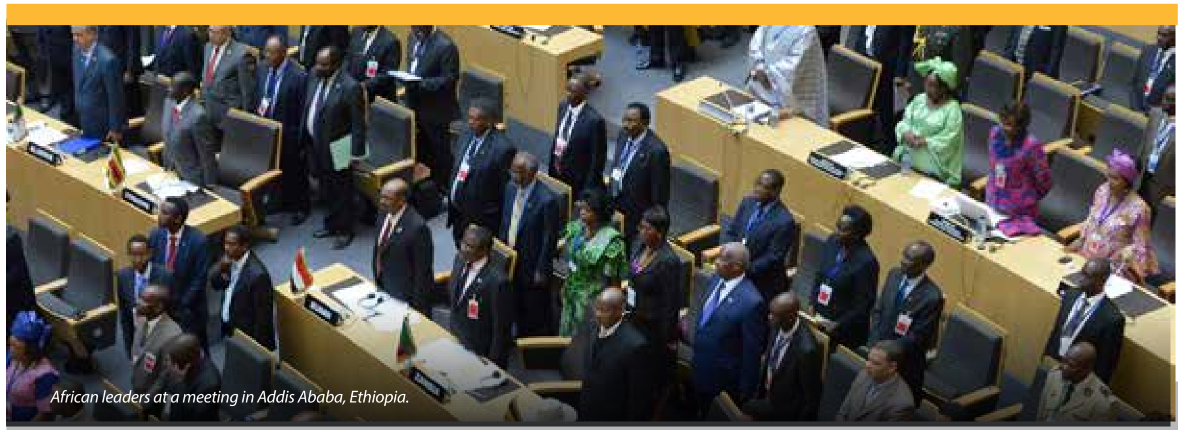
1) **As an initiator.**
In the initiation of development in certain areas with the anticipation of future growth or demand. For example in technology transfer, strategic industries, environment issues, etc.

2) **As an institution-builder.**
By developing new methods and systems to raising capital and increasing investments through non-traditional areas such as financing large projects via public-private partnerships (PPPs), bonds, microfinance, etc.

3) **As a catalyst.**
By taking a leading role in creating new financial packages by involving commercial banks and other financial institutions, such as loan syndication of large projects, guarantee schemes for start-up industry sectors, etc.

4) **As a development advocate.**
By promoting the 'business of development' such as job generation, domestic resource mobilization, rural development, urban renewal, etc.

5) **As a bank of last resort.**
By providing finance to projects that no other financial institution will fund, thus promoting new and innovative economic activities, e.g., funding for inventors, cooperatives and high-risk investments



African leaders at a meeting in Addis Ababa, Ethiopia.

The challenges facing African DFIs- governance and financing

Development practices have provoked some controversy because development banks tend to be government-run and are not accountable to the taxpayers who fund them. It is viewed that there are few checks and balances preventing the banks from making bad investments while some international development banks have been blamed for imposing policies that ultimately destabilize the economies of recipient countries. Another concern has been that irresponsible policies by recipient countries are rewarded and encouraged by bailout loans.

In 2013 the AfDB conducted a study on how to improve corporate governance and financing challenges encountered by many African DFIs. The study found that improvement was required in a number of areas which included; - enhancing regulatory and supervisory structures; strengthening frameworks; improving selection and appointment processes for directors and reinforcing their roles.
The study also found that improvement in complying with international principles on risk management in several dimensions was needed.

It found that DFIs needed to; - (i) develop a more systematic ex-ante assessment of the development impact of their operations; (ii) establish a proper Environmental and Social Management System to identify and manage environmental and social risks and impacts associated with their financing activities; (iii) strengthen the overall credit administration and monitoring process, including the workout function; and (iv) improve their liquidity management frameworks.

Although most African DFIs have been in existence since the 1970s, there are many challenges to overcome. With the shifting perspective on development in Africa, it is clear that DFIs have an important role to play, and consolidating their infrastructures, systems and processes will enable them to be more effective in the economic development of the continent.

'Advancing the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions...'

-excerpt from the mission statement of the Development Bank of Southern Africa (DBSA)

Addressing the challenges of development on the continent

THE CONTINENT'S RAPID economic growth has occurred despite significant infrastructure problems. Greater demand, expanding economies, urbanization and surging trade levels have intensified the need for new infrastructure. Understanding our role as a DFI and working to establish stringent guiding mechanisms to help ensure our success in addressing these challenges is critical.

Deficits and development

The continent's largest infrastructure deficits are found in Power and Roads.

According to research, the cost to address this is estimated to be approximately US$93 billion every year for the next decade, while the financing gap for SMEs on the continent is between US$140 billion to $170 billion.

It is clear that financing for Africa's development must look beyond aid, and governments have to look at alternative financing solutions that are economically feasible. Thus, it is in this light that the role of development finance institutions is increasingly critical in addressing the challenges of development in Africa. As members of the AADFI we regard the advancement and strengthening of African DFIs as a key strategy in achieving this aim. It is only well governed, well capitalized and well supervised DFIs that will be able to fulfill this mandate.

Addressing DFI governance (PSGRS)

The Association of African Development Finance Institutions has long recognized these challenges, and with the support of the African Development Bank has created a system to enhance the governance, the capitalization and the supervision of African DFIs. The Prudential Standards, Guidelines and Rating System (PSGRS), together with its Peer Review Mechanism, allows DFIs to assess their performance in comparison to their peers in the areas of: -governance, operations and finance.

To fully support the effectiveness of the PSGRS, the AADFI seeks to engage policy makers in African Governments in implementing the provisions of the PSGRS which are beyond the control of the DFIs. Most eminent are those related to governance and independence. Moreover, central banks and other regulators are being urged to embrace the PSGRS and incorporate these standards in assessing the soundness of the DFIs.

The aim for the PSGRS to provide a strong base to enhance the corporate governance, financial soundness and operational benchmarks of the African National DFIs, which in turn will allow them to be more efficient and help fulfill their core mandates.

Expected approach from DFIs

i. DFIs are to be more innovative when developing financial products taking cognizance of the peculiarity of their operating environment. In addition, they should adopt the use of ICT in delivering their services as the Indian experience has shown that it has helped in minimizing cost of transactions and risk of diversion of funds.
ii. DFIs should continually build their capacity in line with the dynamics of their operating environment.
iii. DFIs as catalyst to development should adopt an integrated approach to value chain finance as a 'best way' in supporting agricultural development. They should also strive to further define their territory by financing the chain aspects that are less attractive to the purely commercial players.
iv. DFIs should create dedicated units with appropriate staffing to promote agricultural investments as a means of promoting value chain finance model.
v. DFIs in Africa and Asia should sustain inter-institution learning and experience sharing in building their capacities.

'To provide development financing and complementary services for a diversified, vibrant and competitive national economy…'
-excerpt from the mission statement for TIB Development Bank

Prudential Standards, Guidelines and Rating System

The AADFI CEOs adopted the Prudential Standards, Guidelines and Rating System (PSGRS) and are committed to play their role in getting them implemented in their respective institutions. This rating system is designed to assist DFIs who are members of AADFI in rating themselves in three areas: - governance guidelines, financial prudential standards, and operational guidelines. It is intended to be selective rather than comprehensive, focusing on important areas which have tended to create significant problems for DFIs in Africa.

In adopting the PSGRS, AADFI CEOs are convinced that they will help meet two objectives in particular;
- one is assistimg DFIs and their owners in examining their own operations in terms of how well they comply with good corporate governance principles and in identifying weak areas which need to be addressed.
-and the other is helping central banks and/or other supervisory authorities to custom-design supervisory procedures that better address some aspects of DFI operations that differ fundamentally from commercial bank operations.

AADFI's member DFIs vary significantly among themselves in terms of ownership, governance, and business strategies and it needs to be recognized that no one set of standards and guidelines can be equally appropriate for all types of institutions. Thus, while most of the standards and guidelines are relevant for all DFIs, the standards and guidelines are developed primarily for Government owned DFIs who are not adopting commercial banking as an important business strategy.

TIB Development Bank received an A rating in the areas governance, financial and operational standards during the Association's Peer Review Exercise in 2014. Development practices have provoked some controversy because development banks tend to be government-run and are not accountable to the taxpayers who fund them. It is viewed that there are few checks and balances preventing the banks from making bad investments while some international development banks have been blamed for imposing policies that ultimately destabilize the economies of recipient countries. Another concern has been that irresponsible policies by recipient countries are rewarded and encouraged by bailout loans.

In 2013 the AfDB conducted a study on how to improve corporate governance and financing challenges encountered by many African DFIs. The study found that improvement was required in a number of areas which included; - enhancing regulatory and supervisory structures; strengthening frameworks; improving selection and appointment processes for directors and reinforcing their roles. The study also found that improvement in complying with international principles on risk management in several dimensions was needed. It found that DFIs needed to; - (i) develop a more systematic ex-ante assessment of the development impact of their operations; (ii) establish a proper Environmental and Social Management System to identify and manage environmental and social risks and impacts associated with their financing activities; (iii) strengthen the overall credit administration and monitoring process, including the workout function; and (iv) improve their liquidity management frameworks.

Although most African DFIs have been in existence since the 1970s, there are many challenges to overcome. With the shifting perspective on development in Africa, it is clear that DFIs have an important role to play, and consolidating their infrastructures, systems and processes will enable them to be more effective in the economic development of the continent.

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The Prudential Standards, Guidelines and Rating System has been designed to meet the following five objectives:

i) Providing guidelines for DFIs on their own rules and regulatory policies as well as a benchmark to compare these policies with other DFIs in the region.

ii) Introducing a self-regulated early warning system for DFIs which will assist in initiating credible remedial measures before they are forced to do so by owners, regulators or lenders.

iii) Providing central banks with proposals that customize existing regulatory requirements imposed on DFIs; as well as providing them with some leverage to encourage weaker DFIs to take corrective measures.

iv) Providing set standards for donors to assess DFIs on their suitability as financial intermediaries worthy of funding and/or technical assistance support.

v) Improving the reputation of DFIs that adopt the standards. By providing them with a tool for dialogue with government owners and regulators to demonstrate what is standard practice within the region. Giving insight as to how they compare with other DFIs in the region, and assistance in presenting their case to donors for support.

Flags from the member states of the AADFI

Feature

Profile of a DFI

Today's landscape is the result of this profound evolution in national and multilateral development strategies that started two decades ago. Today there are around 750 DFIs around the world with varying regional distribution, different characteristics and mixed forms of ownership, private, public or mixed.

Successful institutions developed in the last decade a capacity to compete with private commercial banks, while others managed to downscale their activities and provide adequate financial services for microfinance institutions in the country. For example, the Development Bank of Southern Africa (DBSA), created in 1983, moved away from being solely focused on development finance and has become by the end of the 1990s a large national development institution with a threefold function of financier, advisor and partner. In a similar vein, the Brazilian Development Bank (BNDES) in Brazil was first established in 1952 as a bank for the financing of infrastructures; later it became a bank for the development of industry and, afterwards, for the capital goods and intermediate products industry; which resulted in the establishment of a diversified bank.

Banco Nacional de Desenvolvimento Econômico e Social (BNDES)

The Brazilian Development Bank, also known as National Bank for Economic and Social Development (Portuguese: Banco Nacional de Desenvolvimento Econômico e Social, abbreviated: BNDES) is a federal public company. Its goal is to provide long-term financing for endeavors that contribute to the country's development. BNDES is one of the largest development banks in the world (after the Chinese Development Bank), which boasts assets of around $1.2 trillion.
Among the objectives of BNDES are the strengthening of the capital structure of private companies, the development of capital markets, the trading of machines and equipment and the financing of exports.
The BNDES has three integral subsidiaries: FINAME focusing on Industrial Financing, BNDESPAR and BNDES Limited. Together, the three companies comprise the BNDES System.

Headquarters
Rio de Janerio, Brazil

Founded
1952

Number of employees
2,000

Geographical presence
The Bank has a presence in the United Kingdom with offices in London; Latin America and the Caribbean with offices in Montevideo, Uruguay and in Africa, with offices in Johannesburg, South Africa. The BNDES also finances the expansion of Brazilian companies far beyond the borders of the country and seeks to diversify the sources of its resources on the international market.

Key contact
Luciano Coutinho (Chairman)

Outgoing AADFI Chairman Mr. Peter Noni presents a Makonde Carving to the AADFI Secretary General, Mr. J.A. Amihere.

Congratulatory message

Mr. J.A. Amihere, the Secretary General of AADFI on behalf of the General Secretariat and AADFI members, offer the warmest congratulations to Mr. Peter M. Noni, AADFI Chairman and Managing Director of TIB Development Bank Ltd on his stellar performance during his appointment from 2010 until 2015.

Mr. Noni's election was a resounding affirmation of Tanzania's commitment to promote development and integrate Tanzania within Africa as a powerful player in fostering economic growth through development financing.

We are particularly proud of the efforts the bank's Board of Directors, Management team and staff have put into transforming the institution in Tanzania over the past five years. Mr. Noni, we extend our best wishes to the team you built as they continue to sustain the bank's mandate to provide development financing that will promote sustainable economic growth for Tanzania.

We look forward to continuing to work in partnership with TIB and to promote the work of the Association.

Mr. Noni explains the significance of the Makonde carving with the help of Ms. Sarah Majengo, TIB Head of Marketing and Corporate Affairs.

The Makonde sculptures are mainly found in the southern region of Tanzania . They depict human figures climbing and holding onto each other, and are often referred to as 'The tree of life,' or 'Ujamaa.'

Project Focus

TOL Gas Limited

Project description and objectives

TIB Development Bank disbursed TZS 6.24 billion as a long term loan to TOL Gases.
TOL Gases began the expansion of their Carbon dioxide (CO2) production facility in 2012. The client is the only player in the local market, producing pure and quality CO2 gas. The other main competitor in East Africa is Carbacid of Kenya.

The overall objective of the project was to increase the company's production capacity of CO2 gas from, 5000 tons to 21 000 tons. This includes the drilling of two wells and the acquisition of a CO2 plant and other elements such as construction works, machinery purchases, rehabilitating machinery, the purchase of a tractor, vehicles and the hiring of consultants.

Carbonioxide is used across several industries including the medical industry, food and beverage industry and the agricultural industry. The increase in production will allow TOL Gases to export CO2 more widely in the region as well as satisfy the local demand.

The project is expected to be completed before the end of year.

The client

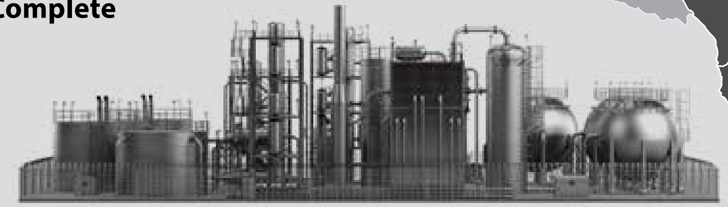
TOL Gases Ltd. is a public company with shares listed in the Dar es Salaam Stock Exchange and, has been a pioneer in the gas industry for several decades. The company, commonly known as Tanzania Oxygen, is the leading manufacturer and distributor of industrial and medical gases in Tanzania.

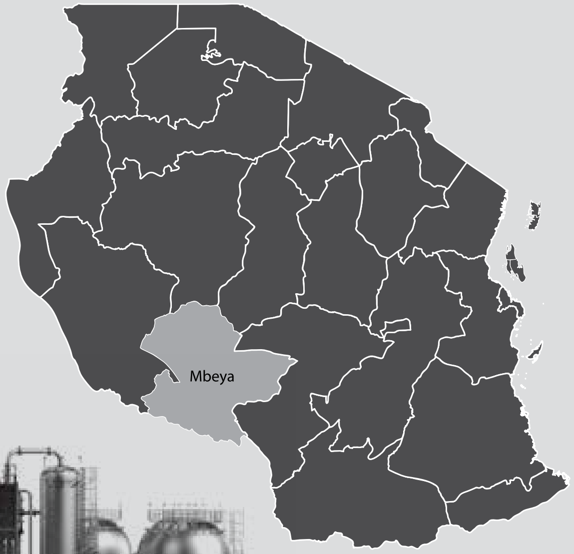
Project finance

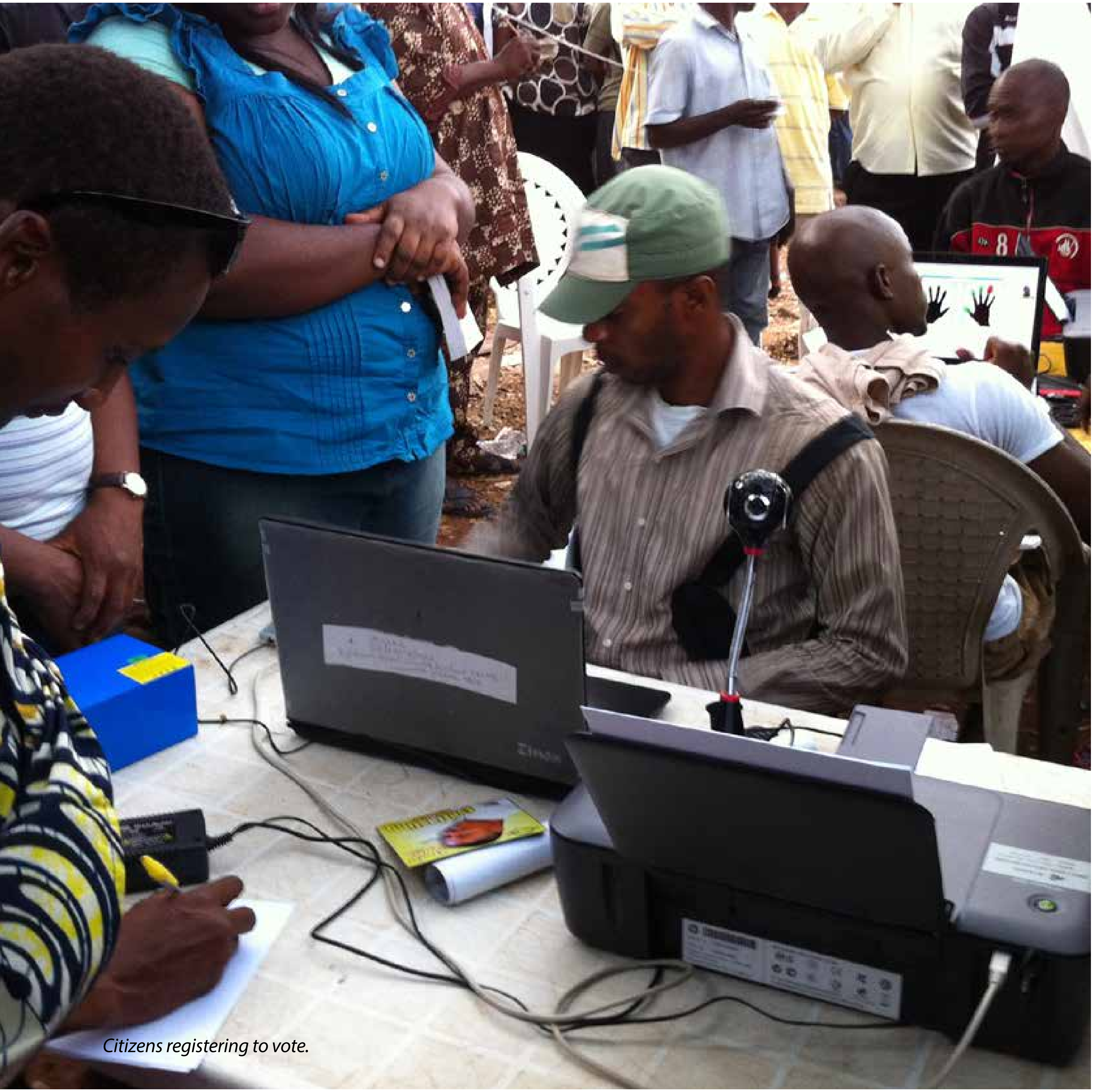
TZS 6,238,630,000 long term loan

TOL Gases Limited | Since 1950
We Deliver

Location: **Mbeya**
Business sector: **Gas**
Disbursement of funding
First loan was TZS 4.9 billion, May 2011
Second loan 1.3 billion, August 2012
Launch date: **October 2012**
Project phase: **Complete**







Citizens registering to vote.

Is Vision 2025 Achievable?

By Jaffer Machano

Vision 2025 is were the country is striving to. But what is the reality of getting there?

DURING THE U.S. Presidential race in 1992, the then Governor of Arkansas and Presidential hopeful William "Bill" Clinton faced difficulties to conceive a message that would resonate with the American public. His intent was to create a platform that would energize voters. After a few months of a convoluted effort, Governor Clinton called a strategy meeting with his advisors to establish a focal point for the messaging of his campaign. Unfortunately, the team were not able to rise to the challenge of coming up with a truly galvanizing focus for their campaign.

Following a sleepless night after the strategy meeting, the leading, brash and outspoken campaign strategist James Carville, went to the campaign situation room and wrote with a red marker pen in capital letters on the back wall:

'IT'S THE ECONOMY, STUPID!"

With a clear focus on the economy, not only did Bill Clinton win the 1992 election but became the only modern American president who was able to balance the budget, create a new e-commerce economy and revolutionize the way the world engaged in business. Perhaps the biggest achievement of all was to convince global leaders to accept China into the World Trade Organization (WTO), making it the world's industrial powerhouse.

It is against this background that we are reminded to reflect on the future of Tanzania as we approach our own voting season. As projected in Vision 2025, ten years from now Tanzania should be a middle income country with an economy that is anchored on an industrial base focused on processing internal raw materials.

This campaign season, the populace is waiting to hear how Vision 2025 can be achieved.

To our advantage the path has been paved by industrialized nations such as North America, France, China, Brazil and England. Most countries with economic characteristics similar to Tanzania with potential in agriculture, mining, oil and gas, general manufacturing, and transit trade had to go through comparable industrialization. The Tanzanian 2025 Vision takes into consideration the potential of the country; looking to countries that have capitalized on their natural resources to successfully reach middle-income status validates our own strategy. Industrialization will move the country from a poor subsistence, donor-dependent economy into one that is prosperous, wealthy and creates jobs.

'It is against this background that we are reminded to reflect on the future of Tanzania as we approach our own voting season.'

Discussion

There are two emerging economic phenomena that give hope that the vision we have as a country is attainable in the near future.

First, after three decades of sustained, double-digit growth, Chinese industrial wages have started to increase. As a result of this economic growth higher educational level in the current generation has increased. This phenomenon has created an environment where it is no longer profitable to retain low-cost, labor-intensive industries on Chinese soil. Therefore the Chinese are now looking for new frontiers to transplant these industries. It is fitting that the natural home for these industries is Tanzania. Tanzania's location in East Africa makes it desirable for its proximity to Europe through the Suez Canal, the Middle East, and greater Asia where the main consumer markets are located. Furthermore, within East Africa, Tanzania's peaceful political environment and geographic position make it a natural place for efficient logistics through the ports and connectivity to its neighbors.

Secondly, Tanzania's developmental trajectory falls within a desirable economic level. The population characteristics are emerging in such a way that, if properly structured, the country can provide a good base for industrialization. Tanzania just crossed the 50 million population mark in 2015 with 60% falling under 30 years of age. Through proper vocational training, this rapidly expanding sector of the population can provide a good labor force for the factory floor – the so called "blue collar" workers. These workers can be hired at a rate that is lower than the current Chinese monthly wage. At the same time the increasing number of university graduates around the East African region affords higher level managerial potential that makes the country even more desirable.

Tanzania's developmental trajectory falls within a desirable economic level. The population characteristics are emerging in such a way that, if properly structured, the country can provide a good base for industrialization.

A Chinese owned factory in Africa. Workers assembling fabric for clothing.

These two main factors will not only allow factories to relocate but also to find a population that is well-suited to be absorbed by a new industrial economy.

However, the missing link in this equation is the lack of proper infrastructure. It is hard to industrialize with power cuts every few hours, non-working railways, and a port that is stretched to its upper most capacity. But these challenges can be overcome. Efforts are underway to solve many of Tanzania's impediments to economic growth. As we head to the polling stations in the coming elections we should heed James Carville's advice to Bill Clinton. It is exactly what Tanzania needs to attain its vision- a resolute focus on the economy.

Human Resources

Building capacity for development

WHEN THE BANK began its journey in 2010 to be restructured from an investment bank to a development bank, there were only a handful of employees with the rquired the DFI skill set. These employees had been recruited during the Ujamaa era under the original mandate of the bank, of 'providing development financing to the nation'. Being the only DFI in the country, the bank had to rely on the older generation of employees which was a very small percentage of the entire staff body, to train the new recruits on the DFI skill set.

It was during this period that the bank also joined the Association of African Development Finance Institutions (AADFI) and SADC-Development Finance Resource Center (SADC-DFRC) where, strong partnerships were developed with other DFIs. These partnerships not only served as business connections but also as mentorships.

The bank currently utilizes five different methods of building capacity.

It was through these relationships that the bank started building its capacity. As a member of the AADFI, the bank must follow a set of guidelines that will guide it in benchmarking its systems in terms of the Prudential Standards, Guidelines and Rating System (PGSRS). This guide provides the bank with a tool for maintaining best practice and incorporates capacity building.

Subsidized short courses

The most common one is regular short course training and seminars that are arranged by other DFIs in Africa. Since TIB has an affiliation as a member to both the SADC –DFRC and AADFI the tuition fees for all courses offered are subsidized. These courses are relevant for DFIs on the continent and are targeted mainly at officers who are part of the core business unit. It would include those whose roles cover an element of the entire project process, anywhere from project acquisition right through to project exits. The objective of these courses is to equip the officers with more effective appraisal skills that involve modules on -project monitoring, financial modeling, and risk management.

In house training

Courses focusing on areas where the bank needs to enhance are tailor made specifically for TIB and are conducted in house. For these types of trainings, a needs assessment is first conducted to establish the areas of importance where the staff needs to be developed. These are designed by an outside consultant for instance, SADC-DFRC or DBSA as well as from private firms such as Marcus Evans.

Job profiling using consultants

The bank hires consultants to impart knowledge through on the job training for periods between 6 and 12 months. The consultancies are generally in the areas of the Project Process and Project Appraisal roles.

Sometimes private consultants can be appointed by SADC-DFRC to conduct environmental assessments of the bank.

External attachments

An attachment is an arrangement in which an employee is released to other DFIs within specific areas for a defined period of time as way to build capacity.

Certification course curriculum

Going forward the bank has introduced certification courses to help develop the systems in place. For example a Program Officer, will be required to pass through a certification process. The certification course consists of several modules and upon completion of each module a certification will be awarded to the individual. The course, designed in consultation with the DBSA, who have an in-house academy, will assist with the introduction of the program as a component of the TIB training curriculum. They will help guide the structure, the content, the training and the overall program itself. The idea is to develop a uniformed 'TIB' way of execution across the board.

Internship program

An internship program targeted at young graduates has been approved for development in the near future. It has not yet been launched but the idea is to partner with education institutions and recruit candidates to train into the DFI system since the skill set required to work for a DFI cannot currently be obtained on the market. A pilot of the Young Professionals Program will likely be launched within the coming year.

Credit Risk Rating Program

How a bank selects and manages its credit risk is critically important to its performance over time. Our past challenges as an institution may have been avoided with better foresight around managing our credit risk.

CREDIT RISK IS the primary financial risk in any banking system and exists in virtually all income-producing activities. Identifying and rating credit risk is the essential first step in managing it effectively. When providing credit facilities to its clients, the bank uses costly and scarce resources, which involve the bank's balance sheet, its capital and its reputation. To guarantee the so called going concern and safety for depositors, financial stability and a strong financial reputation are a prerequisite. As a law of thumb, financial stability or reputation is being endangered by credit activities that have been done by any bank/ financial institution including TIB.

In order to fulfill the Bank of Tanzania (BOT) requirements, the bank must have a documented Credit Risk Rating Program. Risk Management Guidelines for Banks and Financial Institution, 2010 issued by Bank of Tanzania (BOT) on title 'Credit Risk Management Guidelines', sub-title 'Internal Risk Rating & Provisioning' directed all financial institutions including banks to have in place a risk rating system for monitoring the quality of individual credits, as well as the total portfolio.
The credit risk rating program will be used as a strategic exercise as an indicative/alarming and control tool for Credit risk Management within the bank.

TIB Investment Policy states clearly that, the Investment Risk Unit in conjunction with Portfolio Management Division shall prepare a well-structured internal risk rating system as a means of differentiating the degree of risk in the different investment exposure of the bank.
Typically, an internal risk rating system categorizes credits into various classes designed to take into account the gradations in risk. Simpler systems might be based on several categories ranging from satisfactory to unsatisfactory; however, more meaningful systems will have numerous gradations for credits considered satisfactory in order to truly differentiate the relative credit risk they pose.
Internal risk ratings are an important tool in monitoring and controlling credit risk. In order to facilitate early identification, the TIB internal risk rating system will be responsive to indicators of potential or actual deterioration in credit risk e.g. financial position and business condition of the borrower, conduct of the borrower's accounts, adherence to loan covenants, value of collateral, etc.

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Credits with deteriorating ratings will be subject to additional oversight and monitoring, for example, through more frequent visits from credit officers and inclusion on a watch list that is regularly reviewed by the Portfolio Review Committee. The internal risk ratings can be used by line management in different departments within the bank to track the current characteristics of the credit portfolio and help determine necessary changes to the credit strategy of the bank.
The ratings assigned to borrowers when credit is granted will be reviewed on a periodic basis. Each client's credit will be assigned a new rating when conditions either improve or deteriorate. This will make sure that, the bank's management is aware and well informed about its credit risk profile at any point in time.
Such tools as the Credit Risk program will safe gurad the bank's future and further secure its assests and its ability to operate on a continental level.

Our beautiful country

It is not by chance then that Mbeya is considered as the main bread basket of the country. Cassava, sweet potatoes, bananas and groundnuts are some of th main crops grown in the region.

Mbeya

'The forest is our skin, and if one removes the skin of a human being, the result is death.' -Nyakusa proverb.

NATURE WAS IMPORTANT to the Nyakyusa people who are the largest tribe in the Mbeya region. Traditionally the Nyakyusa took significant measures to preserve their environment and restore peace and unity among their people in particular with regard to the forests, water sources, rivers and the land. Trees were preserved. Undersized fishing and herding cattle through forests were prohibited.
It is not by chance then that Mbeya is considered as the main bread basket of the country. With 80.4% of the local population directly involved in the agriculture sector, the cultural tie and respect of the land and soil predates to the colonial era.

The population of the Region according to the 2012 census was 2,707,412, of which almost half is of the Nyakyusa tribe. The other main tribal groups are the Safwa and Nyiku tribes, who are also agricultural.

The British coined the term 'the Scotland of Africa' in reference to the area around Mbeya city with its gently rolling hills and lush vegetation. The combination of the cool climate and the rich volcanic soil make it prime agricultural land. The town is a major commercial centre for agricultural commodities from the surrounding areas and districts. This includes Rungwe District which is one of the most fertile in the country and in the entire East Africa.

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The major food crops grown in the Region are maize, paddy, sweet potatoes, cassava, bananas, groundnuts, fruits and vegetables. While the main cash crops are coffee, tea, tobacco, wheat, sunflower, and palm oil. Agriculture is dominantly peasantry farming, with a small number of commercial farms producing tea and coffee. Livestock keeping is the second most predominant economic activity in the Region.

Mbeya is the fourth largest city after Dar, Mwanza and Dodoma, and considered to be the 'gateway to Southern Africa'. It connects with two main highways and The Tanzania Zambia Railway Authority (TAZARA) linking to Malawi, Zambia, Zimbabwe, Botswana and South Africa. The borders of both Malawi and Zambia are only a few kilometers from the town. Consequently it is fast becoming one of the country's major industrial centers.

Mbeya was founded in 1905 after gold was discovered in the Lupa River. It was the same year that the Germans took occupation of present day Tanzania and formed German East Africa. It was officially founded in 1927 and administered by the British from the 1920's until 1961.

The Lupa goldfields lie a few kilometers north of Mbeya city and are the second largest goldfields in Tanzania. In recent years a number of new mines have opened in the fields prompting another dynamic industrial force in the Region.

Major developments in the areas of infrastructure, agriculture, mining and tourism have occurred in the Region within the past few years. The airport is receiving a $12 million upgrade and promises to be a key boost to the economy as it opens up the Region to central and southern Africa, as well as enhance the export of horticultural products to Europe and the Middle East. These developments have significantly increased the attraction and opportunity for investors, aligning it to become a major industrial and agricultural power force in the country.

The combination of the cool climate and the rich volcanic soil make it prime agricultural land.

Writing the future of Tanzania today.

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