ABC FINANCIAL SERVICES LIMITED

CREDIT RATING REPORT

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CREDIT RATING REPORT

Date of issue	:	16th May, 2024
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Prepared for	:	ABC FINANCIAL SERVICES LIMITED
Corporate Address	:	Dar es Salaam, Tanzania.
Rating Type	:	Micro Finance Institution Rating
Report prepared and published by	:	ICRA RATING AGENCY LIMITED, *Office No. 903, 9th Floor, Block Number B, Plot Number 123/50, Road Samora Avenue, Street Main Field, Postal Code 11104, Ward Kisutu, District Ilala Cbd, Region Dar Es Salaam, Tanzania.* info@icrallc.com www.icrallc.com | www.icraratingtz.com
Credit Analysts	:	**Ravini Bandara**, *Credit Risk Analyst* ravini@icrallc.com **Imran Jahangir**, *Credit Risk Manager* imranjahangir@icrallc.com
Currency used in this report	:	This report is presented in the Tanzanian Shilling (TZS) unless otherwise noted.

Table 1

ICRA Assigned Rating

AAA	AA	A	BBB	BB	B	CCC	CC	C	D

Based on the ICRA National Scale for Credit Ratings
Table 2

RATING RATIONALE

ICRA assigned a **"B"** rating with a "**Stable**" outlook to **"ABC FINANCIAL SERVICES LIMITED"** on **May 16, 2024**, assuming no material adverse events affecting the business activities occur during the validity period. The assigned rating reflects a balanced assessment of the entity's overall creditworthiness and is indicative of its recent financial performance, which has been characterized by modest growth both in revenue and profitability. This growth in top-line figures underscores the company's ability to generate sustainable income streams and adapt to evolving market conditions. The analysis takes into account various financial and operational factors that contribute to the overall creditworthiness and stability of the company.

The analysis of ABC's loan portfolio reveals that 22% of it is at risk of default, which is high. This indicates that more than one-fifth of the MFI's loan portfolio is not performing well. It also suggests potential weaknesses in the MFI's credit assessment and monitoring processes. A high non-performing loan ratio leads to increased provisioning requirements, which will erode the MFI's profitability and capital base. The fact that 78% of the loan portfolio is current is a positive aspect, as these loans are performing and generating expected interest income. However, it does not fully offset the risk posed by the high NPLs.

The high level of NPLs raises concerns about the MFI's risk management practices. ICRA recommends ABC Financial to enhance its credit risk management practices, improve its loan recovery processes, and potentially re-evaluate its lending policies to prevent future deterioration of loan quality.

ICRA has identified various regulatory breaches during the rating process that have been considered in assigning the rating to ABC Financial. These regulatory violations can pose serious threats to the MFI. These include misrepresentation of portfolio classification to regulators, non-submission of portfolio data to credit bureaus, and failure to display financial statements on office premises. These violations raise concerns about the firm's regulatory compliance, transparency, and governance practices, which can impact its creditworthiness.

The misrepresentation to regulators regarding portfolio classification and provision for loans indicates a lack of transparency and integrity in the firm's reporting practices. Such actions undermine regulatory trust and suggest potential weaknesses in risk management and internal controls. This misrepresentation could lead to regulatory sanctions, reputational damage, and increased legal and compliance risks for the firm.

ABC Financial should calculate the loan provisioning as per the below table, which is in line with the regulations of the Microfinance Act.

LOAN PROVISION CALCULATION			
Classification	Balance Amount (TZS)	Provision As Per BOT (%)	Provision Amount (TZS)
Current (0-5 days)	501,879,063	1%	5,018,791
Especially Mentioned (6-30 days)	81,171,962	5%	4,058,598
Substandard (31-60 days)	43,717,651	25%	10,929,413
Doubtful (61-90days)	13,176,672	50%	6,588,336
Loss (More than 90 days)	-	100%	-
Grand Total	**639,945,347**	**-**	**26,595,137**

The firm's failure to report client data to credit bureaus violates regulatory mandates and impedes the accurate assessment of credit risk by external stakeholders. By withholding this critical information, the firm obstructs the transparent evaluation of its clients' creditworthiness, potentially exposing creditors, investors, and regulatory authorities to undue risks. Non-compliance with credit reporting obligations reflects poorly on the firm's commitment to regulatory compliance and transparency, raising concerns about its overall governance and risk management practices. According to the provided clarification, the issue persists due to some system compatibility issues, and the management is committed to resolving it as soon as possible.

The firm's failure to display financial statements on its office premises raises concerns about its commitment to transparency and accountability. Transparent financial reporting is essential for stakeholders to assess the firm's financial health, performance, and risk profile.

The identified regulatory violations pose significant credit risks for ABC Financial. These violations highlight weaknesses in governance, risk management, and compliance frameworks, which could impair the firm's ability to honor its financial obligations. Consequently, there is an increased risk of regulatory penalties, legal liabilities, and reputational damage, which may weaken the firm's credit profile and access to funding sources.

The rating process for ABC Financial took longer than usual because there was a revision to their loan portfolio data. This was to ensure that ICRA could conduct a thorough and accurate assessment of ABC's creditworthiness, taking into account the revised information.

Based on the disclosed financial information, the financial status of ABC looks healthy. During the review period, the company has demonstrated consistent revenue growth, improved profitability, and growth in assets. Notably, the gross loan portfolio nearly doubled in 2023, which reflects the robust growth and expansion of the lending activities undertaken by the institution during that period. Moreover, ABC has consistently maintained liquid assets over the three years, surpassing the regulator's minimum level, demonstrating its prudent financial management and risk mitigation strategies that ensure stability and resilience in the face of potential liquidity challenges.

The funding for ABC's operations was primarily reliant on equity in FY22 and FY21, with debt financing being utilized for the first time in FY23. Although the introduction of debt financing suggests a shift in the funding structure, equity remains the dominant source, indicating the potential for increased debt utilisation in the future. The operational self-sufficiency ratio has consistently exceeded 100%, indicating the strong operational performance of the core business, while the portfolio-to-assets ratio underscores the company's focus on its core business of lending.

However, it's prudent to recognize that a three-year period may not be sufficient to definitively ascertain the sustainability of ABC's favourable financial position. Additionally, the MFI's limited operational history introduces uncertainties regarding its resilience to economic downturns or unforeseen market fluctuations. Therefore, ICRA follows a cautious approach in concluding the financial performance and evaluating the long-term viability of the MFI.

FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO AN UPGRADE

An upgrade to the assigned rating can be reviewed based on the following factors:

- If the business shows notable increases in earnings and revenue while continuing to grow sustainably.
- If the entity improves the quality of its loan portfolio with low levels of non-performing loans (NPLs).
- The MFI should focus on governance and management improvements to ensure objectivity and add board members with diverse expertise relevant to the microfinance industry. It should strengthen internal controls with an empowered internal audit function and a comprehensive risk management framework to ensure financial discipline and accurate reporting.
- If the firm exhibits continuous improvement in its liquidity and leverage ratios.
- If the firm complies with the regulatory requirements for its loan portfolio, demonstrating transparency and accountability in its operations, which would enhance investor confidence.
- If the entity adopts the diversification of funding sources and loan portfolios across various sectors and geographies, which can mitigate concentration risks and enhance the resilience of the MFI.
- If the business adopts innovative technologies for operations, risk management, and customer service, which can improve efficiency, reduce costs, and enhance the competitiveness of the MFI.
- If the outlook for the microfinance industry and the economic environment in the country remains stable in the future.
- If the political environment in the country remains stable and more supportive of the business sector.

FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO A DOWNGRADE

The assigned rating could further be downgraded if:

- The company experiences a declining trend in revenue, earnings, or weak cash flow.
- The firm becomes highly leveraged and heavily relies on borrowing to fund its operations.
- There is a significant increase in non-performing loans (NPLs), which can signal financial distress and lead to a downgrade.

- The MFI is not able to maintain sufficient liquidity to meet short-term obligations or fund its operations, which will raise concerns about its financial stability.
- The firm adopts weak corporate governance practices, conflicts of interest, or a lack of transparency in reporting, which can erode investor confidence.
- The firm remains non-compliant with regulatory requirements and faces legal issues or sanctions imposed by regulatory authorities, which can negatively impact its creditworthiness.
- The MFI has overreliance on a single funding source, borrower segment, or geographic region without adequate diversification.
- The entity loses market share, experiences negative publicity or reputational damage due to ethical lapses, customer complaints, or faces controversies that can undermine investor confidence.
- The entity adopts weak risk management practices, including inadequate credit assessment processes, a lack of internal controls, or a failure to anticipate and mitigate emerging risks.
- The firm loses access to external funding sources due to increased borrowing costs or changes in funding conditions that can strain the MFI's financial position.
- The microfinance industry faces major headwinds and economic conditions in the country become unstable.
- There are significant industry-specific challenges or regulatory issues, such as lawsuits or investigations. Changes in regulatory frameworks, tax laws, or legal requirements that adversely affect the MFI's operations or profitability can prompt credit rating downgrades.

CONTENTS

ICRA RATING APPROACH

SCOPE OF THE REPORT

ICRA provides an assessment of the overall business and evaluates the financial performance before assigning the final rating to the issuer. The report's objective is to offer a thorough assessment of the issuer's creditworthiness, utilizing a range of financial and non-financial elements as well as qualitative and quantitative credit analysis tools and techniques.

SOURCES OF THE INFORMATION

The credit analysis carried out was based mainly on the documents and the information provided by the issuer. Further, ICRA also conducted management interviews to clarify and gain additional information regarding the business. Additionally, publicly accessible data is gathered from reputable online domains, research reports, news flows, and third-party databases. Below are the main categories of information sources:

- KYC documents
- Annual audited financial reports
- Industry research articles
- News articles
- Company/Government press releases
- Third-party data providers (paid/unpaid)
- Management interviews

METHODOLOGY

The ICRA Credit Rating Methodology for MFI combines qualitative and quantitative analysis, drawing inspiration from international industry practices and SEEP 18 recommendations. Below is an explanation of the main components of the ICRA rating methodology.

COMPONENTS	Weightage
Business Model/Profile Review Size of the Business Competitive Advantages Uncertainty (Future Revenues & Profitability) Concentration Risk	**20%**
Management Quality Governance and Board of Directors Management Team Ownership Risk Management Framework	**20%**
Macro Environmental Analysis Country Risk with Economic, Political, and Social Stability Industry Risk Other External Factors (Credit Bureau, Auditor, Banking etc)	**10%**
Financial Analysis Performance Financial Position Cash Flows	**30%**
	20%

<u>Ratio Analysis</u> Sustainability and Profitability Asset/Liability Management Portfolio Quality Efficiency and Productivity	
Total	**100%**

Table 3

ICRA CREDIT RATING SCALE

CATEGORY	SCALE	DEFINITION
Extremely Low Credit Risk	**AAA**	The entity is in an exceptionally stable and strong position to fulfil its financial commitments. There is a zero or minimal risk of being adversely affected by foreseeable events.
Very Low Credit Risk	**AA**	The entity is in a highly stable and strong position to fulfil its financial commitments. There is a low risk of being adversely affected by foreseeable events.
Low Credit Risk	**A**	The entity is in a stable and strong position to fulfil its financial commitments. There is a marginal risk of being adversely affected by foreseeable events.
Moderate Credit Risk	**BBB**	The entity has a controllable risk level to fulfil its financial commitments. There is a moderate risk of being adversely affected by foreseeable events.
Elevated Credit Risk	**BB**	The entity has a considerable risk level to fulfil its financial commitments. There is a considerable risk of being adversely affected by foreseeable events.
Substantial Credit Risk	**B**	The entity has a high-risk level of fulfilling its financial commitments. There is a high risk of being adversely affected by foreseeable events.
Very High Credit Risk	**CCC**	The entity is in a doubtful position to fulfil its financial commitments. There is a significantly high risk of being adversely affected by foreseeable events.
Extremely High Credit Risk	**CC**	The entity is in a highly unlikely position to fulfil its financial commitments. The entity has a high vulnerability to being adversely affected by foreseeable events.
On the Verge of Default	**C**	The entity is incapable of fulfilling its financial commitments and is on the verge of default. The continuity of the business is highly doubtful.
Default Entity	**D**	The entity is already defaulted on or in the process of bankruptcy filing, liquidation, or winding up procedures.
No Rating Assigned	**NRA**	A rating has not been assigned due to insufficient information, legal or regulatory requirements, a lack of reliability of information, or a new or unique entity structure.

Based on ICRA National Scale for Credit Ratings

Outlook: *(+) Positive - Entity's creditworthiness is expected to improve in the near future, potentially leading to rating upgrade.*
( ) Stable - Entity's creditworthiness is expected to remain stable in the near future, with no significant changes anticipated.
(-) Negative - Entity's creditworthiness is expected to deteriorate, potentially leading to rating downgrade.

Table 4

BUSINESS PROFILE

ABC FINANCIAL SERVICES LIMITED

CONTACT DETAILS	
Address:	Dar es Salaam, Tanzania.
Key person:	Victoria
Telephone:	+255xxxxxxxx
Website:	www.abcfinance.tz
Email:	abcfinance@gmail.com

Table 5

REGISTRATION DETAILS	
Incorporation Number:	97852145
Date of Registration:	02-07-20xx
Legal Structure:	Private Company Limited by Shares
Registered Office:	Dar es Salaam, Tanzania.

Table 6

CAPITAL DETAILS	
Authorized Capital:	TZS 100,000,000/-
Issued Capital:	TZS 100,000,000/-
Paid-Up Capital:	TZS 100,000,000/-

Table 7

SHAREHOLDING PATTERN	
Name of Shareholders	**Shareholding**
Victoria	60%
Kimaro	40%
Total	**100%**

Table 8

COMPANY BACKGROUND

ABC FINANCIAL SERVICES LIMITED was established on August xx, 20xx, with a primary emphasis on offering various financial services such as credit facilities, capital access, emergency loans, and extensive business and management training. It obtained a license from the Bank of Tanzania to operate as a microfinance institution on April 2, 20xx.

The Microfinance Act in Tanzania was promulgated in 20xx, and its regulations started to operate in 20xx, and when the Bank of Tanzania (BoT) officially started to regulate these microfinances. Before that, the microfinance companies obtained their license from BRELA, and ABC Financial operated as a microfinance company from 20xx until the enactment of the Microfinance Act and was given time to comply with the BoT requirements. The company officially got its license from BoT after qualifying for the requirements mentioned in the established act.

The company operates as a Tier 2 non-deposit microfinance service provider located in Tanzania. With five years of operation, it has earned a reputation as a dependable and trustworthy financial services entity within the local market. Its primary focus lies in extending microloans and financial solutions to underserved communities, particularly in rural and low-income regions spanning Dar es Salaam, Dodoma, and Kilimanjaro. Through a dedication to responsible lending practices and a customer-centric ethos, the company has achieved consistent growth. It boasts a loyal client base that depends on its services for their financial requirements. The total number of staff at ABC Financial is 15, and all of them are Tanzanian nationals.

The company serves a diverse clientele, including employees, microbusiness owners, and small businesses throughout Tanzania. In its ongoing dedication to improving its services and meeting the evolving needs of its clients and the wider community, the company is actively developing customized loan packages designed to address the specific requirements of its clientele.

MISSION

At ABC FINANCIAL SERVICES LIMITED, our mission is to empower individuals and small businesses in Tanzania to achieve financial independence and improve their quality of life. We are committed to providing accessible and affordable microfinance solutions that foster economic growth, create opportunities, and promote financial inclusion within our communities. Through responsible lending practices and personalized financial services, we aspire to be a trusted partner in the journey towards financial prosperity for all our clients.

VISION

ABC FINANCIAL SERVICES LIMITED is inspired by a vision that is aligned with its mission. Simple and straight-forward, the vision is to provide high-quality loan services that are competitive, viable, and sustainable, with the capacity to fulfil members' economic and social needs.

At ABC FINANCIAL SERVICES LIMITED, we envision a prosperous and inclusive Tanzania where every individual, regardless of their background or circumstances, has the opportunity to achieve their financial goals and improve their quality of life. Our vision is to be the leading microfinance provider in Tanzania, empowering underserved communities and small businesses to thrive and contribute to the nation's economic growth.

BRANCH OFFICES

The company has two branch offices in Tanzania: one is located in Dodoma, and the other is located in Kilimanjaro. These two branches contribute to xx% of the total revenue, with the Dodoma branch contributing xx% and Kilimanjaro contributing xx%.

CUSTOMER SEGMENT

ABC FINANCIAL SERVICES LIMITED's customers are individuals with collateral who qualify for reasonable capital and groups for those who are not in an economic position to secure funding from traditional financial institutions. The majority are small-business owners operating in Kijitonyama and Kinondoni, Dar es Salaam City. ABC FINANCIAL SERVICES LIMITED has a strong lending history with groups and individual loans, and it plans to solidify its reputation within this market. By FY20xx, its customer base will be an equal split of micro, small, and medium-sized business owners.

PRODUCT LINE

ABC FINANCIAL SERVICES LIMITED makes loans at risk-adjusted market rates ranging from TZS 50,000 to TZS 500,000. This range is often referred to in the lending profession as "recoverable" because of the size of the loans. All customers require a co-signer in a group of five people and character references for loan approval, creating a circle of trust for lenders. All loans over TZS 500,000 require guarantees and/or collateral. Interest rates start at 3.5% monthly and 42% a year, plus fees. Loan interest rates vary depending on loan size, customers' credit, and other risk factors. Loan terms have ranged from 1 month to 1 year.

1. Micro Loans (TZS 50,000 - 500,000): Microloans are primarily made to low-income individuals for consumer purchases and to microentrepreneurs for business-related expenses. Such loans are most often offered to women. Business owners buy inventory while consumers purchase domestic appliances, such as refrigerators or stoves.

2. Business Loans: This is a planned loan disbursed by the loan committee once a month. The organization disbursed TZS 20,000,000 as the highest amount. Currently, the repayment period does not exceed 12 months with an interest rate of 3.5% based on a declining balance. This loan aims to assist customers in their business development projects.

3. Education Loans: This loan is granted to customers in an amount not exceeding TZS 5,000,000. The interest rate is 3.5% on a declining balance method with a maximum repayment period of 12 months.

4. Emergency Loans: This loan is granted to customers based on the type of emergency, with a maximum amount of TZS 20,000,000, and is charged a 3.5% interest rate with a repayment period not to exceed 12 months. The loan aims to assist customers who are experiencing an unexpected personal problem.

5. Agriculture Loans: This loan is granted to customers to support their agricultural activities. The loan repayment period does not exceed 12 months.

REVENUE SOURCE

Interest: The company charges an annual interest rate of 42% over the loan term. This rate is considerably lower than most of its competitors' rates. This revenue source accounts for 51 percent of ABC FINANCIAL SERVICES LIMITED's historical income.

Legal Fee: The origination of every loan incurs a flat legal fee, typically amounting to TZS 1% of the loan.

Processing Fee: The company also charges a 2% monthly service fee that will be applied throughout the life of the loan.

Application Fee: The company charges an amount of TZS 30,000 for each loan application, which is another source of its revenue.

MARKET COMPETITION

The microfinance sector in Tanzania is vibrant and competitive, with various institutions vying to serve the financial needs of individuals and businesses, particularly those underserved by traditional banks. According to a recent report by the Bank of Tanzania, there are 1,352 Tier 2 microfinance institutions in Tanzania. The total outstanding loan portfolio for microfinance institutions in Kijitonyama and

Kinondoni is more than TZS 2.5 trillion, and ABC Financial currently has a market share of 0.09%. The company's major competitors, in order of threat to the company, are:

- Other Micro Finance Institutions
- Banking Institutions
- Money Lenders

Other Microfinance Institutions: These institutions are the issuer's biggest rivals. Many of the microfinance institutions have as much experience as ABC Financial Services; however, their limited operations and strategies have given the company a chance to capture a reasonable market share. One of the major factors in the company's success over its rivals is that it offers lower interest rates. The company ranks among the top ten players in the Kinondoni microfinance landscape. Even with this relatively small number of players in the market, it is still fragmented, with the largest organization controlling approximately 20 percent and the smallest less than 12 percent.

Banking Institutions: There are a wide variety of formal lending institutions in Kijitonyama and Kinondoni that serve business owners. For the most part, these institutions would only be interested in the company's clients who take out the largest loans, namely MSEs, because the others would be viewed as too risky. However, considering the banks have a wide network of branches and presence across the country, it gives tough competition to microfinance companies, which have a limited presence and face difficulty targeting both urban and rural areas. The company has a competitive advantage over formal lending institutions because it has been directly servicing this target market for two years, knows the customers, and wants to serve them where formal banks do not.

Money Lenders: These are typically local individuals who lend money to people at interest rates that reflect their ability to provide capital quickly for their customers, with a limited focus on due diligence. Interest rates for this immediate access to capital are frequently as high as 30% to 50% monthly. ABC Financial's significantly lower interest rates make it an attractive alternative to individual money lenders, even if the turn-around on loan issuance is not immediate.

GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

The board of directors of ABC Financial serves as the guiding force, steering the institution towards its objectives and ensuring its long-term sustainability. The Board provides strategic direction by setting goals, defining objectives, and aligning organizational activities with an overarching mission. The Board is also responsible for identifying, assessing, and mitigating risks that may affect the institution's operations, reputation, or financial stability. While day-to-day operations are managed by executives, the board provides leadership and guidance to the management team. ABC's Board of Directors consists of the following members:

Name	Position Assigned	Designation
Mr. Abdul	Chairman of the Board	Non-Executive Director
Ms. Victoria	Secretary to the Board / Shareholder	Managing Director
Mr. Kimaro	Member / Shareholder	Credit Manager

MR. ABDUL – CHAIRMAN OF THE BOARD

Mr. Abdul is a procurement, supply, and logistics expert specializing in public procurement systems, contract management, and donor-funded projects, which are crucial components of financial management in the public sector.

Mr. Abdul possesses more than 25 years of expertise in overseeing the management of public procurement and logistics within the public sector of the United Republic of Tanzania. Mr. Abdul has acquired extensive international experience in the field of procurement systems and project management for donor-funded initiatives. This experience spans many countries like the United Kingdom, Turkey, India, Indonesia, Burundi, Rwanda, Uganda, Kenya, and Zambia, as well as Washington DC and Boston in the United States.

Mr. Abdul holds an MBA degree in corporate management, along with certifications as a certified procurement and supplies professional (CPSP) and an advanced diploma in procurement and supplies (ADPS).

He has been working in various senior positions with different government entities such as the Ministry of Labour and Employment, Tanzania, the Social Security Regulatory Authority (SSRA), and the Tanzania

Commission for Science and Technology (COSTECH). He has handled the procurement functions of these organizations. In addition, he has been appointed as a resource person for various public entities.

MS. VICTORIA – SECRETARY TO THE BOARD / SHAREHOLDER

Ms. Victoria is the managing director of ABC FINANCIAL SERVICES LIMITED. She has six years of experience in the microfinance business. She has worked as a businesswoman for more than 12 years. Victoria has attended various trainings on regulatory requirements for microfinance service providers under Tier 2 conducted by the Bank of Tanzania Academy. She holds a master's degree in procurement and supply chain management. She is also a certified procurement and supplies professional (CPSP) of the procurement and supplies professionals and technician board (PSPTB) of Tanzania. Before joining ABC, Victoria had been associated with various organizations and was taking care of procurement and supply chain management.

MR. KIMARO – CREDIT MANAGER

Mr. Kimaro holds a bachelor's degree in procurement and logistics management from the Tanzania Institute of Accountancy. He joined ABC Financial in August 20xx as a credit manager and was responsible for the credit management functions of the institute. Before joining ABC Financial, he was associated with the Energy and Water Utility Regulatory Authority (Ewura) in Dar es Salaam. He was responsible for the procurement and logistics management of the organization.

MANAGEMENT TEAM

The management team holds a significant responsibility for ensuring the effective operation and sustainability of the entity. Its role encompasses a range of functions critical to its success. The team is responsible for formulating strategic plans aligned with the organization's mission and objectives. It assesses market conditions, identifies target populations, and devises appropriate financial products and services. Moreover, it oversees the execution of these strategies, ensuring alignment with organizational goals.

The management team also oversees day-to-day operations to ensure efficiency and effectiveness. This includes managing staff, establishing operational policies and procedures, and implementing internal controls. It strives to enhance operational processes to optimize service delivery and minimize costs.

ABC Financial operates in an environment characterized by various risks, including credit risk, operational risk, and external market risks. The management team develops risk management frameworks to identify, assess, and mitigate these risks effectively. It establishes credit policies, conducts due diligence on clients, and implements risk monitoring mechanisms to safeguard the institution's portfolio.

The management team of ABC Financial consists of the following:

Name	Position
Victoria	Managing Director
John	Operation Manager
Joseph	Portfolio Manager
Akida	Finance Manager

JOHN – OPERATION MANAGER

John is a bachelor's degree holder in information technology from the Institute of Finance Management, Dar es Salaam. He joined ABC Financial in January 2019 as an operations manager and was responsible for the smooth and efficient operations of the business. Before joining ABC, he was working as an IT officer intern at the Institute of Finance Management.

AKIDA – FINANCE MANAGER

Akida completed her Master of Arts in revenue laws and tax administration from the University of Dar es Salaam in 20xx. She is also a Certified Public Accountant (CPA). She joined ABC in January 20xx as Finance Manager and was responsible for overall financial reporting and preparing annual budgets. Before joining ABC, she was working with HG Limited as a Finance and Administration Officer.

SUCCESSION PLAN

Succession planning is a critical aspect of organizational management, ensuring continuity and stability within the company's leadership structure. By having a succession plan in place, the firm can mitigate risks associated with unexpected departures of key personnel, such as executives or founders, and facilitate a smooth transition of responsibilities to identified successors. Additionally, succession planning involves contingency plans for various scenarios, such as sudden illness, retirement, or unforeseen circumstances, to ensure the firm remains resilient and adaptable to change. ABC Financial has a succession plan in place to ensure that key positions are seamlessly transitioned and critical functions are maintained, even in the event of unexpected changes in leadership or personnel. Moreover, it is clarified that the firm is not planning any structural changes in its leadership in the near future.

REWARDS AND RECOGNITION

ABC Financials was awarded a certificate of appreciation from the 'Association of Procurement and Supplies Professionals (APSP) in 20xx.

RISK MANAGEMENT FRAMEWORK

The Board assumes ultimate accountability for the company's internal control and risk management systems. Management is responsible for making sure that sufficient internal financial and operational control systems are established and remain up to date in order to give an acceptable level of assurance regarding:

- The effectiveness and efficiency of operations
- The safeguarding of the company's assets
- Compliance with applicable laws and regulations
- The reliability of accounting records
- Business sustainability under normal as well as adverse conditions
- Responsible behaviours towards all stakeholders

The risk management framework includes:

RISK IDENTIFICATION

ABC Financial identifies various risks that can impact their operations. These include:

- ***Credit Risk:*** The risk of borrowers defaulting on their loan obligations.
- ***Operational Risk:*** Risks arising from inadequate or failed internal processes, people, and systems, or external events.
- ***Market Risk:*** The risk of losses due to changes in market prices, such as interest rates and foreign exchange rates.
- ***Liquidity Risk:*** The risk that the institution will not be able to meet its financial obligations as they come due.
- ***Reputation Risk:*** The risk of damage to the MFI's reputation, which can affect its ability to attract and retain clients.
- ***Regulatory Risk:*** The risk of non-compliance with regulations, which can result in legal penalties and operational restrictions.

RISK ASSESSMENT

Once identified, these risks are assessed in terms of their likelihood and potential impact. This involves:

- ***Quantitative Analysis:*** Using historical data and statistical models to estimate the probability of risk events and their potential financial impact.
- ***Qualitative Analysis:*** Assessing the nature of the risks, their sources, and potential consequences through expert judgment and scenario analysis.

RISK MONITORING

Continuous monitoring is crucial for effective risk management. ABC Financial employs various tools and techniques to track risk indicators and trends.

- ***Early Warning Systems:*** Indicators and thresholds that signal emerging risks.
- ***Regular Reporting:*** Periodic reports on risk exposures and incidents to senior management and the board of directors.
- ***Internal Audits:*** Regular audits to ensure compliance with risk management policies and procedures.

RISK MITIGATION

To mitigate identified risks, the entity implements various strategies and controls:

- ***Credit Appraisal:*** Rigorous assessment of borrowers' creditworthiness.
- ***Diversification:*** Spreading credit exposure across different sectors and geographies.
- ***Collateral Requirements:*** Securing loans with collateral where possible.
- ***Process Improvements:*** Streamlining and automating processes to reduce errors and inefficiencies.
- ***Training and Development:*** Enhancing staff skills and awareness of operational risks.
- ***Contingency Planning:*** Developing and testing business continuity and disaster recovery plans.
- ***Liquidity Reserves:*** Maintaining sufficient liquid assets to meet short-term obligations.
- ***Funding Diversification:*** Accessing multiple sources of funding to reduce dependence on any single source.
- ***Regulatory Liaison:*** Maintaining open lines of communication with regulators and staying abreast of regulatory changes.

The risk management framework of ABC Financial is designed to address the specific risks inherent in microfinance operations. By systematically identifying, assessing, monitoring, and mitigating risks, the entity aims to protect its financial stability, ensure regulatory compliance, and maintain the trust of its clients and stakeholders. Effective risk management is essential for the sustainable growth and success of MFIs in their mission to provide financial services to underserved populations.

ESG FRAMEWORK

Environmental, Social, and Governance (ESG) factors have become increasingly important for microfinance institutions (MFIs) as they aim to align their operations with sustainable and responsible business practices. An ESG policy provides a framework for MFIs to integrate these considerations into their strategic decision-making, risk management, and day-to-day operations.

ABC FINANCIAL SERVICES LIMITED uses the term 'ESG' to describe a comprehensive set of environmental, social, and governance matters impacting our company. It puts these concerns at the core of its operations.

ENVIRONMENT

The company is taking every step possible to cut its carbon footprint by employing the most advanced building technology and facilities, ensuring water management, and reducing waste through recycling. This is achieved by reviewing every aspect of the operations to reduce the environmental impact of its infrastructure.

SOCIAL

Teamwork and a conducive working environment are the keys. The firm is building a strong culture by ensuring its organization's core values are effectively implemented, which are transparency, social responsibility, confidentiality, diligence, trust, and accountability. The entity is highly discouraging child labour in its organization and encouraging parental leave while paying fairly living wages.

GOVERNANCE

ABC Financial is aligned with the established government laws, including compliance with the Microfinance Act 2018 that governs its daily requirements as per Bank of Tanzania requirements. The oversight of these issues is done by the Board of Directors. The company is committing to high ethical standards by adopting a whistle-blower policy. ABC also has appropriate governance structures in place, such as a board structure.

MACRO ENVIRONMENTAL ANALYSIS

COUNTRY RISK REVIEW

Tanzania is the largest country in East Africa, encompassing the islands of Zanzibar, Pemba, and Mafia. It is bordered by the Indian Ocean and shares its boundaries with eight neighbouring nations, namely Kenya, Uganda, Rwanda, Burundi, the Democratic Republic of the Congo, Zambia, Malawi, and Mozambique. The estimated population of the country stands at approximately 67m (September 2023), with the official local currency being the Tanzanian Shilling (TZS). Dar es Salaam serves as the administrative capital of Tanzania, while Dodoma has been designated as the legislative capital of the nation.

The serving President of Tanzania is Samia Suluhu Hassan (September 2023), who holds the distinction of being the sixth president of the nation and its DFCU female president. She was the former vice president and was sworn in as president following the death of Mr. John Magufuli in March 2021. Her policies and initiatives have geared up the growth of the economy and the development of the country, and as a result, she is expected to remain president until 2025. There is a high chance she will be voted back for the next term if the success story of the country continues. The president serves as both the head of the country and the chief of the armed services. General elections are conducted once every five years to elect the country's leadership. Further, the shape of the political outlook of Tanzania is changing as opposition parties (CHADEMA and ACT) are collaborating with the main leading party (CCM) to continue the growth trajectory of the country, indicating that Tanzania is one of the most politically stable countries in the region.

Tanzania's sovereign rating has been recently upgraded to B1 with a stable outlook. This upgrade holds significant promise to improve the country's business climate and entice both local and international investors. Addressing the persistent foreign exchange shortage, especially prevalent in developing economies like Tanzania, is imperative. The current global focus on potential interest rate reductions in the United States may alleviate this situation by encouraging foreign direct investment. By synchronizing governmental initiatives aimed at enhancing the business landscape with favorable global monetary policies, Tanzania stands to attract higher levels of foreign investment. Despite initial opposition, the government's dedication to broadening the tax base has proven vital in managing the country's debt levels effectively.

The credit rating upgrade reflects Tanzania's strides in bolstering its economy through structural reforms and prudent macroeconomic policies. Despite ongoing challenges, the government's strategic actions and dedication to improving the business climate indicate Tanzania's potential for sustained economic expansion and stability.

Tanzania is currently listed under the "Grey List" by the Financial Action Task Force (FATF), often referred to as "Jurisdictions under Increased Monitoring." This designation signifies that Tanzania is actively collaborating with the FATF to rectify strategic deficiencies in its frameworks for countering money laundering (ML), terrorist financing (TF), and proliferation financing (PF). In October 2022, the Tanzanian government made a significant high-level political commitment in partnership with the FATF and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to enhance the effectiveness of its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. Consequently, Tanzania has instituted institutional structures and enacted various laws to address the issues of money laundering and terrorism financing. Furthermore, the government is dedicated to bolstering the implementation and enforcement of a comprehensive anti-corruption strategy and legislation. The National Anti-Corruption Strategy and Action Plan 2023-28 (NACSAP) represents a key initiative in pursuit of this goal.

According to the Bank of Tanzania, the economy is estimated to have grown at 5.1% in 2023, an increase from 4.7% in the preceding year. In the first quarter of 2024, growth is estimated to be around 5.1%. The performance is underpinned by public investment, particularly in infrastructure, as part of the measures to facilitate private-sector business and investment. Private sector investment also contributed to the estimated growth because of the improving business environment in the country, as reflected by the high growth of credit to the private sector and the increase in foreign direct investment.

The Zanzibar economy also performed satisfactorily, with real GDP growth estimated to be more than 6% in 2023, mostly driven by tourism activity. Favourable economic conditions are expected to continue in subsequent quarters of 2024. The outlook is supported by an improving business environment, adequate rains in most parts of the country, and the continued recovery of the global economy.

Inflation remained low and stable, averaging 3% in the first quarter of 2024. This is in line with the country target of not more than 5% and convergence criteria in regional economic blocs in which Tanzania is a member. The stability was due to prudent monetary policy and an adequate domestic food supply. In Zanzibar, inflation eased, converging to the medium-term target of 5%, mainly due to the moderation of both food and non-food prices. Inflation is expected to remain consistent with the target. The projection is bolstered by monetary policy and an adequate food supply. The risk to the inflation outlook is moderate.

The current account balance continued to improve, attributable to moderate import prices and good performance in exports. In the year ending February 2024, the current account deficit narrowed to USD 2,701.4 million compared to USD 5,133.6 million in the corresponding period in 2023. In Zanzibar, the current account deficit also narrowed. The current account deficit is expected to continue gradually improving, reaching 3.2% of GDP in the subsequent quarters.

Foreign reserves remained high, at more than USD 5.3 billion as of the end of March 2024, equivalent to 4.4 months of projected imports. The exchange rate depreciated by 1.8% in the quarter ending March 2024, compared to 1.6% in the preceding quarter. The exchange rate depreciated relatively faster, driven by a seasonal decrease in foreign exchange flows as well as global economic conditions.

The financial sector is stable and resilient to short-term shocks, with all indicators ranging within the desirable thresholds. The banking sector is liquid, profitable, and adequately capitalised. The quality of the banks' assets is satisfactory, as reflected by a low non-performing loan ratio of 4.3%, which is within the acceptable level of not more than 5%.

According to the World Bank, Tanzania's Gross Domestic Product (GDP) reached USD 75.1 billion in FY22, representing approximately 0.03% of the global economy. In a recent update from Fitch in June 2023, Tanzania's real GDP is expected to grow by 5.7% y/y in FY23, compared to the 5.3% y/y growth observed in FY22. This growth is being driven by accelerated investments in large-scale infrastructure projects, resulting in higher wages and increased consumer spending, all of which are positive indicators of a thriving economy.

The mining sector is expected to see a 2.4% increase in gold production in FY23, compared to the 1.8% growth observed in FY22, supported by increased investments and growing gold prices due to financial market fluctuations. Additionally, the government has implemented several initiatives to bolster the agricultural sector, including subsidies for fertilizers and seeds as well as increased seed production. Lower lending rates for the agricultural sector have also been introduced. The tourism sector is expected to witness a 33.9% y/y increase in tourist arrivals in FY23, reaching 1.3 million visitors. Investments in Tanzania's port capacity will further facilitate greater transport exports from neighbouring East African countries like Burundi, Rwanda, the Democratic Republic of the Congo (DRC), and Uganda. This is projected to result in an 8.8% rise in tonnage through the Port of Dar es Salaam, reaching 24.2 million metric tons in 2023, up from 22.2 million metric tons in 2022.

The overall economic outlook for Tanzania is optimistic, supported by the factors mentioned above and the government's timely implementation of structural reforms aimed at strengthening the economy's competitiveness, improving the business and investment environment, and reducing the cost of regulatory compliance. The World Bank report also emphasizes that improving the efficiency and effectiveness of fiscal policies has enabled the country to boost revenue collection and increase public expenditure, leading to improved human capital outcomes, inclusive economic growth, and prosperity for its citizens.

Here is a breakdown of Tanzania's imports and exports, categorized by products and partner countries.

Import (Categories)	%	Export (Categories)	%
Mineral fuel, oil, distillation products	25%	Pearls, precious stones, metals, coins	44%
Machinery, nuclear reactors, boilers	11%	Cereals	4%
Vehicles other than railway, tramway	9%	Coffee, tea, mate, and spices	4%
Plastics	6%	Edible fruit, nut, citrus fruit, melons	4%
Electrical, electronic equipment	6%	Mineral fuels, oils, distillation products	4%
Other	43%	Other	40%
Total	**100%**	**Total**	**100%**

Table 9 (Source: Trading Economics/2022 data/ United Nations COMTRADE database on international trade)

Import (Country)	%	Export (Country)	%
China	25%	India	17%
United Arab Emirates	16%	South Africa	14%
India	13%	United Arab Emirates	11%
Saudi Arabia	4%	Kenya	6%
South Africa	4%	Switzerland	5%
Other	38%	Other	47%
Total	**100%**	**Total**	**100%**

Table 10 (Source: Trading Economics/2022 data/ United Nations COMTRADE database on international trade)

Considering the favourable and encouraging factors pertaining to the economic, political, and other macroeconomic drivers, ICRA anticipates that Tanzania is poised to exhibit a moderate level of country risk with greater economic stability and sustainable growth potential, especially when compared to its neighbouring peer countries. This assessment is reinforced by the sustained positive economic growth rates and the alleviation of inflationary pressures, despite the global challenges encountered during recent review periods. Nevertheless, it is essential to underscore the inherent challenges faced by the country. These include issues of poverty and inequality, constrained access to quality educational and healthcare facilities, environmental concerns, and limited access to financial resources.

INDUSTRY RISK REVIEW

MICROFINANCE INDUSTRY

OVERVIEW

Microfinance refers to the provision of financial services to low-income individuals who are traditionally not served by conventional financial institutions. It is globally acknowledged and accredited for its role in fighting poverty, as evidenced by the many countries that use it. The microfinance industry in Tanzania has witnessed significant growth and development over the past few decades. Microfinance institutions (MFIs) play a crucial role in providing financial services to the unbanked and underbanked population, particularly in rural and remote areas where traditional banking infrastructure is limited.

REGULATORY ENVIRONMENT

The regulatory framework for microfinance in Tanzania is governed by the Bank of Tanzania (BoT) and the Microfinance Act of 2018. The regulatory environment has become more conducive, promoting transparency, consumer protection, and financial stability within the industry.

MARKET LANDSCAPE

The microfinance sector in Tanzania comprises a diverse range of players, including traditional MFIs, savings and credit cooperatives (SACCOs), and non-governmental organizations (NGOs) offering microfinance services. The sector is characterized by both regulated and unregulated entities, creating a mix of formal and informal financial service providers.

FINANCIAL INCLUSION

Despite progress, a significant portion of Tanzania's population remains underserved by formal financial institutions. Microfinance institutions play a crucial role in promoting financial inclusion by providing access to credit, savings, insurance, and other financial products and services to low-income individuals and micro-entrepreneurs.

CONTRIBUTION TO POVERTY ALLEVIATION BY THE SECTOR OF MICROFINANCE IN TANZANIA

Although the concept of small financial services is new to Tanzania, the contribution of its establishment is already visible. Small-scale farmers have greatly benefited from this change, as Tanzania has a predominantly agricultural economy. Access to loans has allowed farmers to grow their businesses by purchasing fertilizers and high-quality equipment to boost productivity and benefit from their yields without the inevitable debt threat. Sub-financial services have also provided rural non-farmers with employment opportunities to quickly start small businesses, such as carpentry and food marketing.

Although the adoption of this economic system is limited in rural households, studies show that, if entirely accepted, microfinance services could raise the income of Tanzanians living in rural areas. These figures are even more critical when linked to the fact that 90% of the poor in Tanzania live in rural areas. As a result, rural households are often the ones who do not qualify for regular banking services.

CHALLENGES

Sustainability

Many MFIs in Tanzania struggle with financial sustainability due to high operating costs, limited access to funding, and the risk of loan default. Achieving a balance between social mission and financial viability remains a persistent challenge for microfinance institutions.

Risk Management

Effective risk management is essential for the long-term success of MFIs. However, many institutions face challenges in assessing and mitigating credit risk, operational risk, and external factors such as changes in economic conditions, regulatory requirements, and political instability.

Capacity Building

Building institutional capacity and enhancing the skills of microfinance practitioners are critical for improving the quality of financial services and ensuring compliance with regulatory standards. However, capacity constraints, particularly in rural areas, pose significant obstacles to the growth and development of the microfinance sector.

High Interest Rates

The country's microfinance institutions charge high interest rates based on the cost of capital, personnel, administration, and loan losses. Administrative costs are estimated to account for up to two-thirds of the interest paid by clients. There is no universal system applicable across all MFIs for the calculation of interest rates. The interest rates applied are differentiated by product attributes and features, including loan type, cycle, amount, and duration. Most of these institutions are not transparent in their pricing systems, and therefore the interest rates charged are usually stated at nominal rates rather than effective rates, which leads customers to make uninformed borrowing decisions. Some MFIs charge significantly high effective interest rates, ranging from 3 to 20 percent per month.

Inadequate Working Capital

Most of the MFIs have inadequate working capital, resulting from the poor saving culture of their members and their inability to secure affordable and reliable financing sources.

Weak Institutional Capacity

MFIs face a variety of inter-related challenges, such as limitations in the scale of their operations in terms of outreach and number of clients served; poor portfolio quality; limitations in their professional capacity; weak governance structure; poor accounting and record keeping; inefficient operations; and a lack of financial discipline.

OPPORTUNITIES

Technology Adoption

The rapid advancement of technology presents opportunities for MFIs to enhance the efficiency, reach, and scalability of their operations. Digital financial services, mobile banking, and fintech innovations can help overcome geographical barriers and improve access to financial services for underserved populations.

Product Diversification

MFIs can expand their product offerings beyond traditional microcredit to include savings accounts, insurance products, remittance services, and financial literacy training. Diversification can increase revenue streams, attract new customers, and promote holistic financial inclusion.

Partnerships and Collaboration

Collaborating with government agencies, development organizations, private sector stakeholders, and community-based organizations can facilitate resource mobilization, knowledge sharing, and the development of innovative solutions to address the needs of low-income households and micro-entrepreneurs.

FUTURE PROSPECTS

The microfinance industry in Tanzania is poised for further growth and innovation as stakeholders continue to address the challenges and leverage opportunities in the evolving financial landscape. Strengthening regulatory oversight, promoting responsible finance practices, and investing in technology and human capital will be crucial for advancing financial inclusion and sustainable development goals in Tanzania. Additionally, fostering an enabling environment for entrepreneurship, job creation, and economic empowerment will contribute to the resilience and prosperity of communities across the country.

EXTERNAL RELATIONSHIPS

EXTERNAL AUDITOR DETAILS

Auditor Name	XYZ Certified Public Accountants
Latest Financials	December xx, 20xx
Audit Report Date	February xx, 20xx
Audit Opinion	Unqualified

Table 11

The above-mentioned auditor's name is not mentioned in the Bank of Tanzania's (BoT) list of approved auditors for financial institutions.

CREDIT BUREAU DETAILS

The company provided the credit bureau report from CreditInfo dated February x, 20xx, and no adverse findings were evident in the report.

KYC SCREENING AND ADVERSE MEDIA CHECK

ICRA has done due diligence on the company, majority shareholders, and key management to assess any risks related to AML/CFT, sanctions, adverse media, and PEP through a third-party due diligence service provider. ICRA has not come across any negative information related to the above-mentioned parties.

FINANCIAL ANALYSIS

INCOME STATEMENT

Performance Analysis					
TZS	Dec-21	Dec-22	Dec-23	FY22 (y/y)	FY23 (y/y)
Revenue	402,157,764	582,188,866	684,956,239	45%	18%
Gross Profit	399,557,806	580,898,541	677,734,453	45%	17%
OPEX	279,690,464	399,557,806	372,070,558	43%	-7%
EBIT	119,867,342	181,340,735	305,663,895	51%	69%
Net Profit	107,040,168	167,088,319	213,964,727	56%	28%

Table 12

The entity generated a total revenue of TZS 684,956k during FY23, with a y/y growth of 18%. The business has largely four key revenue segments: (i) interest income (56% of total revenue), (ii) service fees (20%), (iii) application fees (14%), and (iv) commissions (10%). The growth of FY23 was largely driven by improvements in interest income (+76% y/y), application fees (+31% y/y), and service fees (+33% y/y), which, on the other hand, were partially offset by a decline in commission income (-63% y/y). Revenue displayed an increasing trend during the 3 year period from FY21 to FY23 with a CAGR of 31%.

Revenue Breakdown						
TZS	Dec-21	Dec-22	Dec-23	Dec-22 (y/y)	Dec-23 (y/y)	Contribution %
Interest Income	162,507,276	218,815,738	384,146,474	35%	76%	56%
Application Fees	84,049,958	71,818,213	94,240,510	-15%	31%	14%
Service fees	85,750,120	101,814,787	135,759,490	19%	33%	20%
Commission	69,850,410	189,740,128	70,809,765	172%	-63%	10%
Total	**402,157,764**	**582,188,866**	**684,956,239**	**45%**	**18%**	**100%**

Table 13

The cost of sales, or direct cost, consists solely of an increase in the provisioning of non-performing loans. The provision for NPL has increased significantly to TZS 7,221k with a y/y spike of 460% during FY23, surpassing the revenue growth rate of the business. However, the gross profit marked a growth rate of 17% y/y, with a total amount of TZS 677,734k in line with the revenue growth trajectory.

The total OPEX of the entity stood at TZS 372,070k, with a 7% cost savings cf. FY22. The cost structure mainly has three types of OPEX, namely admin expenses, finance expenses, and depreciation. The cost of sales for the year largely derived from the depreciation (33% saving) and administration (5% saving), which was partially offset by a 41% increase in finance expenses.

As a result, the entity achieved a total operating profit of TZS 305,663k during FY23, with an impressive growth rate of 69%, surpassing the FY22 growth rate of 51%. During the year, the business has incurred a total income tax expense of TZS 91,699k, marking a net profit of 213,964k with 28% y/y growth.

The overall performance of FY23 for the entity is positive in terms of revenues and profits. However, compared to FY22 growth rates, FY23 growth rates indicate a slightly slowed phase.

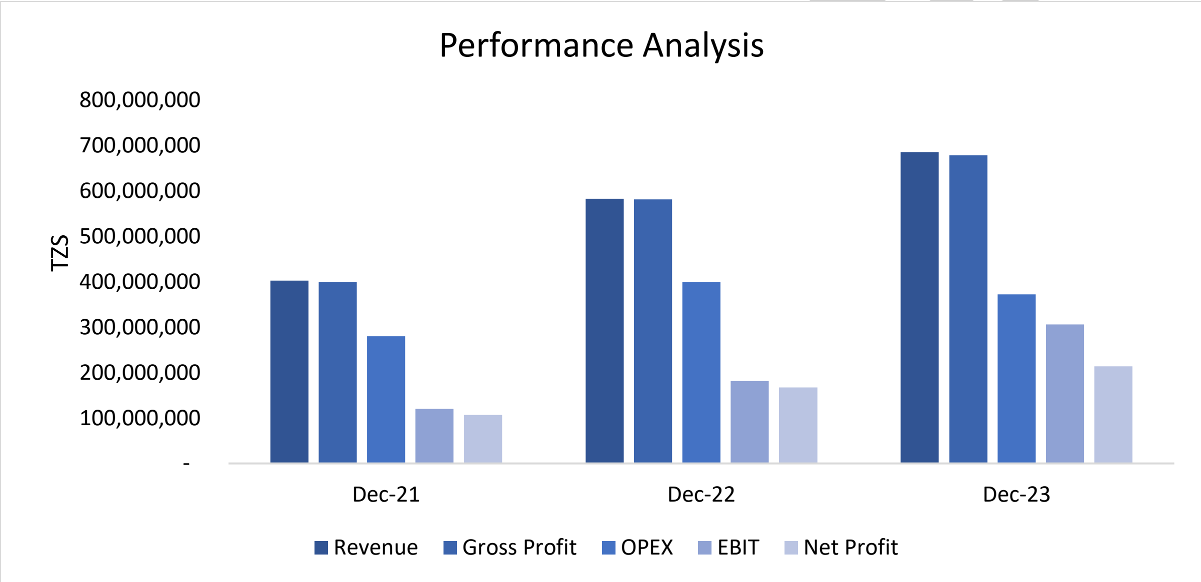


Figure 1

BALANCE SHEET

Balance Sheet Analysis			
TZS	Dec-21	Dec-22	Dec-23
Total Non-Current Assets	86,221,175	95,801,306	71,552,354
Total Current Assets	388,677,149	546,185,338	910,841,464
Cash & Cash Equivalent	54,213,196	60,236,884	142,267,557
Net Worth	474,898,324	641,986,644	855,951,370
Total Non-Current Liabilities	-	-	126,442,448
Loan from Other MFIs	-	-	126,442,448

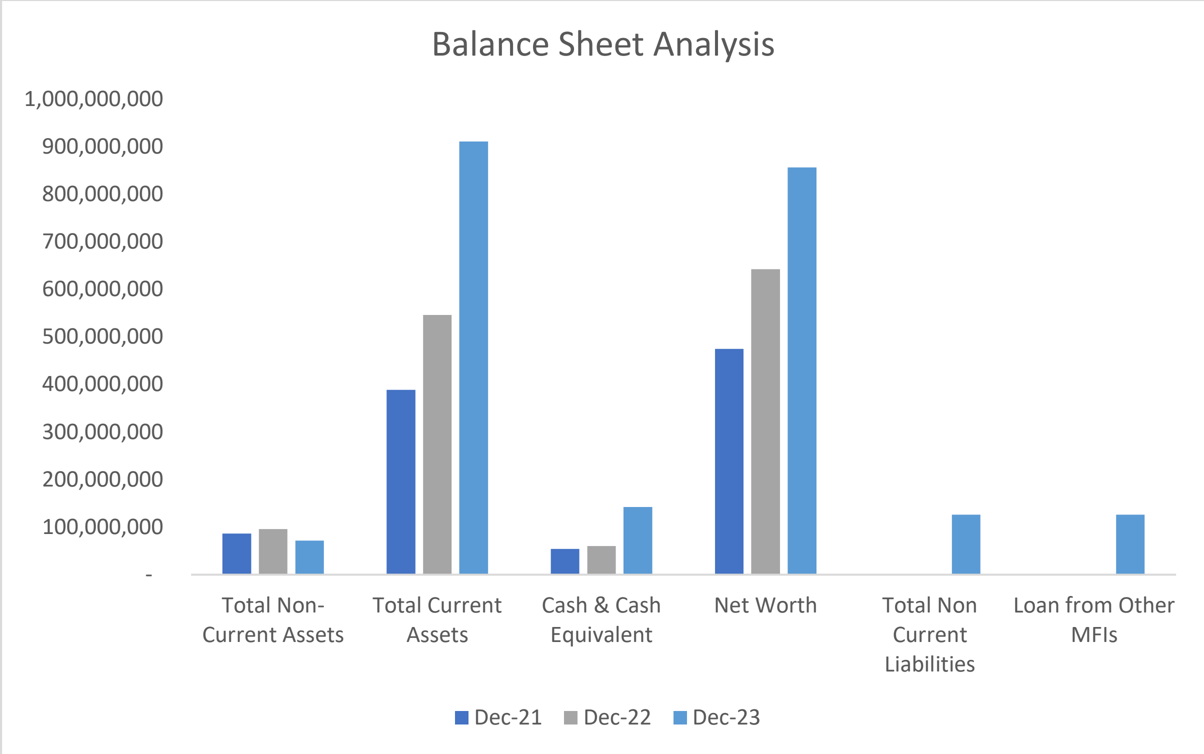
Table 14

The asset base of the entity stood at TZS 982,393k as of FY23, an increase from TZS 641,986k in FY22 (+53% y/y). Out of total assets, 93% accounted for current assets, while 7% accounted for non-current assets. The current assets of the entity have increased 67% y/y to TZS 910,841k, largely driven by the increase in loan receivables as well as the cash balance increase reflecting the performance growth during the year. The largest portion of the current assets is attributable to loan receivables (78%), followed by cash balances (16%) and other current assets (6%). Loan receivables have increased 77% y/y to TZS 714,956k, backed by improved operations. The gross loan portfolio of the company was TZS 722m in FY23 vs. TZS 399m in FY22. Over the last three years, the business has shown a growth trend in its portfolio, which indicates a positive trajectory in its operations. Further, the cash balance of the business has increased significantly by 136% y/y to TZS 142,267k in FY23, largely backed by cash inflows through loans from other MFIs during the year. It is noted that the entity has maintained its liquid assets above 5% of total assets (TA), which is the minimum level set by the regulator. Liquid assets to total assets stood as follows: FY23: 14%, FY22: 9%, and FY21: 11%.

Other current assets declined by 35% y/y to TZS 53,617k, which consists solely of short-term investments in other entities.

Total net worth stood at TZS 855,951k, which improved from TZS 641,986k in FY22 as a result of increased profit generation during FY22. It is noteworthy that the entity completely funded its assets through its share capital and retained earnings since the business has not resorted to any external debt during FY21 and FY22. However, during FY23, the entity took a long-term external loan from another MFI to fund its portfolio amidst the scope of improved operations.

However, the overall balance sheet is stable, and there is potential for growth in line with its operations. There are no adverse indications or risks that can be seen in the balance sheet activities.


Balance Sheet Analysis
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300,000,000
200,000,000
100,000,000
-
Total Non-Current Assets
Total Current Assets
Cash & Cash Equivalent
Net Worth
Total Non Current Liabilities
Loan from Other MFIs
Dec-21
Dec-22
Dec-23

Figure 2

CASH FLOW ANALYSIS

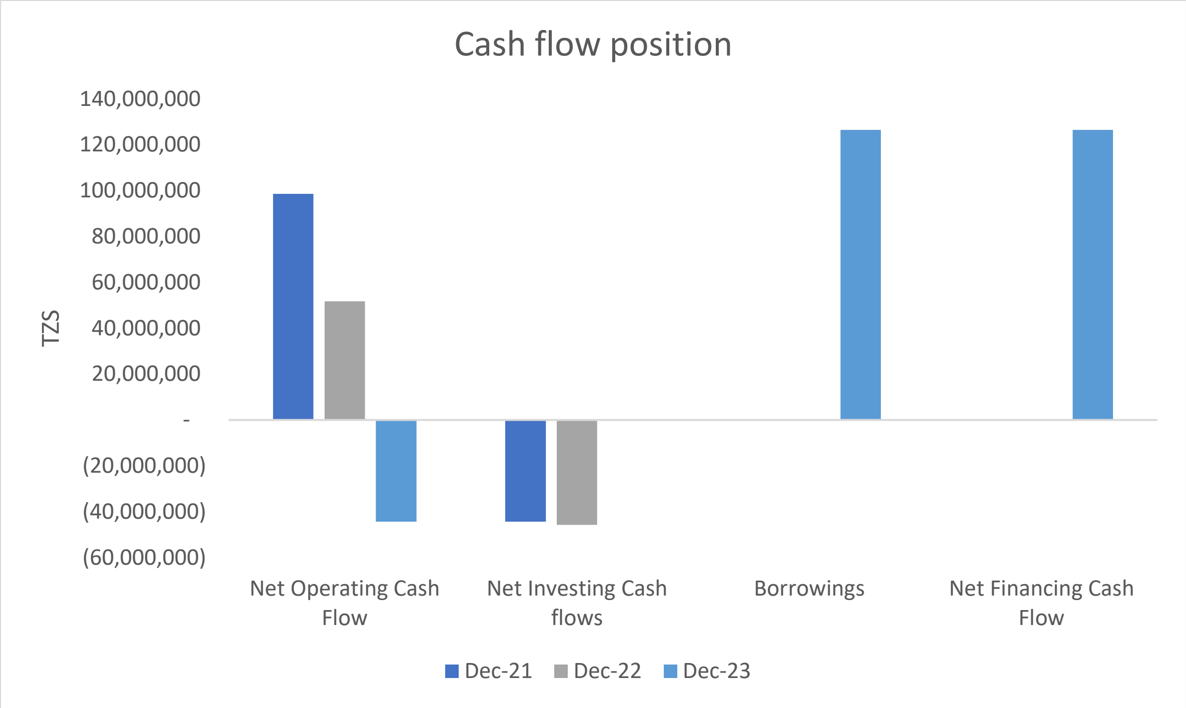
Cash Flow Analysis			
TZS	Dec-21	Dec-22	Dec-23
Net Operating Cash Flow	98,556,110	51,733,219	(44,411,775)
CAPEX	(44,342,914)	(45,709,531)	-
Net Investing Cash flows	(44,342,914)	(45,709,531)	-
Borrowings	-	-	126,442,448
Net Financing Cash Flow	-	-	126,442,448

Table 15

The firm's net operating cash flow remained positive (inflow) for FY21 and FY22. However, in FY23, the net operating cash flow was negative, denoting an outflow with the activity expansion resulting in a higher percentage of loan disbursements.

Net investing cash flows for FY21 and FY23 were cash outflows, comprised solely of capex investments for fixed asset purchases. For FY22, the main investments were for motor vehicles, computers, and accessories. No capex was borne for FY23. Investing in Capex is favourable since it will reap future benefits in improving efficiency and profitability. It is also considered an indication of the shareholder's interest in the sustainability of the company.

Net financing cash flows were nil for FY21 and FY22. In FY23, the net financing cash flow was an inflow, solely through cash injections resulting from the entity resorting to debt financing from another MFI.


Cash flow position
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100,000,000
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60,000,000
40,000,000
20,000,000
-
(20,000,000)
(40,000,000)
(60,000,000)
TZS
Net Operating Cash Flow
Net Investing Cash flows
Borrowings
Net Financing Cash Flow
Dec-21
Dec-22
Dec-23

Figure 3

PORTFOLIO ANALYSIS

ABC's total loan portfolio consists of loans to individual customers. All loans in the portfolio are classified as personal loans. However, ABC has informed ICRA that it offers different types of loans, such as emergency loans, employee loans, business loans, SME loans, etc., and that this personal loan classification is applied to differentiate from group loans. The MFI is providing loans that are short-term in nature, with a maturity ranging from 1 month to 6 months, for both retail and corporate clients. As per the provided data, the majority of loans disbursed were for 4 months and 6 months.

The below portfolio figures are updated as of April xx, 20xx.

GEOGRAPHICAL SPREAD OF LOAN PORTFOLIO				
Location	Principal Amount (TZS)	Percentage (%)	Number of Clients	Outstanding Balance (TZS)
DAR-ES-SALAAM	474,835,444	70%	95	456,578,181
DODOMA	127,711,633	19%	33	113,799,368
KILIMANJARO	71,471,850	11%	21	69,567,798
Grand Total	**674,018,927**	**100%**	**149**	**639,945,347**

The entity has three operational offices in Tanzania, which are located in Dar es Salaam, Dodoma, and Kilimanjaro. All three offices have 149 active customers in total, with a gross loan value of TZS 639m. Dar-es-Salaam emerges as the dominant segment, commanding the highest principal amount disbursed and the largest client base, underscoring its economic significance. Dodoma follows with a moderate principal amount and clientele, while Kilimanjaro, though smaller in scale, still represents a notable segment.

PORTFOLIO CLASSIFICATION			
Classification	Balance Amount (TZS)	Percentage of Portfolio	Number of Loan Accounts
Current (0-5 days)	501,879,063	78%	113
Especially Mentioned (6-30 days)	81,171,962	13%	24
Substandard (31-60 days)	43,717,651	7%	9
Doubtful (61-90days)	13,176,672	2%	3
Loss (More than 90 days)	-	-	
Grand Total	**639,945,347**	**100%**	**149**

The portfolio classification analysis reveals a predominantly healthy financial picture, with the majority of loans falling within the 'Current' classification, representing 78% of the total loan portfolio balance.

This indicates a robust flow of current assets, suggesting timely repayments and minimal credit risk. However, there are notable portions falling under categories reflecting varying degrees of overdue status, such as 'Especially Mentioned,' 'Substandard,' and 'Doubtful,' which collectively make up 22% of the portfolio balance. While these categories signify some level of credit risk, they are manageable at present.

Efficient portfolio management strategies are imperative to effectively address these overdue loans. This involves implementing measures such as restructuring loans, intensifying collection efforts, or writing off irrecoverable debts where necessary. By closely monitoring asset quality and promptly addressing delinquent accounts, the institution can mitigate risks and preserve the overall health of the portfolio. Continuous assessment and adjustment of risk management strategies are essential to adapting to changing market conditions and maintaining financial stability over the long term. Ultimately, by proactively managing credit risks and optimizing asset performance, the institution can safeguard its financial health and sustainably maximize returns for stakeholders.

LOAN PROVISION CALCULATION			
Classification	**Balance Amount (TZS)**	**Provision As Per BOT (%)**	**Provision Amount (TZS)**
Current (0-5 days)	501,879,063	1%	5,018,791
Especially Mentioned (6-30 days)	81,171,962	5%	4,058,598
Substandard (31-60 days)	43,717,651	25%	10,929,413
Doubtful (61-90days)	13,176,672	50%	6,588,336
Loss (More than 90 days)	-	100%	-
Grand Total	**639,945,347**	**-**	**26,595,137**

The above data outlines the classification of balance amounts and corresponding provisions as per the Bank of Tanzania (BOT) guidelines. In the current category (0-5 days), which constitutes the shortest overdue period, the balance amount is notably higher at TZS 501m, with a provision set at 1%, resulting in a provisioned amount of TZS 5m. As the overdue period extends, the provision percentages increase significantly, reflecting the higher risk associated with longer delinquencies. For instance, in the doubtful category (61-90 days), where the balance amount is TZS 13m, the provision rate reaches 50%, resulting in a provisioned amount of TZS 6m. The total loan provision amount stands at TZS 26m, which represents 4% of the gross loan portfolio.

PORTFOLIO AT RISK (PAR)		
Classification	**Balance Amount (TZS)**	**PAR As %age of Gross Loan Portfolio**
6-30 days DPD	81,171,962	13%
31-60 days DPD	43,717,651	7%
61-90 days DPD	13,176,672	2%
Grand Total	**138,066,285**	**22%**

The above table highlights a cumulative overdue balance of TZS 138m equivalent to 22% of the gross loan portfolio. While the majority of overdue payments fall within the 6-30 day DPD category, it's critical to address all overdue segments effectively to mitigate potential financial risks and uphold portfolio quality. Strategies such as proactive communication with borrowers, offering repayment rescheduling options, and implementing stricter monitoring mechanisms can help in managing and reducing PAR levels within the loan portfolio. Additionally, conducting thorough assessments of credit risk and implementing robust risk management practices can aid in preventing future delinquencies.

RATIO ANALYSIS

PROFITABILITY & SUSTAINABILITY RATIOS

Profitability & Sustainability Ratios			
	Dec-21	Dec-22	Dec-23
Operational Self-Sufficiency (%)	163%	160%	197%
Return on Assets (%)	23%	26%	22%
Return on Equity (%)	37%	36%	56%

Table 16

The operational self-sufficiency (OSS) ratio of the entity recorded an overall increasing trend with a significant spike of 4700 bps to 197% in FY23, on the back of increased interest income due to the significant increase in the loans disbursed. This indicates that revenues from core operations (i.e., providing financial services) are more than sufficient to cover the operating expenses incurred for the core business.

An OSS of 100% indicates an entity that has reached the breakeven point, and this ratio is not expected to decline below 100% once this point is reached. The increasing trend of this ratio is a favourable factor indicating stability; however, operations over three years are insufficient to draw a concrete conclusion on this.

The return on assets (ROA) remained above 21% for the three years; however, 400 bps decreased to 22% in FY23, mainly due to the total assets increasing at a higher rate (+54% y/y) than the net operating income increase (+28% y/y) for the year.

The return on equity remained above 35% during the review period. While the entity has been solely financed through equity for FY21 and FY22, the return on equity increased further to 56% in FY23 with the MFI making use of debt funding.

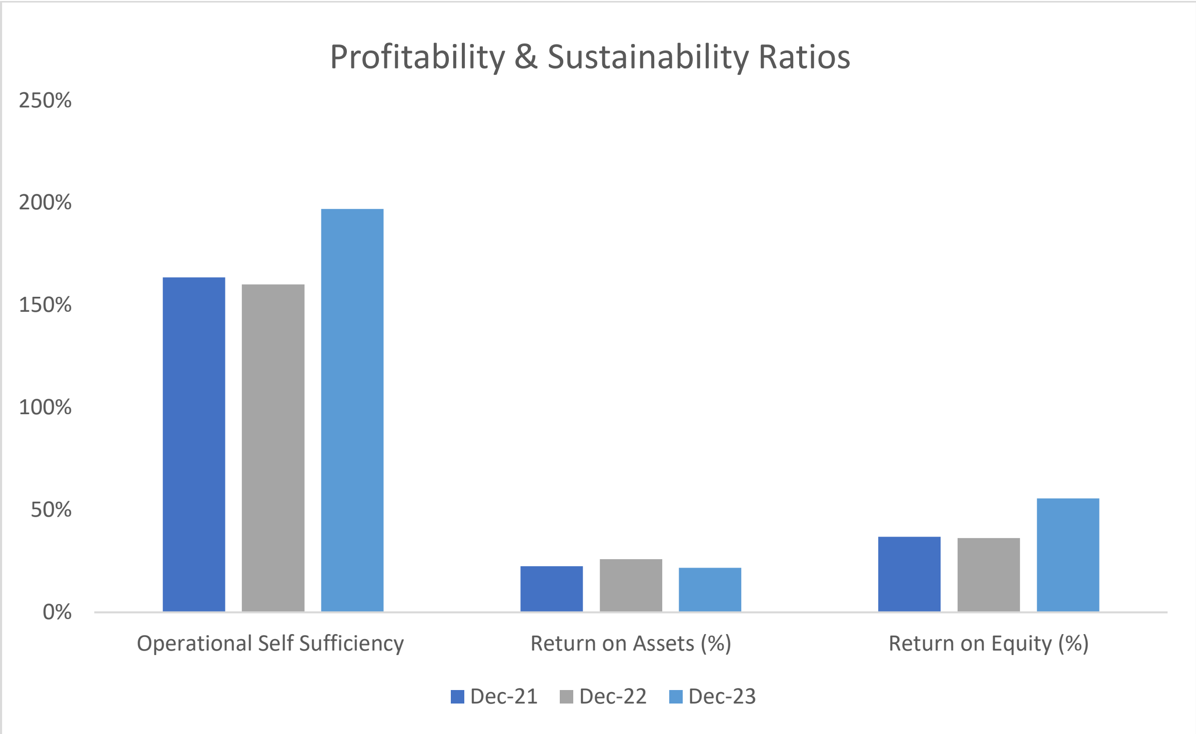
Profitability & Sustainability Ratios
250%
200%
150%
100%
50%
0%
Operational Self Sufficiency
Return on Assets (%)
Return on Equity (%)
Dec-21
Dec-22
Dec-23

Figure 4

ASSET / LIABILITY MANAGEMENT

Asset / Liability Management			
	Dec-21	Dec-22	Dec-23
Portfolio to Assets	54%	62%	74%
Debt-to-equity Ratio (times)	0.00x	0.00x	0.15x

Table 17

Throughout the review period from FY21 to FY23, the portfolio-to-assets ratio exhibited an increasing trend, with the FY23 ratio settling at 74%. This implies that the MFI is allocating the majority of its assets to its core business, which is also its most profitable activity, which is lending (loan portfolio).

The debt-to-equity ratio is valid only for FY23 since the MFI was fully funded by equity during the previous two years. In FY23, the MFI resorted to raising external finance through a long-term loan from another MFI, which is reflected in the ratio increasing to 0.15x. The company's 87% of assets are still financed by equity, displaying room for utilization of debt funding, especially with the operations beginning to ramp up.

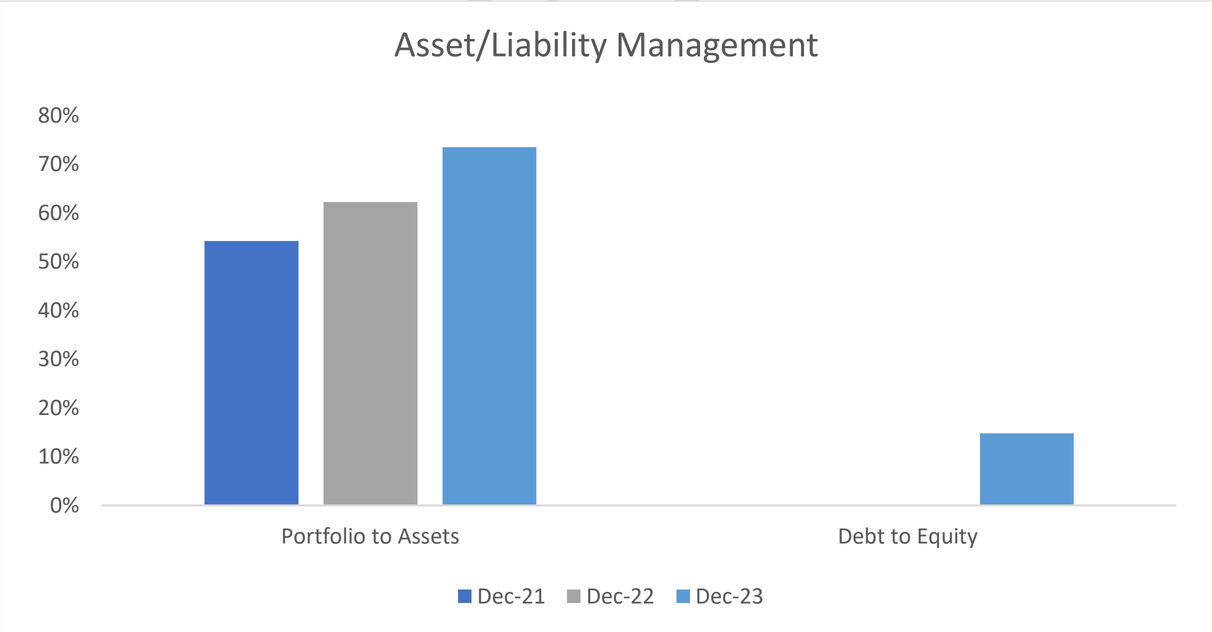

Figure 5

EFFICIENCY AND PRODUCTIVITY RATIOS

Efficiency Ratios			
	Dec-21	Dec-22	Dec-23
Operational Expense Ratio	109%	100%	52%

Table 18

The operational efficiency ratio displayed a decreasing trend over the years, with the ratio plunging to 52% in FY23, which is an indication of the MFI achieving significant operational efficiencies. Since this ratio portrays the administrative and personnel expenses in relation to the loans awarded by the company, the declining trend is positive. We also note that the company is currently in the growth phase; hence, there will be plenty of room for achieving more efficiencies over the next few years.

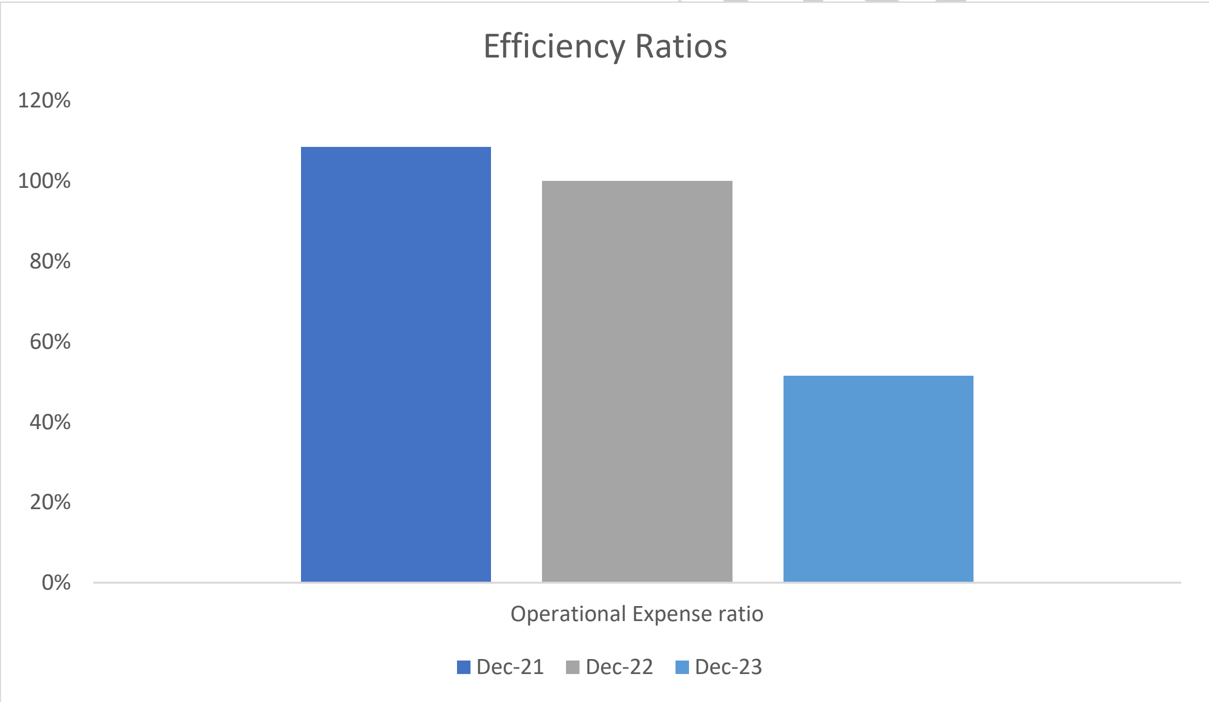

Figure 6

FUTURE FINANCIAL OUTLOOK

Future Business Projections

Performance Projections				
TZS 000	**2023 A**	**2023 F**	**2024 F**	**2025 F**
Revenue	684,956,238	684,956,239	821,947,486	986,336,983
y/y growth	*18%*	-	*20%*	*20%*
Total expenses	**456,547,940**	**496,572,266**	**595,886,720**	**715,064,064**
y/y growth	-	-	*20%*	*20%*
Net Income	213,964,727	188,383,972	226,060,766	271,272,919
y/y growth	-	-	*20%*	*20%*
Cash inflows	364,656,126	433,705,566	520,446,678	624,536,016
Cash outflows	282,625,453	421,658,189	505,989,826	607,187,793
Net change in cash	82,030,673	12,047,377	14,456,852	17,348,223
Cash and CE at YE	142,267,557	72,284,261	86,741,113	104,089,336

Table 19

The entity aims for a flat 20% growth in revenue and total expenses (COS, OPEX, Taxes) from FY23 to FY25, resulting in a projected net income growth of 20% as well.

The variance level cf. to the forecast for FY23, based on the actual figures for FY23, was as follows:

The MFI was able to predict the actual revenue for FY23 with zero variance. While for total expenses, the entity was able to achieve a cost savings of 8%, with the total expenses amounting to TZS 457m in FY23 cf. to the predicted TZS 497m. This ultimately resulted in a net income of TZS 214m which was 14% higher than the projections.

The company projects the cash inflows each year to be higher than the cash outflows, resulting in a positive cash position. Similar to the other projections, the cash level at YE is also projected to increase by 20% each year from FY23 to FY25. The actual cash position at FY23YE was 97% higher than predicted, mainly due to the cash injection from external debt financing.

The MFI, which is currently at a growth stage after commencing its operations three years ago in 2021, is optimistic about the growth of revenues, net income, and its cash balance.

We conclude that, provided that macro-economic factors and business conditions remain unchanged, the MFI will experience growth in revenue and net income. The cash balance is not projected due to its highly volatile nature. However, the percentage of improvement is doubtful to remain at 20% based on the observations of the FY23 actual and forecasted figures.

ANNEXURES

PROFIT AND LOSS STATEMENT

Statement of Profit and Loss			
TZS	Dec-21	Dec-22	Dec-23
Revenue	**402,157,764**	**582,188,866**	**684,956,239**
Cost of Sales	(2,599,958)	(1,290,325)	(7,221,786)
Gross Profit/(Loss)	**399,557,806**	**580,898,541**	**677,734,453**
Operating Expenses			
Administrative Expenses	(240,957,681)	(356,419,089)	(337,950,817)
Finance Expenses	(5,044,044)	(7,009,317)	(9,870,789)
Depreciation	(33,688,739)	(36,129,400)	(24,248,952)
Total Operating Expenses	**(279,690,464)**	**(399,557,806)**	**(372,070,558)**
Operating Profit/(Loss)	**119,867,342**	**181,340,735**	**305,663,895**
Other income	-	-	-
Interest Expenses	-	-	-
Profit/(Loss) Before Tax	**119,867,342**	**181,340,735**	**305,663,895**
Income Tax	(12,827,174)	(14,252,416)	(91,699,168)
Net Profit/(Loss)	**107,040,168**	**167,088,319**	**213,964,727**

Table 20

BALANCE SHEET

Statement of Financial Position			
TZS	**Dec-21**	**Dec-22**	**Dec-23**
Assets			
Non-Current Assets			
Property, Plant, and Equipment	86,221,175	95,801,306	71,552,354
Other Non-Current Assets	-	-	-
Total Non-Current Assets	**86,221,175**	**95,801,306**	**71,552,354**
Current Assets			
Loan Receivables	259,995,820	403,206,084	714,956,853
Other Current Assets	74,468,133	82,742,370	53,617,054
Cash & Cash Equivalent	54,213,196	60,236,884	142,267,557
Total Current Assets	**388,677,149**	**546,185,338**	**910,841,464**
Total Assets	**474,898,324**	**641,986,644**	**982,393,818**
Equity			
Share Capital	300,000,000	300,000,000	300,000,000
Retained Earnings	174,898,324	341,986,644	555,951,370
Net Worth	**474,898,324**	**641,986,644**	**855,951,370**
Liabilities			
Non-Current Liabilities			
Loan from Other MFIs	-	-	126,442,448
Total Non-Current Liabilities	**-**	**-**	**126,442,448**
Current Liabilities			
Short Term Borrowing	-	-	-
Other current Liabilities	-	-	-
Total Current Liabilities	**-**	**-**	**-**
Total Liabilities	**-**	**-**	**126,442,448**
Total Equity and Liabilities	**474,898,324**	**641,986,644**	**982,393,818**

Table 21

CASH FLOW STATEMENT

Statement of Cash Flow			
TZS	**Dec-21**	**Dec-22**	**Dec-23**
Operating Cash Flow			
Profit/(Loss) before tax	119,867,342	181,340,735	305,663,894
Depreciation & Amortization	33,688,739	36,129,400	24,248,952
Other Adjustments	(12,827,174)	(14,252,416)	(91,699,168)
OCF before WC adjustments	**140,728,907**	**203,217,719**	**238,213,678**
Changes in Trade Receivables	(34,632,697)	(143,210,263)	(311,750,769)
Changes in Inventory	-	-	-
Changes in Trade Payables	-	-	-
Changes in Other	(7,540,100)	(8,274,237)	29,125,316
Cash Used in Operations	**(42,172,797)**	**(151,484,500)**	**(282,625,453)**
Net Operating Cash Flow	**98,556,110**	**51,733,219**	**(44,411,775)**
Investing Cash Flow			
Fixed Assets Purchases	(44,342,914)	(45,709,531)	-
Other	-	-	-
Net Investing Cash flows	**(44,342,914)**	**(45,709,531)**	**-**
Financing Cash Flow			
Share Capital	-	-	-
Loan from Other MFIs	-	-	126,442,448
Net Financing Cash Flow	**-**	**-**	**126,442,448**
Net +/ (-) Cash Flows	**54,213,196**	**6,023,688**	**82,030,673**
Opening Cash Balance	-	54,213,196	60,236,884
Closing Cash Balance	**54,213,196**	**60,236,884**	**142,267,557**

Table 22

GLOSSARY

&	:	*And*
AML	:	*Anti-Money Laundering*
c.	:	*Approximately*
CAGR	:	*Compound Annual Growth Rate*
CAPEX	:	*Capital Expenditure*
CEO	:	*Chief Executive Officer*
cf.	:	*Compared to*
CFT	:	*Combating the Financing of Terrorism*
EBIT	:	*Earnings before Interest and Tax*
etc.	:	*Et cetera*
FATF	:	*The Financial Action Task Force*
FYxx	:	*Financial Year ending 31-December-20xx*
FYE	:	*Financial Year End*
GDP	:	*Gross Domestic Production*
ICRA	:	*International Credit Rating Agency*
k	:	*Thousands*
KYC	:	*Know Your Customers*
LDA	:	*Private Limited Company*
LLC	:	*Limited Liability Company*
m	:	*Millions*
na	:	*Not Applicable*
OPEX	:	*Operating Expenses*
PPE	:	*Property, Plant and Equipment*
TZS	:	*Tanzanian Shillings*
vs.	:	*Versus*
x	:	*Times*
YE	:	*Year ending*
y/y	:	*Year over Year*
DPD	:	*Days Past Due*
PAR	:	*Portfolio At Risk*
MFI	:	*Microfinance Institution*
NPL	:	*Non-Performing Loan*

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- https://www.ilo.org/africa/countries-covered/tanzania/WCMS_549367/lang--en/index.htm
- https://www.tanzaniainvest.com/microfinance
- The issuer submitted supporting documents

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Date: 16th May 2024

Auth. Signatory