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Assessment of Financing and Business Training Needs for Partners of the MSH SEAM Project in Tanzania

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Deloitte
Touche
Tohmatsu

Summa Foundation Trip Report

Tanzania

Project:	SEAM Project
Submitted to:	Malcolm Clark
Date Submitted:	**February 28, 2002**
City, Country:	Dar-es-Salaam and Arusha, Tanzania
Traveler:	Meaghan Smith
Trip Date(s):	February 3-14, 2002
Purpose:	To assess financing and training needs of ADDOs; identify potential microfinance and training partners; make recommendations regarding the design of a microfinance and training program for ADDOs; meet with partners on the Prime Vendor Project and identify potential for Summa Foundation loans.

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2 SUMMARY

MSH is currently implementing the Strategies for Enhancing Access to Medicines (SEAM) program to strengthen public access to quality pharmaceutical services in Tanzania. This program will have three components: Quality Assurance, the Accredited Drug Dispensing Outlets (ADDOs) Project and the Prime Vendor Project. The MSH SEAM Project sub-contracted Meaghan Smith to conduct a two week consultancy in Tanzania. Meaghan Smith was asked to review the ADDO Project to:

- Assess the financing and business skills training needs of drug shops that may participate in the ADDO Project.
- Identify potential partners for MSH in the microfinance and business training industries.
- Make recommendations to MSH regarding the provision of grants, loans and business skills training in order to strengthen the impact of the ADDO Project.

Meaghan Smith was also asked to review the Prime Vendor Project and make recommendations regarding the potential of Summa financing in support of the Prime Vendor partners, including the pharmaceutical companies and the Evangelical Lutheran Church in Tanzania (ELCT).

Below is a summary of the consultant's findings:

ADDO Project

- The drug shops that were interviewed by the consultant identified capital to purchase drugs as their greatest funding need if they participate in the ADDO Project.
- The drug shops will have different funding requirements depending on their size and location. It is assumed that larger, urban ADDOs will require approximately $2,073 to purchase drugs and make renovations on their shops. Smaller, more rural ADDOs will need approximately $1,500.
- The drug shops that were interviewed are interested in receiving loans to purchase drugs and have the ability to repay.
- There are microfinance institutions operating in Ruvuma that have loan terms that will meet the needs of the drug shops.
- Four options are presented below for potential microfinance partners.
- In the future if there is a liquidity problem and loan capital is more than $150,000, the Summa Foundation would consider providing a loan to the microfinance institution to on-lend to the ADDOs.

- In addition to microfinance, MSH should explore the possibility of supplier credit if it selects a wholesaler to work with the ADDOs.

- Due to the availability of loan financing, grants are not necessary for the purchase of drugs. If MSH would like to provide grants to the ADDOs, it should consider investments in areas where loan financing is not available. For example MSH could help subsidize the financial cost to the drug shops for participating in the accreditation training.

- In addition to financing, the drug shop owners were also very interested in receiving training in business skills and would perceive this as a benefit to participating in the ADDO Project.

- The drug shop owners would benefit from a course in business management that covered the following topics: cash management, inventory control, record keeping, marketing, financial planning and reporting and credit management.

- There are a number of very suitable candidates to provide the business skills training. The Enterprise Development Center (EDC) had the best materials and understanding of the project.

Prime Vendor Project

- The pharmaceutical companies were interested in discussing possible Summa financing if they are selected as a Prime Vendor. Potential financing needs include transport, logistics and inventory. Actual interest in financing will have to be determined after the Prime Vendor is selected.

- The ELCT identified several areas for Summa financing, including start-up working capital for the Mission for Essential Medicines Supplies (MEMS) unit, purchase of property for the MEMS office, a supplier guarantee and financing for mission hospitals.

- Due to the start-up nature and delay in breakeven, MEMS would be better off getting a grant rather than a loan for start-up activities.

- After MEMS breaks even, Summa would be very interested in discussing financing needs, such as purchasing property. This is more of a long term possibility.

- Currently, Summa does not have the capacity to issue a supplier guarantee. The guarantee should come from the ELCT or the participating hospitals.

- There is potential for Summa to provide financing to the mission hospitals for improvements, working capital or the purchase of equipment. The ELCT will disseminate information regarding Summa to the hospitals, which will contact Summa directly if interested.

3 OBJECTIVES

The objectives of the consultancy included the following:

- Conduct a financing and business skills training needs assessment for ADDOs.
- Identify potential partners in the microfinance industry and key implementation issues.
- Identify potential partners in the business skills training industry and key implementation issues.
- Make recommendations regarding options for providing financing and business skills training to the ADDOs.
- Meet with pharmaceutical companies and drug distributors interested in participating in the Prime Vendor program to discuss financing interest and need.
- Meet with the ELCT to discuss the program and identify potential financing needs.
- Make recommendations regarding the potential for Summa financing in support of the Prime Vendor program.

4 BACKGROUND[1]

A Memorandum of Understanding was agreed between the Ministry of Health in Tanzania and Management Sciences for Health in February 2002 to implement the Strategies for Enhancing Access to Medicines (SEAM) program to strengthen public access to quality pharmaceutical services in Tanzania. This program will have three components: Quality Assurance, the ADDO Project and the Prime Vendor Project. The MSH SEAM Project sub-contracted, Meaghan Smith, Investments Manager of the Summa Foundation, which is managed by Deloitte Touche Tohmatsu, to conduct a two week consultancy in Tanzania. The Summa Foundation is a private, not-for-profit investment fund that provides financing and technical assistance to the private health sector in developing countries. Meaghan Smith was asked to determine whether financing could be used to compliment and strengthen the ADDO and Prime Vendor Projects.

An important element of the Strategies for Enhancing Access to Medicines (SEAM) Tanzania program is the establishment of Accredited Drug Dispensing Outlets (ADDOs) in four districts of Ruvuma region. ADDOs are to be established under the aegis of the Pharmacy Board, which is the lead agency in the program.

The intention is to accredit existing Part II drug shops to ensure drug quality and to improve services by requiring drug sellers to attend Pharmacy Board (PB) training courses and receive PB certification as a drug dispenser. In return for being accredited by the PB, an ADDO will be granted permission to sell a wider range of drugs than is currently permitted for Part II shops. This will include a restricted list of prescription drugs (Part I Poisons).

A critical condition for the ADDO program to be successful is that the ADDOs will be commercially viable for their owners. It will be important therefore to build a range of incentives into the ADDO program in order to attract and retain good quality businessmen and women. In this regard the possibility of providing grants and/or loans to ADDOs for the purchase of stock, upgrading premises, etc. has been raised. Another possible incentive for the ADDOs is the provision of training in business skills.

Meaghan Smith was requested to conduct a financing and business skills training needs assessment of the ADDOs and meet with microfinance institutions (MFIs) and business training firms to identify potential partners for MSH. Meaghan Smith was asked to make recommendations to MSH regarding the need for financing, whether financing should be in the form of grants or loans and options for structuring a financing and business skills program.

A second component of the SEAM Project in Tanzania is the development and

1 Part of the Background section was taken from Meaghan Smith's Scope of Work, which was written by Malcolm Clark, MSH.

implementation of a Prime Vendor program with a group of church hospitals based in the north of the country. The Prime Vendor program seeks to improve access to high quality, essential medicines at competitive prices. MSH is working with the Evangelical Lutheran Church in Tanzania (ELCT), which will negotiate and contract with the prime vendor on behalf of the hospitals. Once the Prime Vendor is selected it is possible that there may be financing needs either on the part of the Prime Vendor or on the part of the ELCT. Meaghan Smith was asked to meet with pharmaceutical companies and the ELCT in order to identify potential financing needs.

The findings of this assessment are provided below.

5 ACTIVITIES

- Conducted focus group interview and follow-on meeting with 7 potential ADDO drug shop owners to assess financing and training needs.

- Met with the following microfinance institutions: CRDB, FISEDA/DID, MEDA National Microfinance Bank, SIDO, Pride Tanzania.

- Met with Mr. Altemius Millinga at the Center for Microfinance to discuss the status of the microfinance industry in Tanzania and to get recommendations regarding the ADDO project.

- Met with the following business skills training firms: Enterprise Development Center, OICT, SIDO, FAIDA BDS, and Deloitte & Touche.

- Conducted a presentation to the Tanzania Association of Pharmaceutical Industries.

- Met with the following pharmaceutical companies and distributors: Salama Pharmaceutical, Keko Pharmaceutical Industries, Biocare, Shelys, and KAS Pharmaceuticals.

- Met with representatives of the ELCT to discuss potential collaboration with the Summa Foundation and to learn more about the Prime Vendor Project.

- Met with Professor Kiwara, IDS to learn more about his findings regarding the ADDO Project.

6 FINDINGS

6.1 FINANCE AND TRAINING NEEDS ASSESSMENT OF DRUG SHOPS

In order to assess the financing and training needs of the drug shops, Meaghan Smith met with 7 drug shop owners from the Ruvuma region. Participants included the following drug shops:

- M/S Lupoly Medical Store, Mbinga, Gaspar Lupoly
- Mr. John Njau, Songea
- Madamba Group Medical Store, Ally Madamba
- SAC Medical Store, Songea, Steven Ngonyani
- SAFI Medics, Songea, Sabina Ngonyani
- Majimaji Medical Store, Songea, Said Hussein Kassamya
- Malekela Medical Store, Songea

The focus group interview was structured into two major sections on financing and training. A series of questions was asked around a number of topics. Free discussion was encouraged among the participants. The following topics were covered:

Financing Needs

- Business profile
- Market conditions
- Demand for credit
- Financing need
- Repayment ability

Training Needs

- Previous training
- Business planning
- Record keeping
- Financial reporting
- Marketing
- Interest in future training

A follow-up session was conducted to clarify questions and obtain additional information. Meaghan Smith also obtained and analyzed financial statements for each of the drug shops and cross-checked the officially reported data with information obtained anonymously during the focus group. Details of the findings from the financing and training needs assessment are reported below. It should be noted that some of the information reported below represents the thoughts and interests of the drug shop owners and may not always be

totally factual.

6.1.1 Financing Needs

6.1.1.1 Business Profile

Description of Business

All of the participants of the focus group are drug shop owners. Of the 7, four own two outlets while three own only one. On average, each outlet has approximately two employees not including security guards. All of the drug shop owners rent their facilities.

Customers

The drug shop owners cited a wide range in the number of customers served per outlet per day, from 20 to 130. On average it appears that most of the drug shops serve approximately 50-70 clients per day. The majority of clients are women although the drug shop owners believe that the women purchase drugs at the request of the men in the family.

Geographic Location

Most of the drug shops that participated in the interview are located in urban areas. Only four are located in rural areas. Most of the drug shop owners that have multiple shops have one in an urban area and one in a rural area.

Years in Operation

There is a wide range in the amount of time that the drug shops have been operating, from seven months to twelve years. The majority, however, have been operating for more than three years. This finding is important because many financial institutions will not finance businesses that are less than three years old. Studies have shown that the majority of small business failures occur within the first three years of operations. Accordingly, having an established track record over three years makes a small business much more bankable.

Reasons for Going into Business

Most of the drug shop owners cited a number of reasons for going into business, including:

- No other shops located in the area.
- Demand in the area for drugs at a convenient and accessible location.

Products Sold

Most of the drug shops are selling both prescription and non-prescription drugs, despite the fact that it is illegal for them to sell prescription medicines. They all stated that they make

most of their money selling Part I drugs and that their businesses would not be viable if they were restricted to selling Part II drugs. Due to the illegal nature of the Part I sales, however, the drug shop owners are all cautious about this activity and only buy Part I drugs in small quantities in order to mitigate the risk of being caught or having their stock seized. They all felt that if they are allowed to sell Part I drugs legally, they will be able to purchase larger amounts through more formal sales points, lowering their costs and increasing the volume of their sales. In addition to drugs, some of the shops also sell other products, such as cosmetics and soaps. The drug shop owners did not consider the other products to be major sources of additional revenue.

Start-up Capital

The drug shop owners cited a range of capital required to set up a drug shop. In rural areas the range is 2m TSh- 3m TSh ($2,014-$3,021). In urban areas the range is 5m TSh to 15m TSh ($5,035-$15,108). Capital is required for the following: rent, drugs, furniture, renovations, advertisement, and a business license. Most of the drug shops owners used their own savings to open their shops. Only one received a commercial loan and four received at least some of the money in the form of non-interest loans from family or friends.

6.1.1.2 Market Conditions

Obstacles to Running a Successful Business

The drug shop owners cited a number of obstacles to running a successful business, including:

- Lack of start-up capital is a barrier to entry.
- In rural areas the business can be very seasonal. People's ability to pay for drugs is directly related to the harvest.
- The current prohibition on the sale of Part I drugs limits the shops' financial viability.
- Small profit margins. This is exacerbated by the drug shops' strategy of purchasing stock in small quantities (due to a lack of capital or illegal nature of purchases), which increases the cost of drugs.

Demand

The drug shop owners describe their customer base as being primarily women, low income people, and small scale farmers. Demand is affected by a number of factors. During and after the harvest people have more money and are able to buy drugs. Demand is also affected by whether drugs are available in the public sector. Most of the drug shop owners stated that the public facilities typically only have stock for the first half of each month. When stock runs out around the 15th of the month, drug shops notice a surge in demand. Despite the low income nature of their clientele and the fluctuations in their ability and willingness to pay, the drug shop owners feel that there is more demand in their communities

than they can currently service. In fact many of their customers have to travel significant distances, if the drug shops do not have the necessary drugs in stock.

Competition

Drug shops cited other drug shops as their main competition. Interestingly, they did not seem to consider the public sector as competition despite saying that drugs are subsidized within the public sector by at least 50%. There may have been some confusion in how this question was asked, which may have led to some misunderstanding regarding the nature of competition.

Supply

Most of the drug shops try to purchase drugs approximately once per month in bulk. Due to the lack of wholesalers in their community, when the drug shops run out of stock, they frequently purchase from each other.

Opportunities to Improve or Expand Business

The drug shops focused primarily on the benefits to their business as the result of the legislation that will enable them to purchase Part I drugs. This will increase the volume of their sales, reduce costs and improve the profitability of their businesses. They will be able to purchase directly from the wholesalers rather than going through a middleman. This change will also enable them to be more reliable to their customers.

6.1.1.3 Demand for Credit

All of the drug shops expressed an interest in obtaining credit. See Table 1 for a list of uses of loan proceeds, amount desired and optimal repayment period. The vast majority was interested in using the loans to purchase drugs. Only two cited additional uses, which included facility expansion and renovation and the establishment of a wholesale business. Many said that first loans would be used for drugs. In the future depending on the success of their business, they may take additional loans to expand their businesses. Initial loan ranges suggested by the drug shops were very large, 5-12m TSh ($5,035-$12,085), especially when loan use (drugs) and ability to repay are considered (see below). Accordingly, a follow-up session was held to discuss loan size in more detail. During the follow-up session, the drug shop owners stated that they had asked for more than they needed so that the program would not be limited and they would have some flexibility to take larger loans. They also stated that if the repayment period was shorter (for example one year instead of two) they would request smaller amounts. During the follow-up discussion, the drug shop owners revised their financing needs down to approximately 5m TSh ($5,035). The issue of loan size will be analyzed in detail below.

Table 1: Loan Use and Terms Desired by Drug Shop Owners

Loan Use Cited by Each Drug Shop Owner	**Amount Required (T Sh)**	**Optimal Repayment Period**
Buy drugs, expand premises, renovate premises	6-12m Tsh	12 months
Buy drugs	10-15m	9-12 months
Buy drugs (not just expand stock but sell additional types of drugs	10m	2 years
Buy drugs	10-14m	2 years
Buy drugs	8-14m	1 year
Buy drugs (antibiotics)	10m	1 year
Buy drugs, expand facility Open a regional wholesale business	5m 20m	3-5 years

In addition to the loan uses that were identified by the drug shops, MSH also believes that drug shops may need to make renovations in order to be accredited as an ADDO. Renovations may include painting, new signage, fixtures and expansion of storage facilities. It is estimated that on average the renovations will cost approximately $500-$600. It is likely that when the drug shop owners learn of this requirement, they will be interested in using some of the loan proceeds for renovations. This will be taken into account in determining appropriate loans sizes.

6.1.1.4 Financing Need

Cash and Liquidity

The drug shops stated that 100% of their sales are in cash. They also described their business as being seasonal with net profit being 1.5 to 2 times higher during the high season, June-September, than during the low season, January-May. In addition, the drug shops make most of their sales towards the end of the month when the public dispensaries run out of drugs.

Financial Statements

Surprisingly, all of the drug shops were able to submit written financial statements. These statements were prepared for tax purposes and according to the drug shop owners understate profit. Please see Table 2 for a summary of Profit and Loss Accounts for each of the drug shops.

Table 2: Year End Profit and Loss Accounts for Drug Shops as Reported to Tax Authorities

	Drug Shop A 6/30/01		Drug Shop B 12/31/02		Drug Shop C 12/31/02		Drug Shop D 12/31/02		Drug Shop E 12/31/02		Drug Shop F 12/31/02	
	Tsh	US$	Tsh	US$	Tsh	US$	Tsh	US$	Tsh	US$	Tsh	US$
Sales	5,200,000	$5,237	12,885,483	$12,976	32,400,000	$32,628	10,800,000	$10,876	14,247,295	$14,348	5,018,985	$5,054
Cost of Sales	3,320,000	$3,343	7,320,765	$7,372	16,647,000	$16,764	5,549,000	$5,588	9,914,700	$9,985	3,262,340	$3,285
Expenses	1,529,375	$1,540	4,778,352	$4,812	6,808,000	$6,856	2,269,600	$2,286	3,051,000	$3,073	1,211,667	$1,220
Net Profit	350,625	$353	786,366	$792	8,945,000	$9,008	2,981,400	$3,002	1,281,595	$1,291	544,978	$549
Purchases	920,000	$926	8,607,845	$8,669	16,909,500	$17,029	5,636,500	$5,676	10,703,100	$10,779	3,366,995	$3,391

a. $US1:993Tsh
b. One of the drug shop's financial statements are excluded because they include information on other business activities
c. Note: Drug Shop A submitted financials for the year ending 6/30/01
d. The financial statements are consolidated. Some represent more than one drug shop, including both urban and rural. The above drug shops have PO Boxes in the following areas: Mbinga, Songea, Songea, Songea, Songea. Please see Mr. Shirima's e-mail of 3/6/03 for more details.

In order to cross check the information submitted in the financial statements and obtain a more realistic assessment of the financial condition of the drug shops, Meaghan Smith asked the drug shops to estimate their monthly net profit and submit it anonymously. This information is summarized in the table below.

Table 3: Monthly Profit and Loss Reported Anonymously in Focus Group Interview

	Drug Shop 1		Drug Shop 2		Drug Shop 3		Drug Shop 4		Drug Shop 5		Drug Shop 6	
Monthly	TSh	US$	TSh	US$	TSh	US$	TSh	US$	TSh	US$	TSh	US$
Sales	1,200,000	$1,208	300,000	$302	700,000	$705	2,100,000	$2,114	800,000	$806	666,668	$671
Purchases	700,000	$705	130,000	$131	393,750	$397	1,100,000	$1,107	450,000	$453	350,000	$352
Other Expenses	300,000	$302	40,000	$40	131,250	$132	520,000	$524	150,000	$151	150,001	$151
Net Profit	200,000	$201	130,000	$131	175,000	$176	480,000	483	200,000	$201	166,667	$168

Average Monthly Purchases:	520,625	$524		
Three month Inventory:	1,561,875	$1,573		
Range for 3 month Inventory:	390,000	to	3,300,000	
	$393	to	$3,233	
Range if inventory grows by 1.5	585,000	to	4,950,000	
	$589	to	$4,985	

a. Note that responses from only 6 drug shops are included due to mathematical mistakes in seventh.
b. Net Profit margin of 25% is assumed when expense or sales information was missing. Some of the information provided above is constructed based on partial information provided by respondents.
c. Respondents were asked to submit the information anonymously so that they would feel more comfortable disclosing confidential information. Accordingly, no addresses or names were collected.

It should be noted that the information reported in Table 2 is yearly and the information reported in Table 3 is monthly. For the most part, the net profit that was reported in the focus group is significantly higher than net profit reported to the tax authorities. There can be two explanations for this discrepancy. The drug shop owners are incented to underreport net profit in order to reduce the amount of income tax that they are required to pay. In addition, any sales of illegal drugs and the associated expenses would not appear on official

financial statements.

For the purposes of this analysis, the financial data that was reported in the focus group will be used to assess repayment ability. On average the drug shops report a monthly net profit of approximately 225,278 TSh or $227. Monthly sales range between 300,000 TSh ($302) to 2,100,000 ($2,114) with an average turnover of approximately 961,111 or $968. There is a large variation in the size of the drug shops that participated in the focus group and this variation will probably be even larger when all drug shops in Ruvuma are considered. Accordingly, for any financing program it will be important to offer a significant range in the size of the loans that are available.

Loan Size

In order to estimate appropriate loan size, the consultant considered the most likely uses of loan proceeds: drugs and shop renovations.

- Drugs

The drug shops in the focus group were all interested in using the loans primarily to purchase drugs and expressed interest in purchasing more than a month's worth of inventory in order to take advantage of discounts for bulk purchases. Currently, the average monthly expenditure on drugs is 520,625 TSh or $524 per drug shop. At current levels, on average a two month purchase of inventory is 1,041,250 TSh or $1,048 with a range of between 260,000 TSh ($261) and 2.2m TSh ($2,216). In all likelihood, if the ADDOs are allowed to purchase Part I drugs, their expenditures on drugs will increase because Part I drugs are more expensive than Part II drugs. According to discussions with pharmaceutical representatives, the ADDOs should expect their monthly expenditures to increase by 2-3 times. Assuming that the ADDOs are already purchasing some Part 1 drugs illegally, expenditures may only increase by 1.5 to 2 times. The consultant was not able to verify this estimate independently. Assuming a 1.5 increase in drug expenditures, the seven drug shops would need a range of 390,000 ($393) to 3.3m TSh ($3,323) to purchase a two month supply of inventory. A 1.5 increase was selected to be conservative and in acknowledgement that the financing needs of the focus group will more than likely be higher than the average ADDO. The average amount that is required for drug purchases is 1,561,875 TSh or $1,573.

In reality, however, the drug shops that were represented in the focus group are probably larger and have greater financing needs than the typical ADDO drug shop, especially when the program is expanded to more rural areas. Most of the drug shops that participated in the focus group are based in Songea town. The ADDO project plans to begin working with drug shops that are located in Songea Urban in August with 10-20 shops and then expand to other districts over the next 6-9 months. In all likelihood, the financing needs of the first group of shops to receive loans will be larger than the needs of subsequent borrowers. For this analysis, it will be assumed that the financing needs of the first group of ADDOs will be similar to the focus group.

Unfortunately, the consultant was not able to meet with smaller drug shops to get a more

accurate understanding of the financing needs of this group. In order to get a rough estimate the needs of the smaller shops, the consultant re-examined drug purchases in Table 3, excluding the two largest drug shops, Drug Shop 1 and Drug Shop 4, which have significantly larger monthly purchases. When Drug Shop 1 and Drug Shop 4 are removed, average monthly purchases drop from $524 to $333. Assuming that the ADDOs will purchase a 2 month supply of stock and that cost will increase by 1.5 times, the average drug expenditure will be approximately 993,000 ($1,000) with a range of 390,000 ($393) to 1,350,000 ($1,360). This rough estimate may still be larger than the actual financing needs of the smaller shops.

- Shop Renovations

In addition to drug financing that was identified by drug shops, MSH has also identified a possible financing need for shop renovations so that drug shops can comply with ADDO standards. MSH estimates that shop renovations will cost approximately $500-$600 per shop.

- Total Loan Size

Tables 4 and 5 estimate the financing needs of ADDOs that are selected in the first group and subsequent groups. It is assumed that the ADDOs will want to use their loans to purchase drugs and to make renovations to meet accreditation standards. On average it is estimated that the ADDOs in the first group will need $2,073 in financing. The financing needs of this group range from $893 to $3,323. The ADDOs that are selected in later groups will probably have smaller financing needs. On average it is anticipated that the ADDOs that are selected in later groups will require approximately $1,500 per shop with a range of $893-$1,860.

Table 4: Financing Needs of ADDOs in Group 1

	Average Financing Needs	Range in Financing Needs
Drug Purchases	$1,573	$393-$3,323
Shop Renovations	$500	$500
Total	**$2,073**	**$893-$3,823**

Table 5: Financing Needs of ADDOs in Later Groups

	Average Financing Needs of ADDOs in Later Groups	Range in Financing Needs
Drug Purchases	$1,000	$393-$1,360
Shop Renovations	$500	$500
Total	**$1,500**	**$893-$1,860**

Necessary Loan Fund Amount

Despite the financing needs that were identified in the previous section, most microfinance institutions will want to start the drug shops off with smaller loans before allowing them to graduate to larger ones. Accordingly, most drug shops will need to take several loans before they are able to access enough financing to meet most of their needs.

The analysis for determining the appropriate loan fund size has been revised from an earlier draft to take into account several new assumptions and additional information. Based on this new analysis, the necessary loan fund amount is significantly less. These new assumptions include:

- Smaller loan size: Loan sizes will be smaller because it is assumed that drug shops will only need to procure a 2 month stock of drugs.

- There will be a smaller total loan capital requirement due to the differentiation of financing needs between Group 1 ADDOs and additional ADDOs.

- When loans are disbursed, the SEAM Project will only have 2 years left in Tanzania. During this time, there will only be a maximum of 2 loan cycles over 1.5 years.

- It is assumed that loans are disbursed on a staggered basis rather than all at once. This allows funds to be recycled reducing the total amount that is needed.

Using these assumptions, the consultant created proforma cashflows based on the likely lending policies of two potential partners, the National Microfinance Bank and MEDA. Please see Section 6.2 for more details on potential microfinance partners. Please refer to Appendices B, C, D and E to review the cashflows. These cashflows were created to identify the loan fund requirements.

- Total Loan Fund Capital Required for Working with MEDA

In order to determine the amount of the loan capital that will be needed to work with MEDA, the consultant examined two scenarios, 50 borrowers (Appendix B) and 80 borrowers (Appendix C). It was assumed that loans would be disbursed to four groups of borrowers in August 2003, November 2003, February 2004 and April 2004. It was also assumed that the first group of borrowers would have larger loans, including a first loan of $1,000 for 8 months and a second loan of $1,500 for 10 months. The additional groups of borrowers would take first loans of $700 for 8 months and $1,050 for 10 months. Based on these assumptions, total loan capital of $45,000 (for 50 borrowers)- $55,000 (for 80 borrowers) will be required.

- Total Loan Fund Capital Required for Working with NMB

In order to determine the amount of the loan capital that will be needed to work with NMB, the consultant examined two scenarios, 50 borrowers (Appendix C) and 80 borrowers (Appendix D). It was assumed that loans would be disbursed to four groups of borrowers in August 2003, November 2003, February 2004 and April 2004. Based on NMB's methodology, the maximum first loan is 500,000 Tsh and the maximum second loan is

$750,000 Tsh. Please refer to the Microfinance Partner section for more information on NMB's lending methodology. Due to this restriction, it is assumed that all borrowers receive a first loan of $500 and a second loan of $750. Based on these assumptions, total loan capital of $22,000 (for 50 borrowers)- $30,000 (for 80 borrowers) will be required.

MSH has budgeted $40,000 that can be used as loan fund capital. In the short run, it will be possible for MSH to provide loans funds, if necessary. This change in the analysis will impact final recommendations. In the long run it will also be important to link the drug shops to a larger credit facility so that they can continue to grow and expand their businesses.

6.1.1.5 Repayment Ability

Cashflow Analysis

Please see Table 6 for a pro forma cashflow based on the average financial data reported by the drug shops. This cashflow assumes monthly sales of $968. It also assumes that the drug shop receives a loan for $1,000, which is the maximum first loan size of one of the potential microfinance partners. It is assumed that the loan will have a 8 month year term and carry a 2% per month interest rate calculated at a flat rate. Actual loan charges will vary based on the financial partner that is selected. Under these assumptions the average drug shop is able to service the monthly debt service (interest and principal) of $145 and end the month with a positive cashflow surplus. At the 8 month period the drug shop will have a cashflow surplus of $1,132. This allows some cushion for repayment if there is a disruption to the business.

Table 6: Projected Cashflow for Average Drug Shop

	Month 1	**Month 2**	**Month 3**	**Month 4**	**Month 5**	**Month 6**	**Month 7**	**Month 8**	**8 Month Total**
Cash Inflows									
Opening Balance	0	34	640	1,246	280	886	1,492	526	0
Loan	1,000								1,000
Sales	968	968	968	968	968	968	968	968	7,744
Subtotal Cash Inflows	1968	1002	1608	2214	1248	1854	2460	1494	8,744
Cash Outflows									
Drug Expenditure	1,572			1,572			1,572		4,716
Other Expenditure	217	217	217	217	217	217	217	217	1,736
Total Cash Out	1,789	217	217	1,789	217	217	1,789	217	6,452
Cashflow from Shop	179	785	1,391	425	1,031	1,637	671	1,277	2,292
Monthly Debt Service	145	145	145	145	145	145	145	145	1,160
Cashflow Surplus	**34**	**640**	**1,246**	**280**	**886**	**1,492**	**526**	**1,132**	**1,132**

Credit History

Only one of the seven drug shop owners had received a loan in the past. This loan was for the start-up of the drug shop. None of the owners had received a loan for working capital. The drug shop owners identified a number of obstacles to accessing financing, including:

- Loan size: Most banks will not lend less than 20m TSh. Most microfinance institutions will not lend more than 2m TSh. The drug shop owners are under the impression that their market niche is not being served by the financial sector.

- Corruption: Drug shop owners cite an unofficial requirement to pay a 10% "fee" to the loan officer in order to get a loan approved. This makes loans prohibitively expensive.

- Collateral: The drug shop owners cite collateral requirements as being too restrictive. Most do not have title deeds for property.

- Cash deposits: Many financial institutions require a cash deposit for the loan term, which ties up working capital.

- Time: The banks have a long processing time for loan approvals, which conflicts with the short term working capital needs of the drug shops.

These factors will be considered in the consultant's recommendations for the design of the microfinance program.

Secondary Sources of Repayment

In order to approve a loan, a microfinance institution will analyze the cashflow to make sure that the borrower can repay the loan. In case of a default, however, the financial institution will also require a secondary source of repayment or security for the loan. Different financial institutions have different collateral requirements. Some will require hard collateral such as a land title or a pledge of fixed assets. If a borrower has a salaried job, some of the microfinance institutions are willing to lend against the salary by signing a contract with the employer. Other microfinance institutions do not require hard collateral but instead form borrowers into groups and ask each group member to guarantee the others' loans. This is based on the Grameen Bank methodology. Other MFIs require some combination of the above.

- Salaries or Other Business Income

Most of the drug shop owners have either a salary or another business concern that could be used to repay a loan if necessary.

- Property

Only about 40% of the drug shops have land titles. Drug shop owners cited a lack of titles as a real problem in rural areas. The National Microfinance Bank stated that they get around this issue by accepting property sales agreements instead of titles. Unfortunately, the consultant was not able to check with the drug shop owners to determine if they had property sales agreements, although Mr. Shirima believed that they would. This should be explored further with the drug shops especially if the National Microfinance Bank is selected as a partner.

- Group Guarantee

All of the drug shop owners were willing to participate in some type of a group guarantee program in order to receive a loan.

- Savings

Many financial institutions require that the borrower save a certain percentage of the loan amount for the loan term. If the loan is not repaid the financial institution can apply the savings to the outstanding balance. Most of the drug shop owners were opposed to the mandatory savings requirement because it reduces the amount of working capital that they have available. While this argument has some merit, most financial institutions would be unwilling to waive the savings requirement. In addition, savings are important for helping to ensure the ultimate viability of a small drug shop. Savings can serve as a safety net during difficult times.

6.1.2 Training Needs

In addition to financing, the consultant also assessed training needs during the focus group interview. Overall the drug shop owners were very interested in training. Three of the drug shop owners had received some type of business management or accounting training in the past. During the assessment, the consultant examined needs in business planning, record keeping, financial reporting, marketing and interest in future training. These findings are presented below.

6.1.2.1 Business Planning

All of the drug shop owners set short term goals and targets for their businesses. Long term goals are less concrete because of the difficulty of predicting the future. Most have some type of budget for operating the drug shop although few keep a written budget.

6.1.2.2 Record Keeping

All of the drug shop owners stated that they are keeping stock cards or records for inventory. All of the drug shops are also keeping a daily cash record and a customer account record book for clients that receive credit. Most of the drug shop owners do a cash reconciliation on a daily basis especially if they have someone else running the shop.

6.1.2.3 Financial Reporting

Due to current tax requirements, all of the drug shop owners have financial statements,

including a balance sheet and profit and loss statements. All of them hire an accountant to produce these statements once a year for tax purposes. These statements do not reflect all business activities and are not used for management purposes. In general the drug shops expressed an interest in training that would enable them to use financial reports as management tools.

6.1.2.4 Marketing

While none of the shops have a written marketing plan most have thought through a marketing strategy. Marketing strategies include the provision of good service, business cards and the radio.

6.1.2.5 Future Training

All of the drug shop owners were interested in participating in future training. Areas of interest include business administration, marketing and book keeping. All of the drug shop owners expressed interest in being trained in Ruvuma. Travel would reduce the number who are interested in training. Overall the drug shop owners had a more sophisticated knowledge of business management than is typically seen with businesses of this size. Access to business training would definitely help improve the drug shops and be perceived by the drug shops as a benefit to participating in the ADDO program. It is important that the training provider tailor the program to the level of the drug shop owners. A very basic introductory course would not be appropriate for this group given their experience and knowledge of basic business skills. It is recommended that the business skills trainer conduct a 1-2 day training needs assessment. This will enable the trainer to tailor the program to the right level and to include information specific to the needs of drug shops. In addition to the topics mentioned by the drug shop owners, inventory control and credit management are two areas that should be covered in the training

6.2 OVERVIEW OF MICROFINANCE INSTITUTIONS

During the assessment, the consultant interviewed six microfinance institutions, including CRDB Bank, FISEDA/DID, MEDA National Microfinance Bank, SIDO, and Pride Tanzania. Due to time constraints the consultant was only able to meet with head office staff. It is recommended that before any final decisions are made, MSH should meet with the branch offices to examine capacity and determine whether there are any additional issues that should be considered. Each microfinance institution is described below. The consultant gave a rating to each MFI based on a number of criteria, including:

- Appropriateness of lending methodology/terms (5: being the most appropriate)
- Location of the branch (5: serves both rural and urban Ruvuma)
- Liquidity needs (5: does not require funds from MSH)
- Number of loans in Ruvuma (5: active Ruvuma portfolio)

- Delinquency rate (5: low delinquency)
- Perceived interest in working with the ADDO project (5: Most interested)

The highest rating possible is 30, indicating the most appropriate partner for MSH.

Table 5: Summary of Ratings by Microfinance Institution

Firm	**Rating**
National Microfinance Bank	23
Pride	20
CRDB	15.5
FISEDA*	15
Meda	14
SIDO	14

*The FISEDA SACCOS are not lending yet so there is no delinquency rate which has a negative impact on the score.

6.2.1 CRDB Bank

The CRDB was initially a state owned rural development bank. CRDB was restructured as a commercial bank and privatized from 1993-1996. Danida owns 28% of the bank. CRDB engages in wholesale lending to MFIs including SACCOs.

The CRDB also has a retail lending program, which is more relevant to the drug shops. They will provide both overdraft facilities as well as term loans. Their average loan size is 20m TSh although they also will do salary loans of up to 1 year salary for employees. In terms of collateral they require landed property. Typically they will not consider residential property because it is difficult to seize. They will only consider inventory as collateral for agricultural loans and are not interested in taking drug stocks as collateral due to the difficulty in monitoring. They would also be willing to consider a guarantee from the ADDO association or from association members in addition to other forms of collateral.

Currently, interest rates are approximately 17%-18% per annum. They have a 94% repayment rate although in recent years they only had an 80% repayment rate. According to the bank's management, they have cleaned up their portfolio and believe that the poor repayment history is behind them. Loan processing takes 2-3 days with a maximum of a week. Currently, the Songea Branch has only 7 loans. CRDB does not have outlets in other parts of Ruvuma.

They would consider working with MSH to lend to the drug shops. They do not require loan capital in order to lend to the drug shops although due to the risks associated with this borrower group and potential collateral issues, they would like MSH to establish a guarantee fund, which would guarantee repayment of the loans in case of default. MSH would either have to put funds on deposit at CRDB or open a letter of credit with an international bank that CRDB could draw down on in case of payment problems. If MSH did a guarantee fund,

CRDB would be willing to reduce the interest rate potentially from 17% to 14%. With any type of guarantee program, there is always a risk that the bank will make poor lending decisions because they do not stand to lose money. In order to mitigate this risk, MSH should insist on a risk sharing agreement. CRDB management is willing to consider a risk sharing arrangement. It is recommended that if MSH considers this option, it should only guarantee up to 85% of the loan funds. This will incent the bank to make good credit decisions and be proactive about loan collections because they stand to lose money.

Overall Assessment: 15.5 out of 30

CRDB is not an ideal partner for MSH. Their average loan size (20m) is much larger than the loans that are needed by the drug shops, indicating that they may not be as interested in providing smaller loans. There will be collateral issues because of the lack of land titles. The limited number of loans in Songea does not indicate that CRDB is very interested in this market. In addition, eventually MSH will need to provide funds for the guarantee.

Rating of CRDB Bank

Category	Rating	Comments
Appropriateness of lending methodology	2.5	Difficult collateral requirements. Not many small loans
Location of branch	3	Limited to Songea
Liquidity needs	2	Require 85% of loan amount
Number of loans in Ruvuma	2	Small
Delinquency rate	3	Acceptable but a little high
Interest in working with ADDO Project	3	A willing partner but not excited
Total Score (Out of 30)	15.5	

6.2.2 FISEDA/DID

FISEDA, or the Financial Services and Enterprises Development Association, is a non-governmental organization that works with SACCOs, or savings and credit cooperatives, to promote microfinance. There are over 4,695 registered SACCOs in Tanzania of which 3,219 are active. SACCOs provide credit and savings services for cooperative members. SACCOS are not centrally controlled and policies and effectiveness vary widely among them. FISEDA works with a select group of SACCOs to improve financial services. FISEDA is in the process of signing an agreement with DID, a Canadian microfinance organization for technical assistance. DID has experience working with savings and credit cooperatives and plans to share its policies, procedures and lending methodologies with FISEDA and its SACCO partners. FISEDA is currently working with several SACCOS in Ruvuma and under the agreement with DID is planning to pilot a relationship with six additional SACCOS in Ruvuma, which will use the DID methodology. Unfortunately, each of the SACCOS will have a limited geographic focus and it has no plans to work in Songea

Urban, which will make it difficult for MSH to partner with FISEDA, especially if most of the ADDOs are located in Songea Urban in the first phase.

Currently, FISEDA is in a capacity building stage with each of the six pilot SACCOS. It expects the SACCOs to begin making loans in Summer 2003. Under the DID methodology, borrowers will be able to access progressive loans, beginning at a maximum of 400,000 TSh. Eventually, a borrower would be able to take up to 5m TSh. Borrowers will be charged an interest rate of 2.5% per month but will receive .5% back at the end of the loan term as an incentive for timely payments. Borrowers are required to own shares in the SACCO and must save. Initially borrowers must save up to 50% of the first loan. Eventually this requirement is reduced to 25%. The SACCOS in the pilot will provide both individual and group loans. Collateral will be in the form of guarantees and blocked savings. No fixed assets are required. It takes approximately 30 days to process a loan application.

Overall Assessment:15 out of 30

FISEDA is interested in working with MSH and the DID methodology is appropriate for the drug shops. Initially they would probably not need funds although they did express an interest in on-lending. Due the pilot nature of this program it is impossible to assess the effectiveness of this model. Unfortunately, the largest drawback is that FISEDA's program will be limited in geographic scope and will not be located in Songea Urban. FISEDA may not be an ideal partner for the initial phase but as the ADDO program expands to more rural areas where there is an overlap with FISEDA, drug shops could be referred to the FISEDA SACCOs for financing.

Rating of FISEDA/DID

Category	**Rating**	**Comments**
Appropriateness of lending methodology	4	Loan sizes are appropriate and collateral is acceptable.
Location of branch	1	Not in Songea Urban and will have limited geographic reach
Liquidity needs	3	Will not need funds initially
Number of loans in Ruvuma	3	Will work with 6 SACCOS initially
Delinquency rate	0	The pilot SACCOs are not lending yet so this is not applicable.
Interest in working with ADDO Project	4	Very interested
Total Score (Out of 30)	15	

6.2.3 MEDA (Mennonite Economic Development Associates)

MEDA is an international organization that has been operating microfinance programs in Tanzania since 1994. MEDA has been managing CIDA's microfinance program in

Tanzania. In September 2002, MEDA transferred their entire microfinance portfolio to the National Microfinance Bank. They currently are not operating a microfinance program although they are considering opening a program in rural Tanzania.

MEDA's lending methodology provides loans of between 250,000- 700,000 TSh for first loans and then repeat loans are a maximum of 4m TSh. MEDA targets small scale entrepreneurs and in fact has made several loans to small drug shops and believes that these are good clients. MEDA was the first MFI in Tanzania to be profitable. MEDA has a 4% portfolio at risk rate, which is defined as 30 days delinquent. MEDA's interest rate is quite high at 3-4% per month. In addition to loans, MEDA provided a one week training for all clients for 2 hours per day. The training covered business management, financial statements and inventory control. They charged 5,000 TSh per day for the training. MEDA requires savings of 20% of the loan amount and a guarantor. MEDA takes 10 days to process a first loan and repeat loans only require 2 days.

Unfortunately, MEDA is not able to serve the ADDOs through on-going loan facilities because these have been turned over to the National Microfinance Bank. The Country Manager, Greg Foster, however, did suggest that MEDA would be willing to set-up a small loan program in Ruvuma to target the ADDOs if MSH was willing to fund it. He estimated that MEDA would need $25,000 to set up the program in the first year and loan fund capital. Please see the preliminary budget below. Under this scenario, Summa would need to provide loan capital of $45,000-$55,000 to be lent by MEDA. If Summa provides the loan capital, MSH would need to subsidize MEDA's operations for two years. During the two year period, MEDA would develop relationships with local MFIs that operate both in urban and rural areas. During Year 2, MEDA would begin graduating the ADDOs to local financing. At the end of the project, MEDA would turn the program over to a local MFI, such as the National Microfinance Bank, after the market was developed. MEDA would be willing to adjust its loan terms to meet the needs of the ADDOs. It would be willing to consider larger loans and a reduced interest rate.

Table 6: Preliminary MEDA Budget to Run the ADDO Microfinance Program

Credit Officer Salary	$500 per month
Internal Auditor	$200 per month
Management	$500 per day
Office	$70 per month
Transport	$100 per month
Misc.	$200 per month
Total Budget for Year 1	**$25,000**

Overall Assessment:14 out of 30

The MEDA lending methodology is appropriate and its management demonstrated a real interest in developing new markets. Unfortunately, MEDA no longer has an operational

microfinance program. MEDA's proposal to start-up a microfinance program for the drug shops; develop the market; and then turn it over to a more established microfinance bank, is interesting. This proposal is attractive for a number of reasons. It would provide MSH with maximum control over the program. For example MSH would be able to change loan terms and insist on lending criteria, such as obtaining and retaining ADDO certification. In addition, MEDA would be able to finance rural ADDOs. It would also take the management of the loan program out of MSH's hands. Furthermore, MEDA can help to develop longer term sources of financing for ADDOs by making relationships with local MFIs. Despite these positive factors, the MEDA proposal is more expensive. If MEDA is not selected, it may be a good source of advice for negotiating with the National Microfinance Bank, if they are selected as a partner. MEDA has recommended a consultant that MSH could use in order to continue developing the microfinance program. The consultant's resume is attached in Appendix A.

Rating of MEDA

Category	Rating	Comments
Appropriateness of lending methodology	4	Loan sizes are appropriate although slightly small and collateral is acceptable.
Location of branch	1	Not operational. Would require an investment to start-up
Liquidity needs	1	Will need loan funds
Number of loans in Ruvuma	1	No Ruvuma program
Delinquency rate	3	
Interest in working with ADDO Project	4	Interested
Total Score (Out of 30)	14	

6.2.4 Small Industries Development Organization (SIDO)

SIDO promotes the development of small and medium enterprises in rural areas. It operates both credit and training facilities. SIDO has an office in Songea. In terms of the training, SIDO offers courses in basic business skills, management and entrepreneurship development. Two trainers conduct the courses. Trainees are charged 5,000-10,000 TSh per day. SIDO would also charge 10,000 TSh per day to conduct a training needs assessment in order to tailor the training program to the needs of the drug shops.

On the lending side, SIDO provides loans in the following ranges: 0-500,000TSh, 500,000-3.5mTSh, 3.5m-6.5m TSh. The smaller loans require a group guarantee with 5 members per group. For the larger loans, SIDO requires guarantees and it owns anything that is purchased with the loan until the loan is fully repaid. The maximum interest rate is 22%. Loan terms are decided based on cashflow. Borrowers are required to save 5% of the loan amount. Loan processing takes approximately 4 weeks. The repayment rate is between 78-92%.

In Ruvuma there is an outstanding portfolio of 131m TSh or $131,923. The repayment rate for the Ruvuma branch is 84%, which is not very good by microfinance standards. Liquidity is not an issue for SIDO and they believe that they would be able to lend up to 200m-300m to the drug shops ($201,409-$302,115). They would, however, be willing to consider an on-lending arrangement with MSH and would be willing to pay a maximum of 8-10% on a TSh loan.

Overall Assessment:14 out of 30

Overall the SIDO lending methodology is appropriate. The delinquency rate is higher than standard and could result in problems. Apparently SIDO does have an active portfolio in Ruvuma although limited to more urban businesses. Unfortunately, the Bank Manager was not very enthusiastic about working with MSH. He said he was willing to participate but he did not seem very interested. We were not able to meet with the training staff to do a good assessment of SIDO's training program. Before proceeding with SIDO it would be very important to meet with the Branch Manager and trainers to determine interest and capacity to work with MSH.

Rating of SIDO

Category	**Rating**	**Comments**
Appropriateness of lending methodology	5	Loan sizes are appropriate and collateral is acceptable.
Location of branch	3	Operational in Ruvuma although not actively in rural areas.
Liquidity needs	4	Do not need funds
Number of loans in Ruvuma	4	
Delinquency rate	2	
Interest in working with ADDO Project	2	Bank Manager was not very interested. Need to assess interest at branch level
Total Score (Out of 30)	20	

6.2.5 National Microfinance Bank (NMB)

The National Microfinance Bank has 104 branches throughout Tanzania, providing savings and small business lending services. NMB provides first loans of 50,000 TSh to 500,000 TSh. Second loans can be 1.5 times larger than the first loan and third loans can be 2 times larger than second loans. Currently NMB has a maximum loan amount of 3.5m TSh. It is planning to introduce a new loan product this year with loan amounts starting at 5m TSh. Loans that are between 50,000-750,000 TSh have 6 month terms and loans above 750,000 have 1 year terms. Interest rates are 2.5% per month and there is a .5% rebate at the end of

the loan term if payment has been timely. There is no mandatory savings requirement although borrowers must keep 15,000 TSh in a repayment account. NMB requires property for collateral. Recognizing that land titles are difficult to get, they will accept sales documents instead. It will be important to verify that most of the drug shops have access to sales documents. NMB will also value furniture and the equipment in the shop as collateral. NMB takes 1 week to process a loan. Most of their loans are in urban areas. If loans are to be made in more rural areas they would prefer the businesses to be clustered for easy access. Currently NMB has loans to 27 dispensaries and 360 medical stores throughout the country.

NMB began lending in Songea in July and they have one loan officer based there. They have 144 loans in Songea with an outstanding balance of 34.3m Tsh or $34,542. To date there is a 0% delinquency rate in Songea.

Overall Assessment:23 out of 30

Currently, NMB loans are smaller than needed although they plan to increase the maximum loan size this year. The larger ADDOs will complain about the small first loan of 500,000. NMB has a loan officer in Songea, who has processed 144 loans in 7 months while maintaining a 0% delinquency rate. This is an impressive start. NMB is currently in a state of transition over whether it will be privatized or not. In the short term this should not affect the loan program. The manager of the microfinance program believes that they have adequate liquidity although would be willing to consider an on-lending arrangement. By providing a small loan fund of $25,000-$30,000 to NMB to on-lend, MSH may be able to have more control over the program. It may be able to leverage these funds to insist that NMB consider ADDO certification as criteria for approving a loan. The NMB microfinance manager was also be willing to consider other types of incentives to help NMB expand into the ADDO market (transportation, loan officer's time, etc.) She, however, was not able to make a decision on this. If MSH wants to pursue a partnership with NMB, it would be important to schedule a meeting with the Director of the Bank as well as the Branch Manager and loan officer in Ruvuma.

Rating of NMB

Category	**Rating**	**Comments**
Appropriateness of lending methodology	4	Loan sizes are small but they will be introducing larger loans this year.
Location of branch	3	Operational in Ruvuma although not actively in rural areas.
Liquidity needs	4	Do not need funds.
Number of loans in Ruvuma	4	144 loans in 7 months is impressive although loans are small.
Delinquency rate	4	
Interest in working with ADDO Project	4	Manager of microfinance

		department was interested although needs to talk with Director.
Total Score (Out of 30)	23	

6.2.6 Pride Tanzania

Pride Tanzania is a microfinance organization that is based in Arusha with branches throughout the country. It was started in 1994 and uses a Grameen Bank replication methodology, which is quite rigid and most appropriate for really small-scale informal sector borrowers. All borrower are asked to form self-selecting credit groups of five that guarantee each other's loans. The groups are responsible for loan appraisal and approval. Credit groups of five borrowers are then combined with 10 other groups. If a credit group of five can not repay a loan the 10 other groups become responsible for repayment. When a credit group of five is formed it must undergo 1-3 weeks or 3 hours of training on credit policies. Groups are required to meet weekly, which can be a burden on small business people. Group members must save for 6 weeks before they can get a loan. All members of a group must start out with a first loan of 50,000 Tsh. The average loan size is 120,000 TSh. All group members must save 25% of the loan amount. Pride has a 0% delinquency rate.

Pride has a small branch in Songea. There are 690 clients, which are served by 2 loan officers. There is 77m TSh ($77,543) outstanding in Songea. There have been some repayment problems in the Songea Branch. Loans have been recovered but the credit officers must do more work than usual. The current Pride program is not suitable for the drug shops due to the small loan sizes and rigid group structure with weekly meetings.

Pride Tanzania is in the process of developing a new loan product, which will enable it to offer larger loans to individuals. This new program would be more suitable for the drug shops. They have done a market study for the new product and plan to begin rolling it out in the next two months. They plan initially to only make the larger loans available to current clients rather than to new clients. Loan sizes will range from 2-10m TSh. Loans will have 1 year terms. Borrowers will be required to save up to 25% of the loan amount. For collateral they will take household goods, such as radios and TVs, as well as guarantees. An annual interest rate of 24% will charged on the loans. They intend to pilot this program in a few of their larger branches. Songea will not be considered initially due to past problems.

Pride Tanzania is interested in working with MSH and would be willing to consider providing larger loans to drug shops. Unfortunately, they do have a liquidity issue and would need loan capital from MSH. They are currently trying to get a loan from a local commercial bank for 2b TSh but the bank requires a 100% guarantee from one of Pride's donors. Stanbic Bank is willing to charge them 7%. They also have loans from the Strom Foundation at 14% and from SELF at 12% per annum.

Overall Assessment:19 out of 30

Pride's current methodology is not appropriate for the financing needs of the drug shops. If it expands into larger loans, the methodology that it is proposing is appropriate but untested. Pride is interested in working with MSH but would require loan capital. These factors make Pride a less attractive partner for MSH. In the future, MSH may want to consider partnering with Pride, if it does implement the larger loan program and raise additional capital.

Rating of Pride

Category	Rating	Comments
Appropriateness of lending methodology	2	Current methodology is not appropriate. New methodology would be appropriate but is untested.
Location of branch	3	Operational in Ruvuma although not actively in rural areas.
Liquidity needs	1	They would require loans from MSH.
Number of loans in Ruvuma	4	690 loans
Delinquency rate	5	
Interest in working with ADDO Project	4	They are very interested if MSH brings the funding.
Total Score (Out of 30)	19	

6.3 OVERVIEW OF BUSINESS SKILLS TRAINING FIRMS

During the assessment the consultant met with four business skills training firms, including Enterprise Development Center, OICT, SIDO, and FAIDA-BDS. Each business training firm is described below. The consultant gave a rating to each firm based on a number of criteria, including:

- Appropriateness and quality of training materials (5: being the most appropriate)
- Experience training in Ruvuma (5: significant prior experience)
- Cost (5: least expensive)
- Perceived interest in working with the ADDO project (5: Most interested)

The highest rating possible is 20, indicating the most appropriate partner for MSH.

Table 7: Summary of Ratings by Firm

Firm	Rating
EDC	17
SIDO	16*

FAIDA-BDS	15
OICT	12

*More research is needed on SIDO (see below).

6.3.1 Enterprise Development Center (EDC)

EDC is a non-profit organization that grew out of a USAID business training project. EDC provides training advisory services to micro and small enterprises and conducts research and evaluation. EDC has set courses and training materials in Swahili. It prefers to conduct a training needs assessment when it is hired and then modifies its materials to suit the specific training needs of the group. It has a 5 day (8 hours per day) training program in Business Management that covers stock control, marketing, record keeping and cashflow management. This course appears to be the best fit for the training needs of the drug shops. The materials for this course are quite impressive. EDC is willing to adapt the course around the scheduling needs of the drug shops, either holding it on weekends or in the evenings or dividing it into several modules over a series of weeks so that the drug shop owners are not out of their shops every day. As part of the training needs assessment, they will identify the most suitable schedule for the drug shops. Typically, courses have a maximum of 20 participants per class. Two trainers are assigned to each course. Participants receive a certificate at the end of the class. EDC has worked in Ruvuma in the past and is willing to work in rural areas if necessary. EDC conducted a business skills training for midwives so it has some experience in providing training to the health sector. EDC requires approximately a 1 month advance notice in order to conduct a course. EDC would charge approximately $2,000 per course. They would also charge separately for a 1-2 day training needs assessment and would expect MSH to pay for the transport and lodging of the trainers.

Overall Assessment: 17 out of 20

EDC really stood out from the other business skills training firms in terms of enthusiasm and materials. They are slightly more expensive than some of the others but the fees are reasonable.

Rating of EDC

Category	**Rating**	**Comments**
Appropriateness and quality of training materials	5	Impressive materials

Experience training in Ruvuma	3	Some experience
Cost	4	Reasonable
Interest in working with ADDO Project	5	Very interested
Total Score (Out of 20)	17	

6.3.2 Opportunities Industrialization Centers Tanzania (OICT)

OICT is the Tanzanian affiliate of Opportunities Industrialization Centers International, which is based in the US. OICT began operations in Tanzania in 1996 with a grant from the UNDP. OICT provides training to both small and large enterprises as well as households. OICT is able to provide its training in Swahili. It provides two trainers per course. It has not had experience providing training in Ruvuma although it is willing to conduct training there. OICT prefers a maximum of 25 participants per class. OICT's materials are not very impressive and they would need to do a significant amount of material development in order to prepare for a course. They are quite flexible in how they would structure a course. They charge approximately $1,252 for material development and $150 per day to conduct the course. A 5 day course would be approximately $2,000. They would also want MSH to pay for transport and accommodation for the trainers.

Overall Assessment: 12 out of 20

Overall, OICT's materials were less impressive and would need a substantial amount of work.

Rating of OICT

Category	**Rating**	**Comments**
Appropriateness and quality of training materials	2	Would need to develop materials. Poor quality.
Experience training in Ruvuma	1	No experience
Cost	4	Reasonable
Interest in working with ADDO Project	5	Very interested
Total Score (Out of 20)	12	

6.3.3 SIDO

In addition to financing, SIDO offers courses in basic business skills, management and entrepreneurship development. SIDO has a course that is titled Business Management Skills Training, which covers marketing, organization and management, production management (costing and pricing, break even analysis, record keeping), financial management (profit/loss calculation, cashflow projection and balance sheet) and business planning. This course looks like it would be the most appropriate for drug shops. Two trainers conduct the course and the Business Management Skills Training is for 8 days. SIDO has a training facility and trainers based in Songea. SIDO charges $150 per day per trainer or $2,400 for the 8 day

course. Unfortunately, we were not able to meet with the training manager and were not able to review materials. It would useful to meet with the trainers in the Songea branch.

Overall Rating: 16 out of 20

SIDO's score is high due to its location in Songea. Unfortunately we were not able to meet with staff directly involved in training and were not able to review the materials so it is difficult to fully endorse this organization. If MSH is considering SIDO, it should meet with the Songea branch and compare materials to EDC.

Rating of SIDO

Category	Rating	Comments
Appropriateness and quality of training materials	4	Curriculum is appropriate but we were unable to review the training materials.
Experience training in Ruvuma	5	Office in Songea
Cost	3	More expensive
Interest in working with ADDO Project	4	Interested but need to meet with Songea branch
Total Score (Out of 20)	16	

6.3.4 FAIDA-BDS

FAIDA-BDS is based in Arusha. It has been in operation since 1999 and began as a project. FAIDA-BDS provides business management skills training and entrepreneurship development, business advisory services and consulting and market research and sector analysis. FAIDA tries to link small business to credit facilities. FAIDA has experience working in Ruvuma. FAIDA has a basic business management course, which would be appropriate for the drug shops. This course covers marketing, SWOT analysis, costing and pricing of products, how to complete a business plan, book-keeping, financials, record keeping and dealing with tax issues. FAIDA will conduct a training needs assessment and tailor materials to the specific needs of trainees. They prefer to train 15-25 at a time. They provide 2 trainers for a 5 day course. They are able and willing to train in Songea. They charge $175-$200 per trainer per day or approximately $1,750-$2,000. They need three weeks in order to get prepared.

Overall Rating: 15 out of 20

FAIDA was enthusiastic and had high quality, appropriate materials. Their location in Arusha, however, may make planning more complicated.

Rating of FAIDA-BDS

Category	Rating	Comments
Appropriateness and quality of training materials	4	Curriculum is appropriate

Experience training in Ruvuma	2	Some- May be difficult to coordinate w/ an Arusha based firm.
Cost	4	Reasonable
Interest in working with ADDO Project	5	
Total Score (Out of 20)	15	

6.4 RECOMMENDATIONS FOR THE DESIGN OF A FINANCE AND BUSINESS SKILLS TRAINING PROGRAM

6.4.1 Loans and Grants

As part of the assessment, I was asked to consider the option of providing grants to the drug shops in order to assist them in achieving and retaining accreditation. I assessed this option by examining the financing and resource needs of the drug shops, availability of loans in the area and my experience in working with small private providers. With a finance and private sector background, my bias is to use loan financing whenever possible in working with the private sector. Grants can distort a market and are not always the most efficient use of resources. That being said, a case can be made for grants if the drug shops need to invest in infrastructure or human resources for which either they would not be able to get a loan or if the return on the investment was so long term that they would not be able to generate enough income to repay a loan during the one year loan cycle. Against this backdrop, I examined the drug shop's specific funding needs to participate in the ADDO Project:

- The drug shops all identified the need for funds to purchase larger quantities of drugs. One option for MSH to provide a grant would be to create a revolving fund with a wholesaler. Each ADDO would be able to access a start-up supply of Part I drugs. The money that they would make selling the drugs would enable them to continue purchasing additional supplies. There are several limitations to this approach. If MSH only has $40,000 to $50,000 to fund the drugs, each drug shop would only get approximately $1,000, which would not adequately fill their financing needs and limit future expansion. If MSH pursues this option, it should require the wholesaler to provide additional credit to the drug shops. This idea is outlined in more detail below under Alternative Options for ADDO Financing. In addition, the ADDOs would still need to be linked up to a financial institution in order to continue expanding. I would only recommend this approach if MSH is not able to negotiate a satisfactory agreement with a microfinance institution. If working capital loans are available to the drug shop owners to purchase drugs, I think it is preferable for them to obtain the loans rather than the grants. This will give them more of a stake and commitment to the ADDO program.

- If MSH wants to make a grant, its funds could be better used for investments in activities where loan financing is not an option. Specifically, in order for a drug shop to become accredited as an ADDO, its staff will need to undergo significant training, which could cause a hardship for both the drug shop personnel and the business. MSH may want to consider subsidizing the impact of the training and lost staff time on the business.

- If MSH would like to explore the grant option further, it should decide what it would like to fund. This will help determine how much is appropriate. If MSH is considering a revolving fund with a supplier for Part I drugs, there are two options:

1. MSH and the pharmacy board can create a basket of Part 1 drugs that the average ADDO will need for a 1 month supply. More research will be needed to determine what is appropriate for the basket. All ADDOs would receive the same quantity and supply of drugs.

2. The other option would be to create a formula that provided a supply of drugs based on the size of the ADDO so that larger ADDOs would get more and smaller ADDOs would get less. For example MSH could provide an ADDO with drugs that are worth 1.5X their monthly purchases. This approach is more targeted but would be much more complicated to administer.

I recommend that with any grant program, the drug shops be required to match MSH's contributions. The drug shop contribution should be verified before the grant is disbursed. For example, in order to receive $500 worth of drugs from the revolving fund, the drug shop must demonstrate that it has made $500 worth of renovations to its shop or that it is also purchasing an additional amount of Part I and II drugs from the supplier.

6.4.2 Microfinance Partner

If MSH decides to pursue a microfinance program to compliment the ADDO Project, it will need to select a local partner to implement the program. Below are my recommendations regarding partner selection.

6.4.2.1 Option 1: Working with the NMB-MSH Does Not Provide Loan Capital

Under this option, NMB would use it own funds for loan capital. MSH could provide incentives to encourage the NMB's participation in the program.

NMB's Role

- Ask NMB to commit to reviewing and considering loan requests from ADDOs in a timely fashion (1 week turn around).

- Ask NMB to consider the ADDO certification as a contributing factor to the overall credit-worthiness of the drug shop. (ADDOs should be more financially viable than other drug shops because they will be receiving business training and they will be allowed to sell Part I drugs, which are more profitable) Similarly, the loss of the ADDO accreditation should be considered as a credit risk.

- Based on discussions with the NMB Microfinance Manager, NMB should be able to fund the loans through their own resources. MSH will not commit loan capital to the program.

MSH's Role

- The ADDO program will help create a new market for NMB of credit-worthy clients. These clients will be identified by the pharmacy board and MSH and pre-screened through the ADDO certification process. These clients will receive business skills training, which will make them more credit-worthy. MSH will bring this ready-made market to NMB. While this is only a pilot, there is potential for expansion in the future to other parts of the country and NMB will benefit from this expansion.

- Consider incenting NMB and the loan officer to actively participate in the ADDO Project. NMB should understand that the incentives are finite and being offered only to develop the market. Once this happens, NMB will be expected to continue serving and developing this market on its own. Incentives could include the following:

    - Pay the loan officer to participate in the business skills training. I recommend that the loan officer have a 1-2 hour session on the last day of the training program. The loan officer can describe the policy and procedures of the NMB so that they are transparent. The loan officer can distribute loan applications to interested ADDOs and answer questions.

    - Pay the loan officer to attend monthly ADDO Association meetings to introduce the program to new members and distribute loan applications and collect payments if NMB is willing to do this.

    - Consider providing a subsidy for travel once the ADDO program begins extending to rural areas.

- If there are collateral problems, especially for some of the more rural ADDOs, MSH may want to consider guaranteeing loans on a case by case basis. This should not be widely publicized to the ADDOs but the loan officer should know this is a possibility if the ADDO is otherwise considered credit-worthy. MSH should not guarantee the full amount of the loan. Consider a maximum of 50%.

Other Issues for Consideration

- Before selecting NMB as a partner, it is important to cross-check this recommendation by meeting with the NMB Branch Manager and Loan Officer in Ruvuma to assess their interest and capacity and to identify any issues that should be addressed in an agreement with NMB.

- Before going forward, MSH will also need to meet with the Executive Director of the National Microfinance Bank in order to make sure he is willing to support the project and to come to an agreement on the design of the project.

- It will also be important to talk with the drug shops and make sure that the majority of them have access to property sales agreements, which can be used as collateral for an NMB loan.

- The Pharmacy Board and MSH should play an advocacy role with the NMB. ADDOs should be encouraged to inform MSH of any problems with the bank (slow processing times, collateral issues, informal fees, etc.) MSH should address these problems with NMB management.

Pros and Cons

This option is attractive because it allows MSH to reprogram the $40,000 that it has budgeted for other purposes, such as grants. This option is also less expensive than other options, such as the MEDA proposal. Unfortunately, this option will also give MSH less leverage with NMB to achieve its program objectives. It will be harder to target ADDO needs, especially in rural areas because NMB will have less incentive to change its policies and operations. This option will also require management support from MSH. There is probably more likelihood that the program will encounter some of the obstacles that have been described elsewhere in this report, including collateral issues, lack of interest from the bank and informal fees. Another problem with this option is that loan sizes will be quite small in the first year of the program and may not fully meet the ADDOs' needs.

6.4.2.2 Option 2: Working with NMB- MSH Provides Loan Capital

In Option 2, MSH provides loan capital of $25,000-$30,000 to on-lend to NMB. This will fund two cycles of loans for 50-80 ADDOs. It is recommended that MSH allow NMB to keep the interest income of approximately $12,483, which can be used to subsidize the operational expenses of reaching out to the ADDOs. Please see Option 1 for Other Considerations, which also apply to Option 2.

Pros and Cons

With this option, MSH will have approximately $10,000 of funds left over, which can be reprogrammed for grants or other purposes. This option is less expensive than Option 1 because the subsidies are paid for through interest income and the loan funds will be returned to MSH at the end of the period. This option will also give MSH more leverage in working with NMB to target the needs of the ADDOs and to ensure that MSH's program objectives are being met. The amount of leverage that MSH will have, however, is unclear because this will be a very small program for NMB. They may be unwilling to significantly change their policy to accommodate MSH's program objectives. This option will also require management resources from MSH. MSH may need to hire a consultant to provide some management oversight for both Options 1 and 2. Under this option, rural ADDOs may have difficulty accessing the NMB funds. ADDOs may also face some of the obstacles described in Option 1. Furthermore, the initial loan sizes offered by NMB are small.

6.4.2.3 NMB and Other Microfinance Institutions

Overtime as the ADDO program expands, MSH may want to consider working with additional MFIs. MFIs can use the ADDO Association meetings as a forum for introducing their credit programs. This may be especially useful when the FISEDA program is up and running because it will be working in more rural areas. ADDOs that are located in these areas may find it much more convenient to get a loan from a FISEDA SACCO than from NMB. In addition if Pride does introduce the larger loan program and it is successful, it should also be considered in the future.

Pros and Cons

This option will provide more options for financing for the rural ADDOs. Unfortunately, this option will also require more management. In addition, the FISEDA SACCOs will be coming on-line over the course of the next 5 years. Not all rural ADDOs in Ruvuma will be able to access credit from the FISEDA SACCOs due to limited geographic range.

6.4.2.4 Option 4: MEDA and Summa

MEDA is willing to administer Summa's loan funds for a 2 year period in order to get the ADDO Project off the ground. Summa would need to provide approximately $45,000-$55,000 in loan capital. MEDA would also need MSH to provide operational support of approximately $25,000 per annum. During the two year period MEDA would provide a loan officer and operational support to target loans to ADDOs. It is willing to be flexible regarding loan terms and MSH would have control in establishing guidelines for lending to ADDOs. During the 2 year period, MEDA would establish relationships with local MFIs in both urban and rural areas. In Year 2 it would begin graduating the ADDOs to local financing.

Pros and Cons

This option gives MSH maximum control over the program. It is most likely to achieve MSH's program objectives. The program would be able to effectively target both urban and rural ADDOs. This program also provides the most flexibility in setting loan terms and criteria. Furthermore, if funding requirements end up being larger than expected Summa would be able to provide additional funds. This option is also the best way to develop long term relationships with the MFIs to make sure that they are able and willing to lend to the ADDOs. This option also will reduce MSH's role in managing the program. Unfortunately this option is the most expensive.

6.4.3 Additional Considerations for the Microfinance Program

- ADDOs should be encouraged to use their association to leverage financing. If there are

problems with informal fees or delays in loan processing, the association should be prepared to lobby the bank and to keep MSH informed of any non-compliance on the part of the bank. If other microfinance options become available in Ruvuma, the association could be used as a guarantee mechanism. Association members could form sub-groups to guarantee each other's loans.

- Make sure that district health and political authorities know about the program and endorse it in front of NMB branch staff.

- As the ADDO project grows and expands, if there is a need for loan capital over $150,000 and the microfinance institution has a liquidity problem, Summa would be willing to consider providing a loan to the microfinance institution to fund this project.

6.4.4 Alternative Options for ADDO Financing

In addition to bank financing, MSH should also explore the option of credit from wholesalers, especially if MSH selects one wholesaler to serve the ADDOs. Most of the wholesalers that I spoke with do not provide drugs on credit to small drug shops due to the size and geographical risk. If the ADDOs are able to use the association for bulk purchasing, the wholesalers may be willing to extend credit to the ADDOs. I explored this idea with Shelys and they were receptive to it. The Shelys representative suggested a scheme in which they extend a drug shop a month's worth of drugs on credit. Instead of making this amount payable after 30 days as is customary, they may be willing to give the drug shop a year to repay with small monthly installments. They would not charge interest on this transaction. Specifically, the Shelys representative used the example of providing 400,000 TSh of drugs on credit. The drug shop owner would be required to repay approximately 33,333 TSh each month for a year in addition to making his normal purchases.

If MSH is going to work with one wholesaler, I think it would be relatively easy to insist on some type of credit arrangement for the ADDOs. It would be important to clearly define how credit limits are set and make sure that the wholesaler actually provides enough credit to make it worthwhile. This wholesaler credit could be supplied in addition to the microfinance loans or in place of them, especially for drug shops that do not want a bank loan or do not have adequate collateral. The problem with the supplier credit option is that most likely the wholesalers would restrict the amount of credit available to the drug shops, which would prevent them from expanding as quickly as they would like. On the other hand this is an interesting option that could compliment a microfinance program.

6.4.5 Business Skills Training

There was substantial interest among the drug shop owners for business skills training. I think that training would be perceived as a benefit to participating in the ADDO program and could be used to improve the viability of the drug shops. As the drug shops expand their business through the sale of Part I drugs and begin dealing with wholesalers, they will need a better understanding of cash management, inventory control and record keeping. The

business skills training can also be tied closely to the microfinance program. I recommend the following:

- MSH should consider sub-contracting EDC to provide the business skills training. EDC has the most impressive materials and staff. Their management understood the need for tailoring the program to the needs of the drug shops.

- EDC should be hired to do a 1-2 day training needs assessment. A trainer will need to go to Ruvuma to conduct focus groups in order to identify the level of knowledge in business skills and areas for focus.

- EDC will then probably need 2-3 days to adjust one of their courses to the specific needs of drug shops. Their course on Business Management is the most appropriate.

- Areas for focus include inventory control, cash management, record keeping and credit management.

- During the training needs assessment, EDC should meet with the microfinance loan officer. With the loan officer, they should design a session on the MFI's loan policies and procedures and application process. Loan applications should be given out during this session and assistance provided in filling in the applications if necessary.

6.5 PRIME VENDOR PROGRAM ASSESSMENT

In addition to considering the financing and training needs of the ADDOs, the consultant also assessed the potential for financing partners that are participating in the Prime Vendor Program. In order to conduct this assessment, the consultant met with pharmaceutical companies, including wholesalers, distributors and manufacturers, and the ELCT. The findings are discussed below.

6.5.1 Pharmaceutical Companies

The consultant conducted a presentation to the Tanzanian Association of Pharmaceutical Industries to describe the Summa Foundation and discuss options for financing. This presentation was followed by individual meetings with the following firms:

- Biocare Health Products Limited
- Salama Pharmaceuticals Limited
- Keko Industries/Diocare
- KAS Medics
- Shelys

<u>Biocare Health Products Limited</u>

Biocare is a distributor not a wholesaler. They distribute diagnostic equipment and

pharmaceuticals. They do not distribute contraceptive products because they believe that these products are controlled by the government. They have their own trucks for distribution within Dar-es-Salaam. Outside of Dar they use public transportation. They are interested in participating in the Prime Vendor Project. They believe that there could be some infrastructure issues in participating in the project, which may require financing but they would need to know more specifics about the project before they can discuss financing needs in more detail. Currently, they obtain financing from local banks. They have both US$ loans at 6.75% interest and 12-15% TSh loans.

Mr. Shirima discussed the ADDO Project with Biocare to assess their interest. They identified a number of concerns in participating in this project. They were concerned about the small size of the drug shops and would be reluctant to deal with them individually. They would be more interested in working with an association of ADDOs that could represent the individuals. Transport was another issue that they identified as a potential problem. Transport outside of Dar-es-Salaam is risky and expensive. It would be expensive for Biocare to develop a transportation system to meet the needs of the ADDOs. Biocare would prefer for the ADDOs to hire a handler that would arrange the drug orders and transport. They were not very receptive to the idea of establishing an agent in Ruvuma due to possible cost implications.

Salama Pharmaceuticals

Salama Pharmaceuticals has been operating since 1987 and has 75 employees. Salama Pharmaceuticals markets a range of pharmaceutical products, including drugs and medical supplies. They are currently getting into reagents. They act as the sole distributor for a number of foreign pharmaceutical companies. Approximately 75% of their products are imported and the remaining 25% are purchased from local manufacturers. Over 60% of their imports are manufactured in India. They currently are importing HIV/AIDS antiretrovirals. Salama imports antiretrovirals directly for specific patients rather than for general institutional use. They currently are supplying 400 patients with antiretrovirals. They see this growing to approximately 1,000 patients within the next three months. Eventually as the government gets more involved in the provision of antiretrovirals they expect to provide drugs for up to 4,500 patients. They do not distribute contraceptive products because of the government's role in this area. They do not distribute vaccines because they do not have cold storage facilities.

Salama's customers are located throughout the country. Their customers are both in the public sector and private sector. 30% of their supplies go to the MSD. Private sector customers are mainly pharmacies and distributors. They have vehicles to distribute products within Dar-es-Salaam. They do not own vehicles to service markets outside of Dar. Outside of Dar their products are transported on buses. Turnover has increased substantially in the last three years from 155b Tsh in 1999 to 202b Tsh in 2000 to 244bTsh in 2001. They expect to grow by 20-25% this year. They currently do not have any loans. Suppliers give them credit facilities for 30-90 days. As the company grows, they may have a need for loan financing in the future.

They are interested in participating in the MSH Prime Vendor Program. They see this as an opportunity to import a broader range of drugs, including some new drugs on the WHO essential drugs list that the government is not procuring. This will enable them to keep ahead of the MSD. They believe that there will be some logistics issues in supplying some of the districts in the Prime Vendor Project and they hope that MSH will address this. They do think that they may have some additional financing needs as a result of participating in the Prime Vendor Program. These potential financing needs include:

- The purchase of vehicles
- Improvements to the distribution system
- Increased need for warehousing
- Increased supply of additional drugs

They would be interested in talking with Summa about these financing needs if they are selected as the Prime Vendor.

Keko Pharmaceuticals

Keko manufactures products locally and imports pharmaceuticals through a subsidiary called Diocare. Keko was privatized in 1997 and the government still owns 40%. Keko is currently producing a limited number of products including penicillin and ORS. Diocare does not import contraceptives because these products are controlled by the government. Keko sells 40% of its products to the MSD. Currently, Keko has a $1.2m loan from Barclays bank at 12%. Keko is interested in participating in the Prime Vendor program and would potentially consider taking a loan from Summa if necessary and if it were competitive with Barclays. Keko was also interested in potentially getting a loan for its manufacturing facilities. It may be interested in producing oral contraceptives. Based on this discussion, the consultant took a tour of the Keko factory. This factory has a lot of obsolete equipment and facilities. It has made some recent purchases of Indian made equipment. It appears that it will continue to need substantial upgrades and restructuring in order to be viable. The consultant did not have access to financial statements but would be wary of giving Keko additional financing as long as the $1.2m loan is outstanding.

KAS Medics

KAS has been operating for 12 years and has 30 employees. It began marketing and distributing generic pharmaceutical products. Over the last 5-6 years it has begun marketing and distributing diagnostics, reagents and equipment. It is currently expanding into Mozambique. Within Tanzania KAS has vehicles for distribution in Dar-es-Salaam. Outside of Dar it relies on public transportation. Most of its sales are to the private sector. It is not selling antiretrovirals or contraceptive products. Currently its profit margins are dropping due to high costs. Electricity, fuel and rent have been increasing. Import costs are also high.

KAS was interested in discussing the ADDO Project. They used to service rural areas but found that the high costs and risks of transportation were prohibitive. They would, however be willing to consider the ADDO Project as a way to promote their name and enter a new market. They recommend that MSH include suppliers in the discussion of how to design the ADDO Project. Their two main concerns of working with the ADDO Project would be receiving payment from the ADDOs for drugs and the transportation risks.

KAS was also interested in the Prime Vendor Project. Specific financing needs will have to be identified when the project is more concrete. Currently KAS is being financed by banks. They borrow in dollars and have interest rates of between 8-11%. They would consider a Summa loan if they could get a 6% interest rate. KAS also thinks that there is a significant market for Summa in small loans of $10,000-$25,000 to clinics. Lack of financing prohibits small clinics from purchasing larger supplies of drugs and making facility improvements.

Shelys

Shelys is a local manufacturer of pharmaceutical products. It supplies the MSD and a number of NGO and private sector organizations. It also exports to East and South Africa. Shelys manufactures penicillin, anti-malarials, antibiotics, cough and cold medicine, pain killers, ORS and a variety of tablets and ointments. It is currently looking at manufacturing antiretrovirals. It is waiting for a directive from the government, which it hopes to receive in the next 6 months. Shelys is also a pharmaceutical importer. It does not supply contraceptive products and is not interested in this market due to a lack of demand.

Shelys has 3 warehouses in Tanzania and it has depots throughout the country as part of its distribution network. Vehicles are owned by each depot and Shelys shares costs and profits with the depots. It has a depot in Arusha, which it supplies two times per month. Through its distribution system it is able to reach pharmacies, hospitals and duka la dawas that are located up-country. Only its manufactured products go through the distribution system. Imports are for specific institutional clients. Shelys' distribution system is supported by marketing professionals. It has 15 medical representatives that are clinical officers. These medical representatives detail health facilities. It also has 17 field representatives that are responsible for up-country marketing.

Shelys is very interested in participating in the Prime Vendor Project. It believes that this will be a new market and will help increase its efficiency. It is also interested in the ADDO Project. It can cover Ruvuma through its current distribution network. Shelys suggested that it would be able to provide credit to the ADDOs, especially if they were working through an association. Potentially it would be willing to give a one month supply of drugs on credit and receive payment over the course of a year. It used the example of supplying a drug shop with 400,000 TSh worth of drugs on credit. It would expect the drug shop to repay approximately 33,333 TSh every month for a year. It would not charge interest in this.

In the future Shelys may be willing to consider Summa financing if necessary. Specific financing needs were not identified. Shelys is owned by a large company, Sumaria Holdings

that has access to a wide variety of financing.

6.5.2 Evangelical Lutheran Church in Tanzania (ELCT)

The consultant met with ELCT management to discuss ELCT's financing needs broadly and the specific needs associated with the Prime Vendor Project. In terms of ELCT's broader needs, they were very interested in exploring opportunities for Summa financing in relation to their renewable energy projects and their work with SACCOs. Their main concern is the interest rate. They will consider possibilities for collaboration and will contact Summa if interested.

In the health sector the ELCT has 19 health facilities (hospitals, clinics and dispensaries) throughout the country. Each health facility is run independently by its diocese. The ELCT plays a loose advocacy role although it would like to take on greater responsibility for coordination and procurement through the Prime Vendor Project. As part of the Prime Vendor Project, ELCT plans to set up the Mission for Essential Medicines Supplies (MEMS) unit, which will play an intermediary role in procuring medical supplies for participating hospitals. MEMS plans to sign memorandums of understanding with interested hospitals. Both Lutheran as well as other mission hospitals are being invited to participate. MEMS will provide a one stop shop for the hospitals to centrally procure quality drugs at reasonable prices. MEMS will pre-qualify and select a vendor to work with. It hopes to institute an on-line ordering system between the hospitals and wholesaler. MEMS will play an intermediary role in negotiating with the wholesaler and doing quality assurance. During the discussion, ELCT management identified two potential areas for financing: The MEMS unit and the ELCT hospitals.

<u>MEMS Unit</u>

The ELCT is hoping to keep their infrastructure requirements to a minimum. They only plan to do minimal storage and do not plan to get into transport. The ELCT identified several potential financing needs for the MEMS, including short-term working capital, the purchase of an office and a supplier guarantee.

- Working capital: MEMS plans to cover its operational expenses by charging the hospitals a mark-up on the drugs. In the first few years of the project, however, MEMS will be operating at a loss and will need funding to cover the gap. Unfortunately, due to the start-up nature of this activity and the delay in breakeven, MEMS is not a good candidate for Summa financing. It will be difficult to structure a loan that MEMS could repay under Summa's current financing terms (1-5 years with a 9 month grace period). A possible alternative would be if the ELCT could demonstrate an ability to repay the loan through other revenue sources. If the ELCT was willing to provide collateral, Summa would consider a loan request. If possible, however, I recommend that the ELCT looks for grant funding for the start-up of this project. MSH may want to consider approaching the multinational pharmaceutical companies, such as Merck, and some of the foundations, such as Packard, for a grant. Please see Summa's *Financing for the*

Private Health Sector for a list of other donors.

- Purchase of an office: After MEMS breaks even, Summa will be very willing to discuss financing. MEMS may want to consider purchasing an office in order to increase the sustainability of the project and reduce the cost of rent. The ELCT management will consider this and approach Summa in the future when MEMS is in a better position to apply for a loan.

- Supplier Guarantee: The ELCT was also interested in discussing Summa's ability to supply a payment guarantee to the Prime Vendor. They are concerned that the Prime Vendor will be unwilling to purchase large quantities of drugs for the hospitals without at least a partial guarantee that they will be paid. The ELCT believes that a 25% guarantee may be required. The consultant explained that a guarantee typically takes two forms. In one scenario the supplier would accept an institutional guarantee from the ELCT or from the hospitals and would not require that funds be set aside to back-up the guarantee. In the other scenario the supplier would request that the ELCT open a letter of credit through a commercial bank, enabling it to draw down on the funds if necessary. Typically the commercial bank would charge a fee to the ELCT for the guarantee and would require the ELCT to keep a cash deposit or pledge collateral covering the amount of the guarantee. Currently, Summa is not in the position to issue this type of a guarantee.

ELCT Hospitals

In addition to possible financing for the MEMS, the ELCT also identified potential financing needs for the ELCT Hospitals. Occasionally the hospitals need to make improvements and purchase new equipment. Summa financing could possibly make the hospitals stronger partners in the Prime Vendor Project. The ELCT was not able to discuss specific financing needs of the hospitals due to the decentralized nature of their relationship. The ELCT plans to disseminate information about the Summa Foundation to its hospitals and encourage them to contact Summa directly.

6.6 RECOMMENDATIONS FOR SUMMA FINANCING FOR THE PRIME VENDOR PARTNERS

6.6.1 **Pharmaceutical Companies**

All of the pharmaceutical companies that the consultant met with were interested in discussing Summa financing if they are selected to participate in the Prime Vendor Project. There were varying levels of interest in financing among the companies that depended on the size of the company and access to local financing. Potential needs include financing to improve distribution, transport and logistics and to increase the stock of drugs. Actual financing needs, however, can not be determined until a Prime Vendor is selected. Issues

that might impact interest in Summa financing include access to local financing and interest rates. As a next step, MSH should inform Summa when the Prime Vendor is selected. Summa will then follow-up to determine actual financing interest and needs.

6.6.2 ELCT

- Summa recommends that the MEMS unit seek grant funding to cover its start-up costs and initial working capital needs. After MEMS breaks even, Summa will be very interested in exploring financing needs either for expansion or for institutionalization.

- There may also be some opportunities for financing among the hospitals that MEMS will be working with. The ELCT will disseminate information about Summa and the hospitals will be encouraged to contact Summa directly if they are interested.

7 FOLLOW-UP/NEXT STEPS

In order to carry out the recommendations listed in this report, MSH will need to consider the following next steps.

7.1 MICROFINANCE AND BUSINESS SKILLS TRAINING

- MSH will need to make a decision regarding whether it wants to proceed with grants or loans or some combination of the two in order to support the development of the ADDOs.

- If MSH decides to pursue a microfinance program, it will need to select a partner microfinance institution.

- As a next step in selecting a microfinance partner, MSH should meet with National Microfinance Bank Ruvuma Branch Manager and Loan Officer to assess interest and capacity.

- MSH will also need to verify that most drug shops have access to property sales agreements to use as collateral.

- MSH should also meet with the Executive Director of the NMB to negotiate an agreement. The recommendations outlined in the Microfinance Program Design section should be considered.

- After an agreement is negotiated with the NMB, it will be important to publicize the relationship in Ruvuma with the participation of local health and district authorities.

- MSH may want to consider hiring a local microfinance consultant to help implement the program. Please find a resume attached in Appendix A. This consultant was recommended by MEDA. I can not recommend him personally and have not spoken with him.

- MSH will also need to select a partner to provide business skills training.

- If MSH finds that EDC is a satisfactory partner, it should negotiate a contract with them that includes a training needs assessment, revision of materials to meet the needs of drug shops, and the implementation of the training program.

- EDC should be required to include a session on credit management and liaise to conduct this session in cooperation with the NMB loan officer. The training program should be directly tied to the microfinance program.

- As part of its negotiations with a wholesaler for the ADDO project, MSH should explore the option of supplier credit to the ADDOs and include this in the agreement.

- If MSH assists the ADDOs in building an association, the association should be encouraged to play a role in leveraging financing for the ADDOs either with suppliers or with the microfinance institutions.

- As the ADDO program expands, MSH may want to consider working with additional microfinance institutions.

7.2 PRIME VENDOR PROJECT

- After a Prime Vendor is selected, MSH should contact Summa. Summa will then directly work with the Prime Vendor to determine financing needs.

- If possible, MSH should help the ELCT identify potential grants for the start-up of MEMS.

- In the future if MEMS breaks even, Summa will be happy to consider a financing request.

- The ELCT is going to disseminate information about Summa financing to its hospitals. If these hospitals are interested in financing, they will contact Summa directly.

8 PERSONS CONTACTED

- Seven drug shop owners in Ruvuma, including M/S Lupoly Medical Store, Mr. John Njau, Madamba Group Medical Store, SAC Medical Store, SAFI Medics, Majimaji Medical Store, Malekela Medical Store
- Bharat Rajani, Managing Director of Biocare Health Products Limited and Head of Tanzania Association of Pharmaceutical Industries.
- M.S. Gulamhusein, Salama Pharmaceuticals Limited
- Ashhok Kumar, Shelys
- Mrs. Mercy Marielle, Keko Pharmaceutical Industries
- Director, KAS Medics
- Joseph Witts, Director of Retail Clients and Marketing, CRDB Bank
- Charles, Kimei, Managing Director, CRDB Bank
- Mbaga Atway, Deputy Manager Microfinance, CRDB Bank
- Claude Royer, DID Tanzania
- Tasilo Joseph Mahuwi, Executive Director, Fiseda
- Mr. Wilson Mnzava, Fiseda
- Mrs. Z.S. Mavere, Deputy Chief Manager, Microfinance, National Microfinance Bank
- Mike Laiser, Director General, Small Industries Development Organization
- Greg Foster, MEDA
- James, Obama, General Manager, Pride Tanzania,
- Ulla Vaeggemose, Pharmaceutical Advisor, ELCT
- Director of Finance, ELCT
- Professor Kiwara, IDS
- Michael Onesimo, Director OICT
- Theodor Kaijanante, Training Specialist, Enterprise Development Center

- Eustace Joel Mukayu, Managing Director, Enterprise Development Center
- Charles Panyika, FAIDA-BDS
- Joe Eshun, Deloitte & Touche East Africa
- Rockwell Griffen, Reproductive Health Technical Advisor, PSI
- Mrs. Kokushubila Kairuki, Chairperson, Mission Mikocheni Health and Education Network
- Peter Riwa, Associate Director, Healthscope Tanzania
- Justin Nguma, Associate Director, Healthscope Tanzania
- John Dunlop, PHN Officer, USAID
- Amy Cunningham, Technical Advisor, USAID
- Dr. Kapesa, TMS Clinics
- Altemius Millinga, Director, Center for Microenteprise

9 APPENDIX A: CV OF MICROFINANCE CONSULTANT

FAUSTIN TARIMO

Profession: Microfinance and Accounting Consultant and Trainer
Nationality: Tanzanian

Languages: Kiswahili and English

Key Qualifications

Vast experience in the field of training and technical assistance to micro-finance organizations, and business development NGO's since 1995, concentrating primarily in Eastern Africa. He has delivered capacity building technical assistance focused on strengthening of micro-finance firms and other institutions in the areas of:

- Board Capacity Development for Micro-finance institutions
- Financial Management capacity development
- Portfolio Management
- Financial Control Systems
- Financial Accounting and Reporting for MFI's

In addition Tarimo has provided training to NGOs on business assessment and follow up.

Education

Masters of Business Administration (Finance), Atlanta University, Georgia, USA, 1994 National Board of Accountants and Auditors of Tanzania, Certified Public Accountancy, May 1991

Certificate in Financial Management, Algonquin College of Applied Arts and Technologies, Canada, 1987

Advanced Diploma in Certified Accountancy, Institute of Development Management (IDM), Mzumbe, Tanzania, 1982

Other Training

***CGAP*, Financial Analysis for Micro-finance Institutions, 1997**

***MEDA*, Financial Management Seminar for Manager of Financial Institutions, 1995**

Professional Experience

Micro-Credit Specialist Regional Enterprise Development Institute (REDI), Arusha and Nairobi, 1999 – Present.

As Micro-credit Specialist at the Institute, his responsibilities have been the design, development and delivery of relevant training programs to the network members of PRIDE AFRICA. They are PRIDE Tanzania, PRIDE Uganda, PRIDE Zambia, PRIDE Malawi, and SUNLINK in Nairobi. The network serves a total client population of more that 90,000 micro and small enterprise entrepreneurs.

Finance and Accounting Specialist

MEDA, Umbrella Credit Project, Finance and Accounting Specialist, 1995 – 1998

This project of the National Income Generation Programme was to provide training and technical assistance to micro-finance institutions in 4 regions of Tanzania. Mr. Tarimo's role included the design of financial systems, support of implementation of these systems with the project's clients.

Lecturer in Accountancy and Finance,

Institute of Development Management, Mzumbe, 1984 – 1994.

Mr. Tarimo's responsibilities were full time lecturing in the field of accountancy and finance. He taught Financial Accounting, Cost and Management Accounting, Financial Management and Auditing at the undergraduate level, and portfolio management and risk analysis for graduate programs. He was also resource faculty in several executive development seminar programs of the institute which mainly targeted senior level executives and middle level managers.

10 APPENDIX B: PROFORMA CASHFLOW- MEDA, 50 BORROWERS

11 APPENDIX C: PROFORMA CASHFLOW-MEDA, 80 BORROWERS

12 APPENDIX D: PROFORMA CASHFLOW- NMB, 50 BORROWERS

13 APPENDIX E: PROFORMA CASHFLOW- NMB, 80 BORROWERS