

SEDA Tanzania	TANZANIA
<i>Non Governmental Organisation</i>	<i>Report as of June 2007</i>

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PERFORMANCE RATING

γ+

Date of visit **October 2007**
 Date of previous rating **December 2002**
 Last rating **n.a.**

α++	
α	α+
	α
	α-
β	β+
	β
	β-
γ	γ+ ← SEDA
	γ
	γ-

Main Performance Indicators

	Dec '06	Jun '07
Gross Portfolio ('000's)	\$2,288.1	\$2,249.6
Number of active borrowers	18,900	16,028
ROE	(75.6%)	(17.5%)
Portfolio Yield	59.8%	64.1%
Portfolio at Risk	2.2%	2.6%
Operating Expense Ratio	74.4%	66.9%
Average Loan Size	\$121	\$140
Borrowers per staff	164	131

Synopsis

The Small Enterprise Development Agency ("SEDA") is a not-for-profit institution which began its operations as a World Vision Tanzania ("WVT") pilot project in 1995, and later became a separate institution in April 1996. SEDA offers group loans from headquarters in Arusha and through a network of 7 branches, 2 field offices and 7 outreach centers in northern Tanzania.

Although SEDA has strongly relied on donor funding in the past, it has started to access commercial borrowings to sustain its ambitious growth and transformation plan. The latter was approved by the board in 2004 and aims to professionalize SEDA and obtain a licence as deposit-taking Microfinance Institution (Limited by shares). However, SEDA's main funder (World Vision) is reconsidering the institutions' plans for the future. This has contributed to put SEDA in a fragile position. SEDA's portfolio has started to contract and clients are rapidly dropping out.

Highlights

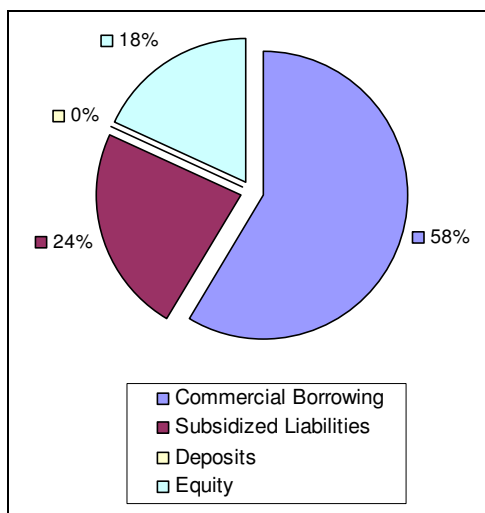
POSITIVE

- Reinforced Senior Management
- Good MIS
- Good Portfolio Quality
- Increasing portfolio yield

NEGATIVE

- Serious Governance issues (See Governance Section)
- Lack of funding has hampered SEDA's growth
- SEDA's operations are not viable
- Low efficiency levels
- High drop-out rate of clients in an increasingly competitive environment.
- High attrition rate of loan officers

SEDA Tanzania	TANZANIA	June 2007
Sources of Funding	Rating Rationale	



Serious Governance Issues and unclear ownership status of SEDA – SEDA’s ownership remains unclear and must urgently be addressed. MicroRate notes the confusion remains between SEDA, its Board and its parent company, World Vision and Visions Fund International. This has already affected SEDA’s financial position. Although some of the Board members have good accounting, finance and microfinance exposure, none of them have strong banking or audit skills, which might slow down the pace for SEDA’s resolve to convert into a regulated MFC.

Portfolio Contraction and high drop-out rates - Lack of funding has prevented SEDA to refine pilot-test and roll-out its products to grow its portfolio and in June 2007, the outstanding portfolio had already started to shrink. Failing to meet clients’ demand has resulted in a high drop-out rate of 40%.

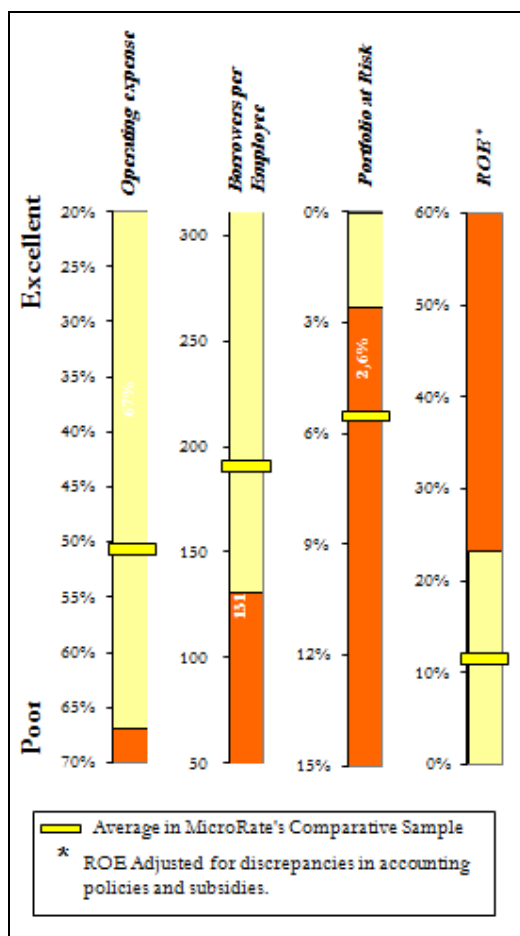
Good Portfolio Quality - SEDA’s portfolio quality, which is measured through the portfolio at risk over 30 days (PaR30), has consistently improved since MicroRating International’s last rating (See *MicroRate rating dated 2003*) and is good at 2.9% (June 2007). This is comforted by a lower level of write-offs, which was at 0.3% in June 2007 (June 2006: 0.8%).

Reinforced Senior Management - As part of the transformation process, SEDA has managed to reinforce its senior management by bringing in strong professional skills and competences.

High staff turn-over - Although total staff slowly increased; MicroRating International is concerned by the relatively high attrition rate of loan officers.

Good MIS - E-merge has largely allowed improving controls and performance monitoring. It is flexible, secured and allows to produce a wide range of reports. However, the MIS does not allow tracking arrears at the individual level for group loans.

Improved Internal Controls - Internal Audit doesn’t limit its work to strict compliance and it is good to see it is also reviewing all the processes at all levels, identifying risks implied and making recommendations. All in all, controls have improved since MicroRate’s last rating in 2003.



The operating expense ratio and ROE compared to all African MFIs rated by MicroRate with average loans < US\$500.