Maxbridge Education and Development S.C

novemeber, 2022

STRATEGIC MANAGEMENT PLAN FOR TSEDEY BANK INTEREST-FREE BANKING OPERATION

Submitted To: Mercy Corps

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# 1. Introduction

Ethiopia’s location gives it a strategic position as a jumping off point in the Horn of Africa, adjacent to the Middle East and it markets.  With about 115 million people (2020), Ethiopia is the second most populous nation in Africa after Nigeria, and still the fastest growing economy in the region, with 6.3 percent growth in FY2020/21. However, it is also one of the poorest, with a per capita gross national income of $890. Ethiopia anticipates to stretch to lower-middle-income position by 2025.

Over the past 15 years, Ethiopia’s economy has been among the fastest growing in the world (at an average of 9.5 percent per year). Among other factors, growth was led by capital accumulation, in particular through public infrastructure investments. Ethiopia’s real gross domestic product (GDP) growth slowed down in FY2019/20 and further in FY2020/21 due to COVID-19, with growth in industry and services easing to single digits. However, agriculture, where over 70 percent of the population are employed, was not significantly affected by the COVID-19 pandemic and its contribution to growth slightly improved in FY2020/21 compared to the previous year.

The consistently high economic growth over the last decade resulted in positive trends in poverty reduction in both urban and rural areas. The share of the population living below the national poverty line decreased from 30 percent in 2011 to 24 percent in 2016 and human development indicators improved as well over time. However, gains are modest when compared to other countries that saw fast growth, and inequality has increased in recent years.

The government has launched a new 10-Year Development Plan, based on the 2019 Home-Grown Economic Reform Agenda, which will run from 2020/21 to 2029/30. The plan aims to sustain the remarkable growth achieved under the Growth and Transformation Plans of the previous decade, while facilitating the shift towards a more private-sector-driven economy. It also aims to foster efficiency and introduce competition in key growth-enabling sectors (energy, logistics, and telecom), improve the business climate, and address macroeconomic imbalances.

The financial sector in Ethiopia consists of formal, semiformal and informal institutions. The formal financial system is a regulated sector which comprises of financial institutions such as banks, insurance companies and microfinance institutions. The saving and credit cooperative are considered as semi-formal financial institutions, which are not regulated and supervised by National Bank of Ethiopia (NBE). The informal financial sector in the country consists of unregistered traditional institutions such as Iqub (Rotating Savings and Credit Associations) Idir (Death Benefit Association) and money lenders.

Following the demise of the Derg Regime in 1991, Ethiopia made a reform to liberalize the financial sector to domestic private sector. However, Ethiopia can’t improve the performance of financial sector as much as expected. Almost all financial sectors are at their infant stage and the majority of the people, particularly living in rural areas of the country, cannot easily access the financial sector either for formal credit or for saving purpose. Particularly in the rural areas of the country, to get financial sectors households cross much many kilometers with foot. Financial sectors have no modernized, automated and networked their services. Though both private banks and microfinance institutions are allowed to emerge, the coverage and size of financial sectors are very low. In 2014, only 10% of households were accessed to formal credit. Financial sector in Ethiopia heavily depends on banking sector, and insurance companies and microfinance institutions are the next best alternatives of getting money

In Ethiopia, microfinance was introduced in 1995 to reduce poverty, and since then, Ethiopia's government has stimulated the expansion of modern financial services in the country. Presently, around 31 licensed microfinance institutions are operating throughout the country. In recent times, the government of Ethiopia developed various developmental strategies such as a poverty reduction strategy paper which is aimed at enhancing and supportable growth, among other documents, considered microfinance as the best reference in achieving the intended development objectives and limiting the risky trends in poverty problem and meeting the millennium development goals. Normally, almost most of Ethiopia's microfinance institutions have common goals: poverty reduction by providing loans and saving services by using the group-approach lending system.

Tsedey Bank, the erstwhile Amhara Credit and Saving Institute (acsi) is established with a total of 11.3 billion birr registered capital of which 7.75 billion birr is already signed. It started credit service for rural communities, as a government body, to rural services as early as 1996 – then with the capital of only 3 million Ethiopian birr. It became a microfinance institution in the year 1997 as Amhara Credit & Savings Institute (ACSI) and was operating at zone level in the region.

# 2. Internal and External Context

## **2.1 Tsedey Bank’s Interest-free products and services**

Tsedey Bank has been providing interest free financing and saving products for its customers in South Wollo and Oromo Zone in the form of a pilot project. It is an initial small-scale implementation that is used to corroborate the viability of interest free services under conventional microfinance institution. These Shari’ah-compliant microfinance services have been delivered through window model that enable the institution to take the advantage of its existing branch network and other resources to reach existing and potential customers.

The following financing and saving products are being delivered in the two zones mentioned above.

## **2.1.1 Interest free financing products**

***a. Interest‐Free Fertilizer and Improved Seeds Financing***

This product is provided based on interest-free financial structure of *murabaha* contract. The product is designed as an interest‐free finance solution dedicated at helping farmers to obtain the fertilizers and/or improved seeds required for their agricultural businesses. In this mode of financing the client approaches ASCI requesting to finance a certain type/quantity of fertilizers and or/improved seeds.

Then, Tsedey Bank purchases the fertilizers and/or improved seed from the cooperative for the cost price. After that Tsedey Bank sells the fertilizers and/or improved seeds to the client on a *murabaha* basis for the sale price (immediate delivery and deferred payment) and finally client pays the sale price in deferred instalments.

***b. Interest Free Individual Financing***

This product is based on the interest-free financial structure of *murabaha* to the purchase orderer. The product is designed as an interest-free finance solution dedicated a helping clients obtain primarily income-generating assets. In this mode of financing, the client approaches Tsedey Bank requesting to finance particular assets from a chosen vendor and promises to purchase the same from Tsedey Bank. Then, Tsedey Bank purchases the assets from the vendor for the cost price and accordingly sign a purchase contract. Afterward, Tsedey Bank sells the assets to the client on a *murabaha* basis for the sale price upon concluding the *murabaha* contract (immediate delivery and deferred payment). Finally, the client pays the sale price in deferred instalments.

***c. Interest Free Group Financing***

This product is based on the interest-free financial structure of*murabaha* to the purchase customer. The product is designed as an interest‐free group financing solution dedicated at helping clients obtain primarily income‐generating assets. The product has a similar operational structure to the interest‐free individual finance product, with a key difference being the existence of a group of clients forming to create a group guarantee.

### **2.1.2 Interest free savings accounts**

***a. Interest-free Personal Savings Account***

This product is interest free, profit generating transactional savings account. Tsedey Bank specifies the expected profit rate (EPR) offered onfunds placed in this account, the *wakalah* fee that Tsedey Bank will be charging for opening such account (if any) and the frequency at which profit will be paid into the client’s account (monthly/quarterly…etc.). The client will be able to deposit and withdraw funds as per their needs (and, as per the terms of the personal savings account offered by Tsedey Bank’s conventional operations, where applicable). Tsedey Bank invests the funds available in the client’s account in interest-free financial transactions and pays the due profit to the client’s account regularly as per the agreed frequency. Currently, Tsedey Bank is paying expected profit of 7% to *wakalah* saving participants.

***b. Interest-free Fixed Term Deposit Account***

The Interest-free Fixed Term Deposit Account will be offered with various tenors ranging from 6 month to 2 years (or other tenors similar to the ones set by Tsedey Bank on their conventional fixed term deposit accounts). Prior to placing the deposit, Tsedey Bank and the client will agree on the key parameters of the deposit, including the deposit amount, the EPR, the deposit tenor and the *wakalah* fee (if any), and sign the *wakalah* terms and conditions. The client deposits the funds, Tsedey Bank invests them in interest-free financial transactions and pays the Expected Profit to the client at the end of the agreed tenor (the “Maturity Date”). Any profit exceeding the Expected Profit will be given to Tsedey Bank as an incentive for good performance.

## **2.2 Target Beneficiaries/** **Clientele and Market**

Tsedey Bank as a commercial bank will not only concentrate on the poor and marginalized segments of the rural population (age 18-55 years) in targeted areas but also cater its services urban middle class population throughout Ethiopia. Therefore, the interest-free banking and microfinance services provided by Tsedey Bank has dual targets both the rural poor and the urban middle class who have refrained to use the interest-based services due to religious and other reasons.

The poor in Ethiopia have little access to credits of both publicly and privately owned commercial banks. In the first place the majority of branches of the commercial banks are concentrated in urban areas. Even in places where such banks exist the poor in general are unable to borrow from them because of higher collateral requirement

The rural poor, in wealth ranking, are the bottom line households in the community but have huge potential to work and change their own and their family life . They do not have significant productive assets; income level is low and irregular; low scope of savings and limited access to institutional micro financial services.

In addition to interest-free microfinance services, Tsedey Bank will also deliver its services to urban middle class who need basic banking services such as deposit, money transfer, financing foreign exchange, international banking and other services in all corners of the county.

## **2.3 Tsedey Bank’s Interest-Free Banking and Microfinance Geographical Coverage**

The former ACSI has been operating mainly in Amhara region in particular, that has been prone to much suffering in the past, and was one of the hardest hit areas when drought occurred in the country. Overall, most districts in Amhara region are now categorized as chronically food in-secure. Currently, more than 22% of the regional population earns an income below the (locally driven) poverty line. Low level of capital and monetization is among the many factors contributing to such high level of poverty in the region.

This conflict has resulted in the displacement of over 500,000 people, looting and loss of assets, and significant disruption to typical livelihood activities. In addition, Market supply and functioning are significantly disrupted and limited in some areas due to the conflict in Tigray and neighbouring areas of Amhara and Afar. Many private traders are not traveling to areas affected by conflict in northern Ethiopia, further restricting supply.

In the region, most poor household income from labour has significantly declined due to conflict. The conflict in Tigray and Amhara has resulted in extremely limited availability of seasonal casual labor opportunities. Migrant labor movements to western surplus producing areas and mechanized farming areas in eastern parts of the country are significantly limited due to the conflict, resulting in low income from this critical source of cash income for many poor households.

In areas of Amhara bordering Tigray, the conflict has significantly disrupted ongoing livelihood and economic activities. The looting of household grain stores, livestock, and household assets has resulted in a loss of livelihood capital. While agricultural activities were significantly disrupted, for those who are able are engaging in the early harvest, particularly for barley and potatoes, consumption of these foods is improving food access. Many displaced households are likely relying on gifts from the community to access food. Much of north-eastern Amhara is currently in crisis, with some worst-affected households in emergency.

Shari’ah-compliant microfinance and banking services are highly appealed by Muslim dominated zones such as North Wollo, South Wollo, Oromo Special Zone and other zones which have significant number that demand the service. Hence, Tsedey Bank will provide interest-free microfinance and banking services to those rural and urban people who are left out due to interest-based system and other related reasons diversify this alternative business model to broaden its financial service coverage and help reduce poverty.

Being both microfinance and commercial bank, Tsedey Bank, in addition to conventional microfinance and banking services, will cater interest-free microfinance and banking services throughout the country as there is immense untapped demand from people in different walks of life. There is very strong latent demand in interest-free microfinance services as banks and financial institutions lack the necessary operational capabilities with the extra burden of having to deal with other constraints such as narrow product offerings, limited outreach, and high costs. Therefore, Tsedey Bank can capitalize on the nascent opportunities represented by the country’s micro, small and medium sector.

## **2.2 External Context of Interest-free banking**

### **2.2.1. Global Trends of Islamic Banking and Finance**

In 2021, the global Islamic finance industry demonstrated resilience, complemented various COVID-19 policy support measures, supported economies, and sustained its growth momentum despite a resurgence in the COVID-19 pandemic. The global interest-free finance industry is estimated to be worth USD 3.06 trillion in 2021, marking a growth of 11.3% year-on-year (y-o-y) in assets in USD terms (2020: USD 2.75 trillion). Similar to the previous years’ trend, the Islamic banking and Islamic capital markets sectors were the main contributors to the increase in total value of the global interest-free finance industry, as many countries experienced a reopening of their economies and benefited from an improving global economic condition. Takāful (Shari’ah-compliant insurance) contributions also registered a marginal improvement amid increased pressure from the effect of the COVID-19 pandemic in 2020.

Specifically, the global Islamic banking industry in 2021 experienced a 6.5 % year on year growth in assets (2020: 4.3%). The share of Islamic banking in the global Islamic finance industry assets was 68.7% as at end-4Q’21. The sector is supported by an array of commercial, wholesale, and other types of banks. Yet commercial banking remains the main contributor to the sector’s growth. Buffered by gains from the implementation of the various prudential standards and guidelines post the Global Financial Crisis (GFC) of 2007–8, the segment remained highly capitalized, profitable and liquid. Thus, it was able to support economic recovery by continuing to provide financing to both households and corporates, by absorbing credit risk, and by complementing various policy support measures implemented across jurisdictions due to the pandemic.

The Africa region’s share of the global Islamic finance industry value, though improved, remained small at 2.1% (2020: 1.7%). Like the Middle East and South Asia region, the Africa region’s economic recovery has been impeded by (among other things) inflation, exchange rate volatility and a low vaccination rate. Amid the risk of a potential resurgence in the pandemic, the region is highly susceptible to imported inflation from commodity prices due to its being highly dependent on imports. While oil-exporting countries such as Nigeria and Algeria may benefit from the increase in oil prices, there are other related factors that may attenuate such benefits. For instance, while Nigeria does not currently refine most of its oil locally, the North African countries are highly dependent on wheat and cereals from Russia and Ukraine, which has resulted in a hike in the price of bread and cereals. Moreover, the security situation in Africa may deteriorate further and adversely affect the financial transaction given the fragile peace in many countries in the region (e.g. Libya, Mali and Central African Republic, all with a huge presence of Russian forces).

### **2.2.2 The Ethiopian Banking Sector**

The Ethiopian banking sector has registered a remarkable growth despite the fact that it faced various challenges such as COVID-19, internal conflict, and the Ukraine-Russia crisis. The banking sector has continued to registering growth in asset, capital, deposit, loan distribution, loan collection and other financial growth indicators. In terms of financial soundness as indicated in capital adequacy ratio, liquidity and non-performing loan, the banking sector is healthy and sound.  
Over the last four years, NBE did embark on various policy issues, which help to address bottleneck and lingering problems in the financial sector such as proclamations, directives, and other legal instruments were issued, and amended. Besides, exchange rate, interest rate and demonetization were also among the major endeavors.

With regard to the banking sector, and digital financial system, remarkable progress have been registered. The number of banks has increased from 18 to 30, and their branches reached to 8,944, as of June 30, 2022, from 5,564 four years ago. With the expansion of bank branches, the ratio of branch per population reached to 1: 11, 516 (one bank branch serves 11, 516 people). Besides, the number of deposit accounts has increased from 40.04 billion birr to 83.3 billion birr. Hence, the total deposits, over the last four years, have increased from 899 billion in 2019, to 1.7 trillion Birr in 2022. The total capital of the banks has boosted from 98.9 billion in 2019 to 199.1 billion birr in 2022.

The growth registers 27 percent average yearly growth. Moreover, total asset of banks has ascended from 1.3 trillion birr to 2.4 trillion Birr registering 92 percent growth. Net income of banks has increased from 22.4 billion birr in 2019 to 49.9 billion birr in 2022 registering 122 percent growth, as it was indicated. According to NBE, the banks have continued to operate in a safe and sound manner, though there is a need for strengthening advanced preparation for opening banking sector to foreign investors was emphasized. Recently, the Government of Ethiopia has decided to amend laws to allow foreign investments in the country’s banking sector. The proposed policy was approved by the cabinet, which passed a draft resolution in this regard. According to the government, opening up banking to foreign investors would transform the country’s economy by boosting it to have a better link with the international market. Moreover, by introducing private players in the banking sector, the government seeks to encourage competition, enhance foreign currency inflows and also generate more jobs. Currently, there are 29 commercial banks, one development bank, 18 insurance companies, one re-insurance company, 40 microfinance institutions, six capital goods finance/lease companies, and eight payment instrument issuers/system operators are operating in Ethiopia.

### **2.2.3 The Current Status Interest-Free Banking in Ethiopia**

The Saga of interest-free banking in Ethiopia started in 2008 when the country’s central bank, NBE, issued a proclamation that allows the establishment of interest-free mobilization of deposit and utilization of funds. Subsequent to this proclamation, Zam Zam Bank was on the verge of commencing the first full-fledged Islamic bank in 2008. Nevertheless, with an abrupt decision from the then government or central bank, the gleam of hope to set up a full-fledged Islamic bank rescinded. Following the Interest –free banking (IFB) directive, the NBE showed a green light to conventional banks to start interest-free windows to cater financial services to customers who distanced themselves mainly because of religious reasons. The privately owned Oromia International Bank followed by the state giant Commercial Bank of Ethiopia joined the market and started providing the services. Following the footsteps of these banks, more than eleven banks have commenced IFB services and several of them started IFB branches in the capital and financial hub Addis Ababa and other cities. The advent of a new political reform paves a way to reinstate the establishment of full-fledged Islamic banks. Zam Zam Bank, which obtained its license in September 2020 and started operation in June 2021, became the first full-fledged Islamic bank in the country while Hijra Bank became the second bank to join the banking sector.

Interest-free financial services are among the priorities of the second edition of national financial inclusion strategy of the Ethiopian government. The strategy was approved by the Council of Ministers a few months ago and has two programs adhering to principles of Islamic law and Sharia-compliant financial services. It is a revision of the first financial inclusion strategy approved in 2017 and in operation since then. It is to be recalled that the strategy was developed aiming at widening access to the unbanked population and increase the number of bank account holders. The strategy has a total number of 11 programs, of which two of them are dedicated for Sharia-compliant financial services. One of the programs focus on expanding infrastructures that will strengthen reachability for services related with Sharia-compliant. Service providers like banks, micro-finance institutions, insurance firms, and lease companies solely dedicated to interest free services will be expanding their branches.

The Council under the secretariat of NBE is undergoing three main activities under this program. They are conducting studies on enabling environments, expanding branches of the Sharia-compliant service providers, and encouraging deposits at interest-free banks. The other program is expansion of the financial services and products under this principle. Attributing to the reform works, there are now three full-fledged interest free banks with two of them beginning operation and the third one just approved by the NBE. A microfinance institution is also transformed as full-fledged interest-free bank. About 11 banks have also opened special windows and dedicated branches providing interest-free banking services.

## **2.3 IFB Industry Performance in Ethiopia**

IFB deposit reached above 135 billion birr. It showed an average growth rate of 69% for the past 7 years with incremental growth of Birr 37 billion from the previous years. IFB represents 8% of the total banking deposit (Br. 1.7 trillion) in Ethiopia.

The number of people who are depositors in IFB reached 12 million. The customer base showed average growth rate of 64% for the past 6 years that is an incremental of Birr 3 million from last years. IFB number of accounts held 20-30% of the total bank account holders (above 40 million)

The amount of outstanding IFB financing reached Br. 42 billion. The outstanding financing showed an average growth rate of 89% for the last 5 years with incremental amount of Br. 16 billion from last years. The financing to deposit ratio in IFB didn’t show much improvement (31%) much below the conventional loan to deposit ratio. The financing in IFB covers only 5% of the total outstanding credit in the country.

## **2.4. Principal IFB products**

The Shari’ah-complaint contract for current and saving deposit products used is *wadiah* contract which is a safe keeping agreement between the bank and the depositor. The bank guarantees the deposited amount without the expectation of any return for the depositor. The deposit products are segmented based on gender, age, purpose and so on. There is also availability of digital services using various digital channels. The banks are also brought different consumer financing such as diaspora, NGOs, foreign currency earning etc.

With regard to financing products, *murabaha* and *qard* contracts are the prevailing products offered by the banks. Under the *murabaha* agreement, the bank purchases assets which the client needs and sell to the client adding markup on the price of the assets on deferred basis.

## **2.5. Key Developments in IFB Sector**

* The establishment of full-fledged interest-free banks fulfilling the requirements of NBE
* The number of conventional banks joining the banking sector is rising dramatically.
* New entrant conventional banks are launching interest-free banking services to expand their customer base and benefiting from product diversification
* The advent of takaful (Shari’ah-complaint insurance) services from conventional insurance companies and a handful of full-fledged takaful operators are getting ready to join the market
* There are also some initiations to establish Shari’ah-complaint micro finance institutions to support the development of SMEs and low-income segment of the community.
* The establishment of dedicated training and education centers to create awareness, produce skilled manpower and conduct problem solving research and development endeavors

## **2.6. Some of the challenges in IFB sector**

* The absence of standardized internal Shari’ah compliance and governance framework functional internationally.
* The absence of central Shari’ah advisory council to oversee the implementation of products and services provided by the banks
* The products and services that are offered lack diversification and clients aren’t able to have different alternatives in deposit and financing schemes
* Lack of demand, awareness or promotion related to investment products
* Ineffective banking system is the other challenge that affect not only the banking industry in general but also the IFB sector
* Lack of experience and skilled human power in critical areas such as IFB financing, audit and compliance and Shari’ah advisory committee exposure in banking sector
* Shortage of product development skills and lack of customer value proposition

# 3. Situational Analysis

## **3.1 SWOT Analysis**

A SWOT analysis of Tsedey Bank legally appraises the financial institution's strengths, weaknesses, opportunities and threats. This analysis pinpoints these four central components to enable upper management better leverage its strengths to make use of forthcoming business opportunities while better comprehending its operational weaknesses to withstand threats to prospective growth. The SWOT analysis can also inscribe voluminous other scenarios, such as new-fangled business acumens, marketing budgets or even advertising campaigns, and is a cherished instrument in bank management.

**Strengths**

* High potential and commitment of the staff in every level
* Strong customer base and wide acceptance of Tsedey Bank’s products
* Dedicated and well trained Shari’ah advisory board and Shari’ah scholars
* Adopt State-of-the-art Technology- Tsedey Bank is among the top three banks in Ethiopia that own sophisticated data center which is the lifeblood of the banking industry

**Weaknesses**

* Low banking experience
* Lack of awareness on customers
* No insurance alternative to interest-free finance customers
* No clear structure and incentive package for Shari’ah Advisory Board

**Opportunities**

* High demand for interest free banking services throughout the country
* Blending both microfinance and banking services
* Growing Muslim population in the region and through of the country
* Government policy to encourage financial inclusion and poverty alleviation
* Pool of support from local and international organizations

**Threats**

* Distorted supplier market and lack of supplier trust and manipulation
* Poor infrastructure in the country such as road, electricity, telephone etc.
* Growing competitive set in the banking sector
* Regulatory compliance
* Many emerging new entrants
* Consumers becoming more price sensitive
* Uncertain market conditions
* Security and instability in the region

## **3.2 PESTEL Analysis**

It is an important planning tool used for understanding the external macro- level external factors that impact the performance of the bank. PESTEL analysis is used to understand all the external factors that may impact the working of the bank. In the analysis the following factors are assessed:

**Political** **factors**

Whether the banking business environment will be auspicious or uncomplimentary hinges on the government’s outlook. If the government desires to make banking advanced, it may make promising laws and give diverse opportunities and facilities to the banking sector. The more the government takes steps for the development, the greater the activities will be of the banking sector. Moreover, Government backs the businessmen by making reassuring policies that eventually create a fertile ground for the banking business.

These development undertakings are very supportive for the stimulation of the economic activities- additional savings may be engendered, and demand for loans can be created, which eventually creates a promising environment for the bank. The expenditures by the government are the income of the people. Hence, if the government upsurges its development outlay, it would be regarded as a worthy indication for the banking industry.

The financial sector especially the banking sector in Ethiopia is predisposed to government policies and interventions. Government laws greatly affect the state of the banking sector in general and Tsedey bank in particular in a positive and negative ways. The government can intervene in the matters of banking whenever, leaving the industry susceptible to political influence. These include the factors that are associated with the government policy, schemes, financial policies, taxation, trade laws etc. with respect to our country. Political factors may to a great extent influence Tsedey Bank’s IFB business operation.

**Economic factors**

The improvement of the banking sector essentially relies on the economic circumstances and financial system of that specific country. If the country’s financial situation is advanced and structured, the banking activities can be better satisfied for the business sectors and vice-versa. A bank necessitates an enormous amount of funds for the formation and operation of the business. An economy with a superior likelihood of amassing funds from various financing opportunities is satisfactory to the banking business.

Ethiopia’s economy decelerated to 5.6% growth in 2021 from 6.1% in 2020, due to civil conflict and the effects of COVID-19 on transport and hospitality. Growth was led by industry and services on the supply side and private consumption and investment on the demand side. Inflation increased to 26.7% in 2021 from 20.4% in 2020, much above the central bank’s 8% target, because of domestic credit expansion to revive the economy and COVID-19-induced supply chain disruptions. The fiscal deficit, including grants, declined to 2.6% of GDP in 2021 from 2.8% in 2020 due to expenditure reprioritization and growth in tax revenue. The banking sector is stable but closed to international competition; it accounts for 76% of the financial sector’s total capital (with state-owned banks accounting for 51.8% of banking sector assets), followed by microfinance (15%), and insurance and leasing (9%).

GDP growth is projected to fall to 4.8% in 2022 but pickup to 5.7% in 2023, driven by industry and by private consumption and investment. A tourism rebound and liberalization of the telecoms sector are expected to boost the growth outlook. Key downside risks to the growth outlook include the civil conflict in northern Ethiopia, COVID-19, and debt vulnerabilities. Higher global food and oil prices due to the Russia–Ukraine conflict are expected to increase inflation to 32.6% in 2022 before it eases to 24.9% in 2023. The fiscal deficit is projected to remain stable at 2.6% in 2022 and 2023 due to implementation of the fiscal consolidation strategy and improvement in tax revenue mobilization. The current account deficit is expected to widen to 4.8% of GDP in 2022 but to narrow to 4.1% in 2023. This reflects the slow recovery in merchandise and service exports and FDI, amidst lower imports of capital inputs.

**Sociocultural factors**

How society shapes itself; has a greater influence on the banking environment than anything else. Social values are very essential for any society and economy as well. People with faithfulness, business confidence, diligence, devotion, culture, and self-respect facilitate a favorable environment to the banking business. Social security brings contentment to the citizen of a country. It is not possible to establish a business relationship between the public and banks in an unsecured environment. Social security encourages the public to operate financial activities, which finally create business for the bank.

To develop any sector, education is indispensable. In the illiterate society, the clear concept does not grow about bank business, and banking habits remain shunned, which hinders business growth. Conversely, in an educated society, people demonstrate encouraging outlooks towards bank business that helps banks prosper the banking business. In Ethiopia, the expansion of primary and secondary education throughout the country is enormous. Higher education enrollment is also demonstrating progress both at private and public higher education institutions.

The advancement of bank business exceedingly relies on the propensity of the people to have connections with banking activities. Having adequate income and home savings, if people lack banking lifestyles, the bank will not get its business from them. Moreover, if the bank is not used in the business transaction by the people, the bank will fail to accomplish its target. Therefore, there is a need to grow the tendency of banking habits among the people. In Ethiopia, the rapid change in infrastructural development especially in telecom sector caused many people to rapidly change their lifestyle and use of modern facilities such as mobile banking.

Cultural influences, such as buying behaviors and necessities, affect how people see and use banking and microfinance options. People turn to banks for advice and assistance for saving, financing, money transfer etc. related to business, home, and academics. Consumers seek knowledge from bank tellers regarding saving accounts, bank related credit cards, investments, and more. Consumers desire a seamless banking experience. And technology is developing to allow consumers to buy products easier, without requiring assistance directly from banks. Tsedey Bank’s interest-free banking being a new business and banking model is prominently swayed by social and behavioral factors.

**Technological factors**

With the assistance of technology, if a bank can deliver more services within a short time, then clients will be attracted by that bank, and this practice enables the bank realize success and inspires to cater additional services competently. If technological improvement takes place in all sectors, production will surge, eventually snowballing the level of people’s income. The savings propensity of people quickens the businesses of the banking sector. Accordingly, technological enhancement is one of the significant features for the broad-spectrum development of the banking business surroundings.

In today’s world where technology and innovation plays a paramount role for the success of a business, banks are dependent on recent technology to help improve service provision in interest-free finance operations. Technology is experiencing a prodigious shift how consumers manage their funds. Most of today’s banks cater a mobile app to access accounts, transfer funds, and pay bills on smartphones. Smartphones can scan cheques, and the bank can process it from their end, at their location. This transformation benefits to save paper and the need to go straight to the branch to conduct these services. Debit and credit cards are also showing dramatic change. Chips have been instigated, demanding users to insert their card into debit machines rather than swiping them. These alterations make it easier on the user to make purchases without requisite interference from banks. Even banks themselves are utilizing technology within the workplace. Telecommunicating through virtual meetings is being embraced. It replaces the need for in-person meetings. Therefore, technological changes both locally and universally immensely affect Tsedey Bank’s IFB operations.

**Environmental factors**

These include all environmental factors that may affect the operations of the bank. These include climatic conditions, rains, disasters etc. that have a huge potential to influence the day to day activities of the bank. Moreover, with the use of technology - principally with mobile banking applications –the consumption for paper is being diminished. Furthermore, the necessity to drive unswervingly to a branch to handle affairs is abated as well. Many issues are taken care of through mobile apps and online banking services. Consumers can demand credit cards online, buy cheques online, and have numerous of their banking questions answered online or by phone. Consequently, plummeting individual environmental footprints.

**Legal factors**

Legal factors include norms, certifications, legal procedures, proclamations, directives targeting financial institutions, etc. that affect Tsedey Bank plan to launch IFB service. The banking industry enact stringent laws concerning privacy, consumer laws, and trade structures to approve frameworks within the industry. Such arrangements are prerequisite for customers in the allocated country and for international users. The government needs to monitor, regulate, and control the activities of banks; otherwise, the banking industry alone might have an adverse impact on the economy.

The government controls the activities of all types of organizations by law. So, if the law declares the policy issues which work for the extension and development of the organization, then that will obviously provide a good signal to the organization in general and the banking business in particular. The laws that have encouraging impacts constitute a favorable environment for the banking business.

Tax laws have also impact on the banking sector. If huge amount of tax is levied on bank profit, the banking business will be disheartened. Contrariwise, a high tax shrinks the income of the public that in due course disappoints people from striving for profit. In this situation, the bank cannot be able to mobilize funds when it desires. Consequently, there should be such types of tax laws that embolden people and businesses as well. If the laws rigorously control the import/export business or depress those businesses, the whole economic accomplishments will go downhill. Accordingly, there will be an undesirable ramification on the banking business.

## **3.3 Stakeholder Analysis**

|  |  |  |  |
| --- | --- | --- | --- |
| Stakeholders | Stakeholder aspirations | Mode and frequency | |
| **Engagement activity** | **Frequency** |
| Investors | * Financial performance * Governance * Transparency and disclosure * Business expansion plans * Risk management * sustainable growth | * Annual report and AGMs * Extraordinary general meetings * Interim financial statements * Investor presentations * Press conference and releases * Announcements to CSE * One to one discussions * Corporate website * Feedback surveys | * Annually * As required * Quarterly * As required * As required * As required * As required * Continuous * As required |
| Customers | * Customer service * Customer security and privacy * Service quality * Financial inclusion and poverty alleviation * Affordability of services and convenience * Grievances handling mechanisms * Financial education and literacy | * Customer visits * Complaints received * Complaints resolution office, relationship managers * Branch network and call center * Media advertisements * Corporate website * Customer workshops | * As required * As required * As required * Continuous * As required * Continuous * As required |
| Employees | * Performance and reward management * Training and development * Career advancement opportunities * Work-life balance * Retirement benefit plans * Value driven corporate culture * diversity and inclusion * perception of a prosperous future for the bank | * Manager’s conference * Town hall meeting * Regional review meetings * Branch marketing meetings * Training programs * Intranet * Special staff events * Trade union discussions * Employees satisfactory survey | * Annually * Annually * Quarterly * Monthly * As required * Continuous * Annually * As required * As required |
| Society and environment | * Responsible financing * Commitment to community * Financial inclusion , recruitment * Microfinance and SME * Ethics and business conduct * Environmental performance * Employment opportunities | * Delivery channels * Press release, conferences and media briefings * Informal briefings and communications * Public events * Corporate website | * Continuous * As required * As required * As required * Continuous |
| Business partners | * Contractual performance * Future business opportunities * Maintain healthy relationships * Timely settlement of dues * Ease of working * Growth potential | * Supplier relationship management * On-site visits and meetings | * As required * As required |
| Government institutions and regulators | * Compliance with directives and codes * Local and overseas expansion * Microfinance and SME development * Consolidation of the financial sector | * On-site surveillance * Directive and circulars * Meetings and consultations * Press releases * Periodic returns * Submissions to policymakers * Reponses to consultation papers on directions and other regulations | * Annually * As required * As required * As required * As required * As required * As required |

# 4. Vision, Mission and Core Values

**Vision**

We aspire to be the most favored and prominent provider of Shari’ah-compliant banking and microfinance solutions in our markets

**Mission**

To deliver exceptional, cost-effective and ground-breaking financial solutions which are Shari’ah-compliant in an ethical and responsible manner driven by trailblazing technology for the betterment of both internal and external stakeholders.

**Core Values**

Our core values are the far-reaching set of guiding principles that navigate the decisions and actions that Tsedey Bank staff will be taking as they perform their everyday duties. These are:

**Core Values –T-S-E-D-E-Y**

**T-Trust and Mutual Respect**

We strive to cultivate a culture of collaboration both internally and with our stakeholders to achieve results. We endeavor to allow staff to be empowered to assume responsibilities and bring forth ideas and concerns. We also encourage a culture of confidentiality and ensure our actions are consistent with our undertakings. This is a paramount for our credibility

**S- Sustainability and Inclusivity**

We value the diversity in one another and believe in full and inclusive participation by all. Every staff has the opportunity and responsibility to contribute their talents, skills and resources to the work we do. Our work is centered on our mission.

**E-Excellency in Innovation and result oriented**

We are committed to cultivating improvement in the quality of our performance. We constantly strive to redefine the standards of excellence in what we do. We encourage creativity and the development of new ideas and processes. We seek to engage in ongoing learning, evaluation by others and ourselves.

**D-Diversity and Neutrality**

We work for people on the basis of need regardless of ethnicity, religion or political affiliation.

**E-Ethical, Professionalism and Team Spirit**

We shall exercise professionalism in conducting our business to achieve excellence. We uphold professional standards and personally commit to continuous improvement. We take pride in producing high quality work and to be effective and efficient in our service delivery to our stakeholders and consumers. We believe that by cooperating, team achieve what individuals cannot. We encourage and recognize the shared achievements from collaborations, with each individual making their best contributions.

**Y-Yes, we can prosper!**

Tsedey believe as being open and willing to say YES to our goals, dreams and visions!!!

# 5. Shari’ah Advisory Board: Structure, Roles and Provisions

## **5.1 Introduction**

The Board shall be called: (the Shari’ah Advisory Board of the Tsedey Bank). For purposes of this part, it shall be referred to hereinafter as the (Shari’ah Board)

The Shari’ah Board aims to verify compliance with the provisions of the virtuous Islamic Shari’ah to all the transactions referred to it from the Bank, and to provide advice and guidance thereto in order to achieve the purposes of the precepts of Shari’ah law.

## **5.2 Composition**

**a. Requirements**

1. Shari’ah Board members shall be selected from the body of clerics and scholars acclaimed for their in-depth knowledge of Shari’ah, integrity, familiarity and command of jurisprudence of transactions and interest in investment banking business.
2. The Shari’ah Board shall be formed by a decision of the Board of Directors.
3. The Shari’ah Board shall enjoy the status of an independent body in its particular area of competence from all departments of the Bank, and shall technically and administratively report to the CEO of the Bank.

**b. Members**

i. The Shari’ah Board shall consist of a maximum of (5) members and a minimum of three (3) members including the chairman.

2.2.2 Membership in the Shari’ah Board shall terminate in one of the following cases:

* Completion of the term in office of the Shari’ah Board.
* Resignation, disability or death of a Board member.
* By a decision of the Board of Directors.
* Absence from three consecutive meetings without a legitimate excuse.

2.2.3 The Board may nominate one or more members to a maximum of four members. This nomination shall be submitted to the Governing Council for consideration of the adoption of its membership.

2.2.4 If the position of a member of the Board becomes vacant, the members of the Board shall nominate a replacement. The nomination shall be presented at the first meeting of the Board of Directors to consider the adoption of its membership.

**c. Chairman and Secretary**

2.3.1 The Chairman of the Board will be:

* The Shari’ah Board shall select one of its members as chairman in its first meeting.

2.3.2 The Vice Chairman of the Board will be:

* The chairman shall select one of the Board members as the Vice Chairman of the Board who shall take over the duties of the Chairman during his absence. In case the members are four.

2.3.3 The Secretariat of the Board will be:

* Recommended by the CEO
* Approved by the Sharia Board, who shall be entrusted with the following functions and tasks:

1. Prepare agenda for activities and meetings of the Shari’ah Board.
2. Provide members with the agenda of meetings, relevant studies and documents and the like within a deadline of two weeks prior to the stated date of the meeting;
3. Prepare and follow up minutes of meetings for ratification by the Shari’ah Board;
4. Receive all questions, inquiries and correspondence from the Bank to be presented to the Shari’ah Board.
5. Supervision and follow-up of the tasks of Sharia Control and implementation plans.

## **5.3 Roles and Responsibilities**

**a. Shari’ah Board Responsibilities**

* 1. Provide the Islamic Shari’ah opinion on transactions submitted to the Board with subsequent contracts, agreements, forms and the like and issue legal decisions thereto based on the precepts of Shari’ah.
  2. Verify the Bank's commitment to the decisions and legal opinions (Fatwas) of the Shari’ah Board and ensure their proper implementation.
  3. Provide advice and guidance to the Bank with respect to inquiries submitted to the Shari’ah Board regarding matters of Shari’ah legitimacy.
  4. Receive comments and problematic issues related to aspects of legitimacy from Shari’ah standpoint within and outside the Bank, and respond to them as it deems appropriate.
  5. Take decisions on Shari’ah legitimate performance reports received by the Shari’ah Board from competent bodies.
  6. Prepare reports on the activities of the Shari’ah Board in the Bank and the results reached for submission to the Board of Directors.

**b. Shari’ah Control Unit**

A Shari’ah control Unit whose members are nominated by the CEO and approved by the Board, and administratively administrated to the Shari’ah Board Secretariat, the Shari’ah control Unit shall be entrusted with the following functions and tasks:

* 1. Conduct field supervisory visits to the branches and points of sale to verify that their operations are carried out in conformity with the decisions of the Shari’ah Board.
  2. Educate and train the staff to accommodate the required procedures for products and ensure that they comply with the decisions of the Shari’ah Board.
  3. Submit reports of periodic quarterly and annual supervisory visits to the Bank's management and the Shari’ah Board.
  4. Attend meetings of the Shari’ah Board and the Preparatory Board and follow up the implementation of decisions and tasks issued by the Shari’ah Board.
  5. Keep record of all the decisions and minutes of meetings of the Shari’ah Board.
  6. Develop plans and procedures for the Shari’ah control and audit function.

## **5.4. Meeting Frequency**

1. The Secretary of the Board shall convene the meetings of the Board, manage the sessions, follow up the work of the Commission and report its decisions and recommendations to the Bank's departments.
2. The Bank's management may call for an emergency meeting of the Shari’ah Board as needed or at the request of the Chief Executive Officer of the Bank or his designated representative, at the request of the Preparatory Board of the Shari’ah Board or at the request of two members of the Board. Call for a meeting shall be made within a deadline of two weeks from the date of the request.
3. The meeting of the Board shall be attended by a majority of its members. The Board shall issue its decisions by a majority of those present. In case of an equality of votes, the Chairman shall have a second or casting vote. The other opinion holder may record his opinion and justifications in the minutes of the meeting.
4. The Board may invite a non-member to observe an interest in his or her presence but not to vote
5. The Board shall adopt the dates of its scheduled meetings annually and submitted to it by the Secretary of the Board, with an average of six meetings per year
6. All documents to be submitted to the Board shall be sent at least two weeks prior to the meeting.

## **5.5 Term**

The duration of the membership of the Board is one year renewable automatically.

## **5.6 Reporting Provisions**

1. The Board shall report to the Board of Directors and make available its minutes of meetings to the Board of Directors. The Chairman of the Board shall brief the Board on any significant matters arising

2. Shari’ah control reports are submitted quarterly to the Shari’ah Board.

3. The Board shall issue its annual report of the Shari’ah compliance

## 5.7 Financial provisions

At the beginning of the term of the Shari’ah Board, the Bank shall determine, by a decision of Nomination & Remuneration Board, the remuneration of the members of the Board shall be notified to them.

## **5.8 General Provisions:**

1. Research, responses or decisions of the Shari’ah Board shall be proprietary rights of the Bank and shall be strictly used in serving the stated objectives of the Bank.
2. All deliberations in the meetings of the Board are confidential and may not be used outside the scope of the Bank's business.
3. No member of the Shari’ah Board shall be entitled to pronounce a decision, or publish a research work under his title as a member of the Bank's Shari’ah Board.
4. This Charter shall replace the previous Regulations and shall come into effect as of the date of its approval by the Board of Directors.

# Strategic Focus Area, Desired Outcome, Strategies and Key Performance Indicators

## **Key Focus Area 1: Shari’ah Advisory Board (SAB) of Tsedey Bank**

TSB has operational and institutional independence. Its Shari’ah Advisory Board is responsible for providing objective and sound advice to the Bank to ensure that its aims and operations, business, affairs and activities are in compliance with Shari’ah and it is their responsibility to form an independent opinion on the conduct and businesses of the Bank without undue influence from any party.

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| **Active Board of Directors** |
| **Strategic Imperative:**  Eﬀective Shari’ah governance is in place and practical |
| **Desired Outcome:**  An eﬀective SAB that displays strong leadership, where members are informed and engaged |
| **Strategic Initiatives:**   * + Engagement of the SAB in the strategic planning process   + Board members provide strategic directions to TSB   + Promote good Shari’ah governance |
| **Strategies:**   * A robust environment is in place to promote Shari’ah good governance * An economy that is ﬁnancially sound and where consumers are protected * TSB as a Bank and is strengthened and enabled to fulﬁl its stated mandate |
| **Key Performance Indicators:**   * + opportunity held and created for SAB and Management to review the Shari’ah governance and agreement on the way forward   + Periodic SAB meetings are held   + Regular reporting to the Board, including aspects which the Board has delegated to staﬀ   + Review of existing IFB contracts agreements, policies for various functions for continuing relevance/usefulness   + Safeguard recommendations are implemented   + Shari’ah governance evaluation is done, with results discussed and gaps addressed   + SAB meet periodically and execute in accordance with their charters |

## **Key Focus Area 2: Financial inclusion and poverty alleviation through IFB operation**

The role is to develop and implement strategies to enhance financial inclusion including financial literacy, advance the agenda to modernize the financial service, alleviate poverty and ensure the provision of sustainable interest-free financial services

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| --- | --- | --- | --- |
| **1. Innovative and Proactive** | **2. Enhance Visibility and Awareness Internally and externally** | **3. Enhance Capacity of Staff** | **4. Increase Efficiency in Work Processes and Output Quality of staff** |
| **Strategic Imperative:**  To proactively attend to issues that are affecting financial consumers and be more innovative to enhance financial inclusion and poverty alleviation | **Strategic Imperative:**  To become more visible and provide more awareness of initiatives being undertaken | **Strategic Imperative:**  To enhance technical capacity of staff allowing them to contribute towards achieving the objective | **Strategic Imperative:**  To increase the efficiency and quality of output |
| **Desired outcome**  Issues affecting financial consumers are proactively identified and strategies put in place to address such gaps  Financial inclusion strategies such as coordinate efforts with the main stakeholders, define responsibilities among them, and state a clear planning of resources etc. are proactively identified and policy proposals made by Tsedey Bank rather than being reactive. | **Desired outcome**  Staffs within TSB are aligned with our vision of enhancing financial inclusion and poverty alleviation in Ethiopia. | **Desired outcome**  Staff becomes experts in drafting and implementing financial inclusion strategies leading to the attainment of financial inclusion and poverty alleviation objectives. | **Desired outcome**  Enhanced level of output, tasks delivered in a timely manner and of the highest quality |
| **Strategic Initiatives**   * Enhance staff understanding and analytical skills for financial inclusion and poverty alleviation issues * Proactive identification and handling of IFB consumer related issues * Ensure that framework exists for innovation and in a flexible but controlled environment. * Be at the forefront to encourage entrepreneurship and sustainable financial services * Empower staff to propose solutions and initiatives | **Strategic Initiatives**   * Enhance understanding of financial inclusion and poverty alleviation within TSB, with the public policy makers and other relevant stakeholders * Adopt a consultative approach to projects to be undertaken by the TSB * Enhance awareness through media to improve visibility * Keep senior management and board members aware of the initiative being undertaken | **Strategic Initiatives**   * Enhance technical knowledge of staff * Remain abreast with local and international developments * Have a good knowledge and understanding of developments in the local financial sector and its relation to financial inclusion and poverty alleviation. * Exposure of staff to different function of the mentioned divisions * Provide incentive for staff to become experts in their fields | **Strategic Initiatives**   * Enhance capacity of staff to be more resourceful and efficient in the delivery of tasks * Improve work processes to become more efficient * Automation of tasks * Well defined work processes * Better work environment for staff to deliver |
| **Strategies:**   * Enhance engagement with financial consumers, policy-makers and other stakeholders to proactively identify their needs and issues and find solutions to address such where feasible * Engage in surveys to understand financial sector related issues and base policies on anecdotal evidence * Seek assistance from international firms or consultants that are experienced in the necessary fields to provide guidance in strategic decision that TSB embarks on * Encourage initiatives for innovative financial infrastructures to operate in Ethiopia * Remind policymakers to support the provision of innovative IFB products/services * Build capacity of staff through attachments with jurisdictions that have innovative products/ services, as well as the regulatory/enabling framework * Encourage and reward innovation and proactiveness in performing appraisals of staff | **Strategies:**   * Develop and implement a plan for awareness on financial inclusion and poverty alleviation related topics * Develop and implement a plan for external awareness on financial inclusion and poverty alleviation related topics outside TSB * Through the financial education strategy, incorporate programs that will enhance the image of TSB with concerned stakeholders to drive support of the initiatives | **Strategies:**   * General capacity building program on financial education and poverty alleviation * Capacity building program to ensure understanding of product and service being delivered * Expose staff to professional qualifications relating of financial inclusion and poverty alleviation * Attachments with regulatory authorities * Remain abreast with international developments relating to financial inclusion and poverty alleviation through continued engagement with institutions * Multi-skilled employees having ability to adequately develop innovative products to be delivered to customers * Collaboration /teamwork are encouraged allowing staff to share knowledge/collectively make proposals | **Strategies:**   * Make use workflow management systems to monitor ,plan, automate and assign tasks * Capacity building to ensure understanding of products and service being delivered through on the job training, attachments and other trainings locally and abroad * Integrate similar work streams to ensure greater efficiency/output while minimizing duplication of efforts/resources * Usage of existing technologies/ system to support the work of the division * Acquire a complaints handling management system * Reassess work assignment to insure that there is no duplication of efforts * Introduce manuals that will allow for standardized internal process * Effective change management for staff to adapt the new system and work process * Conducts assessment to streamline work process/improve workflow by assessing the business operations, looking for ways to automat/remove steps |
| **Key performance indicators:**   * Number of regular evaluations understand of the market on monthly basis * % of issue identified that are proactivity dealt with * Number of surveys conducted per year to understand customer satisfaction and experience * % of staff exposed to attachments both at head office and branch level * Timeframe for the completion of financial inclusion and poverty alleviation results | **Key performance indicators**   * % of the initiatives taken by the division go through the process of consultation * Number of days to publish customer guides and alerts * Number of national events that incorporate financial inclusion initiatives * Number of seminars and educational event which provide general public information on financial services * % of board meetings which contain the division’s initiative on IFB operations | **Key performance indicators**   * % of staff who have a certified training in financial inclusion and poverty alleviation related to IFB * %of staff exposed to attachments related to IFB services * Staff exposed to capacity building initiatives * % of staff rotated amongst the different sections of the IFB operation | Key performance indicators   * % of tasks completed within deadlines * % of complaints satisfactorily closed within the institutions timeframe * % of task completed according to internal procedures |

## **Key Focus Area 3: Strengthening the capacity of technical services**

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| **1.IT Governance**  ***Strategy imperative***  To ensure that the appropriate IT priorities are established and communicated through a transparent governance process in order to develop and maintain an IT environment that enable TSB to achieve its goals | **2.IT infrastructure**  ***Strategy* *imperative*;**  To ensure that TBS has a secure and robust ICT infrastructure that will support and address stakeholder needs | **3 information security**  ***Strategy* *imperative***  To ensure that TSB information and ICT assets are effectively secured | 4**. technological innovation**  ***Strategy imperative***  Improve productivity and lower cost with the adoption of new technology | **5. IT service delivery**  ***Strategic imperative***  Enhance service delivery through simplified communication and improved stakeholder satisfaction |
| **Desired outcome:**  Improve IT governance management process and management maturity | **Desired outcome:**  Having a modernized, secure, and scalable IT infrastructure that can help TBS achieve its objectives | **Desired outcome:**   * Improve the security and privacy posture of data and information systems for TSB | **Desired outcome:**  Achieving operational efficiency though automated systems | **Desired outcome:**  Reliable ,efficient, robust, secure and fit for purpose IT systems are implemented ,considering the needs of stakeholders |
| **Strategy initiatives**   * Establish an IT governance framework , related policy and evaluation plan * Adopt and implement an Enterprise Architecture(EA) framework * Build, develop and retain a talented and diverse IT workforce * Develop an effective communication plan that promotes transparency and encourage a change acceptance culture | **Strategic initiatives:**   * Develop a modernized and secure IT infrastructure to TSB voice ,network, data, and video capabilities * Provide secure Mobile and remote access to appropriate stakeholder * Enable Mobile device to be managed effectively using the appropriate infrastructure/tools * Invest in resources with cyber defense to mitigate risks and strengthen the cyber security posture | **Strategy initiatives**   * Implementation of information security management * Effectively prevent ,monitor and respond to threats and vulnerabilities * Implement solutions focusing on layered deference to reduce exposure to cyber threats * Improve detection of ,response to and reporting of information security incidents across TSB | **Strategy initiatives**   * Promote an enterprise approach to information sharing that fosters secession-making through the use of analytic technology * Modernized and service to leverage web application programming interfaces (APLs) and optimize for Mobile use * Identify business process innovation and deliver innovative business solution ;not simply IT solutions | **Strategic initiatives**   * Ensure efficient/effective performance of core business application and service * Improve relationships /foster communication in simple terms between users/service provides to improve awareness about IT services , requirements, capabilities and service levels * Improve IT services/ their development through engagement with users/other service providers * Improve on the service delivery process to make efficient use of process to make efficient use of available team resources |
| **Strategies:**   * Review and refine IT policy/procedures to eliminate gaps and overlaps * Projects are fully evaluated and assessed for impact on TSB and alignment with TSB goals * Prioritize proposed IT enterprise system projects and identify where resources should be allocated | **Strategies:**   * Upgrade the current network infrastructure * Use latest technology to limit security risk * Apply the best technology for high availability and redundancy * Networks are properly segmented * Provide reliable wired and wireless network connectivity | **Strategies**:   * Centralized identity and access management solutions * Data leakage prevention initiatives to reduce the likelihood of data loss/disclosure of confidential information assets * Perform regular penetration testing on critical systems * Continuous awareness session and information sharing including cyber threat information to staff * Collaborate with relevant stakeholders to detect, identify, respond to and recover from the impact of known and potential threats * Evaluate the effectiveness of countermeasures and address residual risks * Prioritize and label information assets based on criticality and functions * Monitor all information assets at rest and in transit | **Strategies:**   * Create analytic technology tools * Adopt new information technologies to improve business and IT operations * Provide management with analytics incorporating performance indicators | **Strategies:**   * Strengthen partnerships with business units * Improve communications with stakeholders * Improve response time * Minimize downtime of services * Monthly meeting with business units |
| **Key performance indictors**   * Number of IT projects completed successfully, on time and within budget * Improvement in maturity level for IT governance * Number of IT policies developed and reviewed | **Key performance indictors**   * Revamped TSB Network infrastructure * Number of network downtime * Number of network services unavailable | **Key performance indictors**   * Number of threats detected and prevented * Improvement of staff knowledge on cyber security * Number of services disrupted as a result of cyber attack | **Key performance indictors**   * Number of in-house developed applications * Number of new applications introduced * Ease of availing to information for decision making | **Key Performance indictors**   * Number of customer complaints * Number of service disruptions due to IT service-related incidents(reliability) * Number of incidents from IT changes |

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## **Key Focus Area 4: Maximize the capacity of Human Resources**

The division is responsible for maximizing capability and performance of staff while guiding and supporting them to evolve knowledge into applied skills.

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| --- | --- | --- | --- |
| **HR Transformation** | **2. Talent Acquisition** | **3. Succession management and development** | **Enhanced workplace** |
| **Strategic imperative:**  To enhance the effectiveness of the HR function | **Strategic imperative:**  To attract and recruit high caliber professionals and provide them with relevant capacity for effective service delivery | **Strategic imperative:**  High performing talent pool | **Strategic imperative:**  To foster a workplace culture of continuous development, improved performance, innovation and exemplary behavior |
| **Desired Outcome:**  HR is more strategic, adding value and is guiding management on HR related matters | **Desired Outcome:**  HR is proactively planning for placement of the right people in the right job at the right time | **Desired Outcome:**  HR has in place a pool of talent supported by effective leadership | **Desired Outcome:**  An engaged workforce where staff feel valued and empowered to be innovative and deliver on mandate |
| **Strategic initiatives:**   * Streamline HR processes to facilitate delivery of HR strategy * Develop HR competencies and implement strategic HR * Implement HR technology solution * Review policies to provide effective guidance * Deliver excellent HR services through shared services, business partnering, employment relations etc. | **Strategic initiatives:**   * Develop workforce planning process to forecast and plan HR needs * Develop HR planning approach that emphasizes efficiency * Promote collaboration for more synergies within and across divisions * Create branding to attract potential candidates * Design an effective on boarding process * Establish career pathways and progression opportunities | **Strategic initiatives:**   * Develop a talent management framework * Identify core competencies for recruitment/performance management * Create learning/development opportunities to increase capabilities * Have clear succession planning and secondment opportunities for exposures abroad * Develop management programs, provide coaching/mentoring skills * Describe career development plans * Establish good behaviors and competencies to enable transparency and accountability to support positive performance management * Empower staff and facilitate their ongoing development | **Strategic initiatives:**   * Find innovative ways to improve workforce culture/help position TSB as an employer of choice * Review employee benefits to remain competitive/retain talent * Deliver strategies for improving employee engagement including relevant wellbeing activates * Create a culture of innovation where new thinking/ways of working are encouraged * Create a working environment that stimulates team spirits, passion, engagement and achievement |
| **Strategies:**   * Create dashboards with provision of key HR performance metrics * Provide Management with analytics incorporating performance indicators * Enable the development of HR staff by providing development/solutions that are aligned to the HR strategy * Provide excellent HR services * Drive and facilitate change * Measure/evaluate initiatives | **Strategies:**   * Review/streamline recruitment process to ensure a proactive recruitment/selection process * Network with academic institutions to create awareness * Improve relationship with stakeholders * Implement an effective induction program * Build strong partnering relationship across division | **Strategies:**   * Encourage/motivate employees to maintain high work standards * Enable managers to have informed/effective performance management conversations * Undertake an effective Training Needs Analysis(TNA) * Explore ways to retain staff * Evaluate training effectiveness * Undertake skills audit * Undertake talent reviews * Provide opportunities for specialized training | **Strategies:**   * Clearly communicate the rewards offered by TSB so that prospective/current employees are aware of the elements which comprise the reward package * Engage with/listen to staff and seek feedback * Empower staff to take decisions * Appreciate work well done/celebrate success * Work together in a way that creates a positive work environment * Promote work-life balance * Follow up on concerns from stay/exit interviews * Conduct staff satisfaction surveys * Promote effective communication/participative decision making * Support organizational culture |
| **Key Performance Indicators:**   * Progress of HR portal * Accuracy level of HR database * HR team attend relevant training and share knowledge * Number of finalized policies | **Key Performance Indicators:**   * Average lead time to recruit employees * Workforce plan * Participate in career talks/more engagement with stakeholders * Individual development plans * Improved performance standards, and increase in team work both within and across divisions | **Key Performance Indicators:**   * Talent management framework * Competency framework * % of HR employees execute individual plans * Secondment of employees * Number of performance feedback sessions conducted per year * % of employees that participate in executive development program * % change in the rate of productivity before and after training | **Key Performance Indicators:**   * Rate of participation * Outcome from employees survey * Feedback from stay and exit interviews * % of employees that leave TSB in given timeframe |

## **Key Focus Area 5: Provide Excellent Project Administration and Support Services**

The division is tasked with providing general administrative, project management and support services to TSB, ensuring that these activities run smoothly

|  |  |  |  |
| --- | --- | --- | --- |
| **1. Proactive and customer focus**  **Strategic imperative:**  To proactively attend to customer needs with the aim of achieving a high degree of customer satisfaction | **2. Reliable Physical Infrastructures**  **Strategic imperative:**  To practice sound maintenance practices and active monitoring of the critical components of buildings so as to avoid operational failures | **3. Safe and Secure Workplace**  **Strategic imperative:**  To maintain a trustworthy security system and resources to ensure that health and safety of staff and other occupants are not compromised | **4. Efficient Multi-Sites operations**  **Strategic imperative:**  Reliable and efficient management of multi-sites operations |
| **Desired Outcome:**  Tasks completion to be consistent with deliverable schedules, and high customer satisfaction for services delivered | **Desired Outcome:**  To maintain reliable buildings infrastructures with the aim of achieving zero avoidable disruption to the IFB operations of TSB which may arise as a result of failures of components of buildings | **Desired Outcome:**  A functional combination of education and technologies which will ensure that the health, safety and security of TBS and staff/other occupants are not compromised | **Desired Outcome:**  Be respectful and maintain well-coordinated services for efficient management of multi-sites operations |
| **Strategic Initiatives:**   * Raise the operational standards through adjustments of service related processes, quality staff and use of technology * Implement a Quality Management System (QMS) conducive with the operations of the division which involves repetitive tasks * Staff development with a focus on service delivery with the aim of improving customer satisfaction * Encourage feedback and use such information to gauge/improve service level * Encourage staff interaction with all divisions/unit so as to better understand their needs with the aim of improving service delivery | **Strategic Initiatives:**   * Maintain reliability of equipment through sound maintenance and planned replacement of essential components of building equipment * Ability to perform early intervention through monitoring faults detection and proactive interventions * Preservation of aesthetic values of buildings * Constant availability of a level of reserve utilities * Maintain 24/7 support for essential services | **Strategic Initiatives:**   * Sensitization of staff on pertinent security, and health and safety issues * Preparedness of the team to respond to security, health and safety incidents * Clear protocols to be applied by the team in the event of a security, health or safety incident * Maintain all equipment related to security, health and safety in sound conditions * Collaborate with entities responsible for security, health and safety matters for mutual benefits * Create synergy in teams to efficiently solve problems relating to security, health and safety | **Strategic Initiatives:**   * Devise a communication strategy for the division which contributes to successful management of multi-sites operations * Make available adequate office space and modern facilities to meet the needs of TSB * Make sure of key advantages of multi-sites to ensure that operational costs are sustainable * Effective change management for staff to smoothly adapt to the new operating environment * Devise a revenue strategy that promotes financial sustainability for the multi-sites operations |
| **Strategies:**   * Identify service quality gaps * Review internal processes to incorporate industry best practices and appropriate technologies where necessary * Review the divisional structure to meet the new challenges/streamline operations * Provide staff with suitable training/development opportunities. * Put in place an electronic platform for recording, assigning, and monitoring of requests received/tasks performed * Create a suitable platform for receiving and processing complaints/feedback towards services provided by the division * Perform regular customer satisfaction surveys and use results to improve service level * Managers/supervisors to drive change management * Encourage/recognize staff initiatives/proactive actions in the performance management process | **Strategies:**   * Undertake maintenance and repairs in accordance with best practice * Application of modern building management system (BMS)to regulate/monitor building infrastructures * Upgrade existing infrastructures required * Plan/perform replacement of critical heavy equipment in accordance with their useful lives * Contacting arrangements to rectify faults through service providers * Staff development in understanding sound maintenance principles and monitoring of out sourced works/services * Put in place workable systems which ensure staff/contractors provide 24/7 support * Energy saving and environmental friendly initiatives to be considered in building-related projects | **Strategies:**   * Perform regular health and safety checks for all the important aspects of the work environment * Maintain quality assurance for the building’s safety components * Remain compliant with the country’s health and safety requirement * A functional health and safety committee is in place * Conduct effective awareness campaigns * Multi-skilled employees are able to adequately respond to security threats * Keep abreast with development in security and health and safety matters in the country/region and provide proactive responses in addressing these risks * Capacity building of the team responsible for security, health and safety * Collaboration (e. g staff responsible for building, cleaning etc.) to collectively resolve security, health and safety issues. | **Strategies:**   * Maintain constant links between the building sites through effective communication * Replicating existing best practice * Identify the needs associated with the management of multi-sites operations and inject resources/adjustments in processes to fill the gaps * Apply workflow processes that promote a collaborative environment across the sites * Capacity building to ensure that new/changes in work processes/tools achieve the desire outcome * Cost effectiveness through sharing of resources between the sites * Usage of the facilities to their full potential to ensure maximum benefits are derived including a revenue base to support operation costs |
| **Key performance indicators:**   * Number of policies and procedures reviewed/implemented * Conduct of annual customer satisfaction survey * Customer satisfaction level based on reports, complaint level and responses from staff surveys | **Key performance indicators:**   * Extent of maintenance/repair activities performed * Progress on upgrade of the BMS system * Number of avoidable incidents which result in operational downtime * Progress on implementation of work systems which ensure 24/7 support * Impact (cost savings) achieved on operational costs through energy savings initiatives adopted * Enhanced staff knowledge/capabilities on application of BMS system and other adopted processes | **Key performance indicators:**   * Rate of closing action points highlighted in inspection reports as per the recommended time frames * Staff trained to remain abreast with OHS roles(e.g. first aid, fire safety, OHS risk management) * Progress on achieving full compliance with the OHS standards * Activity logs of the health and safety committee * Number of evacuation drills done * Number of security awareness activities conducted to staff * Number of security drills with targeted groups of staff in relation to their risk exposures * All outsourcing arrangements for OHS related matters are current and deliverables are in accordance with the set standards | **Key performance indicators:**   * Progress on review of administration structure * Adaptation of admin workflow to cater for multi sites operations * Relevant training undertaken by admin staff * Revenue derived from rental of space * Cost savings through hosting of events internally instead of renting of external venues |

## **Key Focus Area 6: Provide Internal Independent Audit and Internal Control**

The division undertakes internal audit activities and is responsible for providing independent assurance on the effectiveness of internal controls, risk management and governance processes at TSB.

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| **1.Audit Function Transformation**  **Strategic imperative:**  To enhance the effectiveness of the audit function by focusing on high risk areas | **2. Building Image**  **Strategic imperative:**  To enhance professional relations with stakeholders | **3. Embracing Technology**  **Strategic imperative**  To incorporate an audit software to improve the efficiency and effectiveness of the division thus contributing more to protect TBS’s reputation and safeguard its assets | **4. Capacity Building**  **Strategic imperative:**  Adequately skilled and knowledgeable staff in the IT and fraud fields |
| **Desired outcome:**  More value is added on the work provided by the division as a result , external auditors can place reliance on their work | **Desired outcome:**  Improvement in the way in which the division is viewed internally | **Desired Outcome:**  Enabling the team to collaborate more effectively and to work remotely, saving costs and increasing productivity | **Desired Outcome:**  More comfort is given to Management and ARC  with regards to the effectiveness of the IT systems in place, as well as to the current controls to prevent fraud in TSB |
| **Strategic Initiatives:**   * A process that identifies the most significant internal and external risks that could impede the achievement of TSB's objectives/strategies * Collaboration with the Risk Management unit to coordinate coverage of risks * Strengthen follow-up audit * Strengthen quality assurance function | **Strategic initiatives:**   * Ensure regular and effective communication * Building an effective relationship with the audit and risk committee(ARC) * Strengthen professional relations with auditees and professional organizations | **Strategic Initiatives:**   * Improve performance/accuracy of data captured during an audit * Save time by eliminating manual methods or certain functions * Ease of use as the staff is able to retrieve the necessary information in a timely and efficient manner | **Strategic Initiatives:**   * Understand the necessary Skills to deliver on the mission statement for all areas within the audit universe * Develop a formalized training/development program for all staff levels |
| **Strategies**   * Establishing robust risk assessment and annual planning process to focus on existing and emerging high risk areas such as strategic, technology and business risks * Benchmark the current risk assessment process against other organizations of comparable size * Enhancing competence of audit staff on audit quality * Performing self-assessment in the division as part of the Quality Assurance and Improvement Program (QAIP) review | **Strategies:**   * Communicating effectively with senior management, the ARC and the auditee to receive feedback on the preparation/reporting on implementation of audit work plans * Incorporate audit recommendations in the quality of audit and risk reports * Regularly review and improve the quality of audit reports to enhance their accuracy, completeness and timeliness * More discussions with the external auditors for a better understanding on banking activities | **Strategies:**   * Liaise with core banking system providers to identify the right software for the IFB operation | **Strategies:**   * Identify internal and external training program * Develop continual learning/development program |
| **Key performance indicators:**   * Extent to which the division has delivered on key capacity building steps necessary to reach an agreed level of professional quality * Extent to which the approved audit plan is completed in the calendar year * Number of risk-based audits completed and division reports issued by the division | **Key performance indicators:**   * Number of recommendations proposed that are accepted by management * Number of recommendations implemented confirmed through follow-up audit procedures * Quality of interaction between ARC and the division | **Key performance indicators:**   * Length of audit completion * Extent to which reports are automatically generated | **Key performance indictors:**   * Staff performance after attending training * Quality of audit work performed * Level of commitment and investment by ARC into the work of the division |

## **Key Focus Area 7: Risk Management**

The unit facilitates, coordinates and advises on risk management processes, to implement enterprise risk management consist sought TSB, and continuity and build resilience through a robust business continuity business continuity management framework.

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| 1. **Risk Culture Transformation**   **Strategic imperative.**  Create and protect value for TSB through the continuous improvement of the enterprise risk management framework rooted in a supervise control environment | 1. **Business Continuity**   **Strategic Imperative**  To issuer that TSB continues to operate effectively during any distribution or incident and to recover appropriate following a crisis |
| **Desired outcome;**  Building organizational resilience for TSB only through identification of risk but also through seizing of opportunities | **Desired Outcome ;**  A matured business continuity plan and effective Disaster Recovery (DR) solutions |
| **Strategic Initiatives;**   * Adapt, improve and build on the management principle, framework and process to manage risk in an effective and consistent manner * Establish clear work programs for the committees (i.e ARC and Risk Management committee) * Introduce an integrated risk management approach, whereby key personnel coordinate effectively and efficiently with no gap in control or necessary duplication * Install a risk management culture through TSB | **Strategic initiative**   * Ensure that all staff, key personnel, divisions and unit are well aware of their individual role in their business continuously plan * Ensure that an effective DR facility is available to enable recovery of key services * Improve the effective of test plan conducted |
| **Strategies;**   * Manage risk trough appropriate risk appetite setting * Align risk management objective with business process * Embed risk management in the division/units in the identification, monitoring and reporting of risks * Provide constant communications about risk management matters * Organize continuous risk awareness sessions * Embed risk management in the performance management process of individual staff | **Strategies;**   * Train key personal as Business continuity champions with their division/unit * Yearly review of key services and develop recovery strategies for same * Crisis and incident management to recover information assets in catastrophic events * Test cover plan on yearly basis * Maintain and continuously review business continuity relevant documents |
| **Key performance Indicators’;**   * Improved performance and achievement of objectives across TSB * Integration of risk management practices in all of TSB processes * Application of risk management in all decision making * Increased clearly in the level of risk and due attention paid to negative/positive effect * Evidence of health interaction between division /unit on matter of risk * Timely dissemination of discussion and decisions take from risk committee * Enhanced knowledge amongst staff * Reduces in the number of risk event due to staff accountability towards risk management | **Key Performance Indicators;**   * Trained key personnel per division/units * Continuous improvement in DR services * Updated DR plans per divisions/unit * Number of passed DR tests |

## **Focus Area 8: Ensure the Legal Unit to be Functional**

The unit is for provide assistance to the function to ensure that they operate within the legal framework.

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| 1. **Legal unit Transformation**   **Strategic Imperative;**  To effectively address the legal needs that TSB may have | 1. **Mitigating Legal Risk**   **Strategic imperative;**  Mitigation legal risk of TSB | 1. **Legal unit support system**   **Strategic imperative**  To show more leadership on legal matters |
| **Desired Outcome;**  Legal matters are addressed effectively and in a timely manner | **Desired Outcome;**  Legal risk are identified proactively so as to better manage the risks | **Desired Outcome;**  Establishes strong relationship with stakeholders and address pertinent issues |
| **Strategic initiatives;**   * Determine what work should be insourced vs. outsourced * Align the role the unit with the needs of the divisions/units and TSB administration | **Strategic Initiatives;**   * Develop procedures to establish a systematic means by which the unit interacts with the other divisions and analysis of the relationship their work/procedures | **Strategic initiative;**   * Develop documentation * Consult on the legal reform that that are required matters affecting TSB |
| **Strategies;**   * Develop procedures as to what specific duties legal staff can add value to * Staff quality as attorneys * Timely/specified advice are provided on internal/external legal matters * Engage with office of Attorney General/ attorney on retainer periodically * Maintain an orderly filing system that is easily searchable | **Strategy;**   * Emphasize that where there are legal implication division/units seek the input of the unit * Reviewing all agreements to ensure that there are appropriate safeguards against legal risk | **Strategies ;**   * Identify entities and area for which relationship need to be built/formalized * Take stock of the laws/their relevance and advice accordingly * Contribute to the reviewing/drafting of relevant legislations |
| **Key Performance Indicators;**   * Relevant procedures are in place * Staff are qualified and capable to deliver services * Legal matters are dealt with swiftly * Document are easily located | **Key performance Indicators;**  Legal risk are identified, communicated and addressed Bank-wide | **Key Performance Induction;**   * Network of contacts with whom can consult on matters * Periodic communication to management on new legislative projects with potential effect on TSB * Legislative projects are complete * Successfully with internal legal assistance |

## **Key Focus Area 9: Strengthen Strategic Communication**

The unit is responsible for managing TSB public image, coordination with stakeholders including staff, public, local press and international media to communicate effectively.

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| --- | --- | --- |
| 1. **Internal Communication**   **Strategic Imperative:**  To ensure efficient, timely, and coordinated management of communications in TSB | 2**. Remaining Engaged**  **Strategic imperative:**  To effectively respond to communication needs of TSB | 3.**Enhanced visibility Externally**  **Strategic imperative:**  To create awareness of TSB and IFB operations |
| **Desired Outcome:**  A strong culture of communication is established in TSB | **Desired Outcome:**  The unit provide effective and timely assistance to communication need across TSB | **Desired Outcome:**  Increased understanding of the role of the TSB by stakeholders and the public in general |
| **Strategic Initiatives;**   * Implementations of new communication policy and strategy as approved by the Board * Regular interaction/exchange of information between the unit and other division/units * Ensure internal communications on key issues as identifications and agreed with Management | **Strategic Initiative**   * Align role of the unit with the needs of division/unit and senior Management * Define specific role and duties of communication officers | **Strategic Initiatives;**   * Increased engagement with stakeholders and public * Increased visibility of TSB public sphere * Empower local media house for more accurate reporting of TSB activities * Engage with public who do not follow/are not exposed to mainstream media |
| **Strategies;**   * Finalize the communication policy and strategy * Hold awareness sessions on the new communications policy and strategy * Set up communication coordination Group with representatives across all division/units * Review and update the communication portal * Have regular staff meeting/awareness sessions on IFB operations before public announcement on same * Educate staff through meeting/emails on key issues | **Strategies;**   * Develop procedures/set parameters to guide assistance provided by communication Officers to divisions/units * Communications Officers to attend communications, monetary policy. etc. | **Strategies;**   * Institutionalized frequent meeting with the business community * Incorporate awareness sessions with academic institution an TSB’s calendar of events * Participate in relevant locale event e.g job fairs, careers week, national day event, etc. * Publish educational articles in local newspapers * Hold regular training/seminars for media personnel * Build a corporate social media policy and presence for TSB |
| **Key performance Indicator**   * Regular meeting of the communication coordination group * Increased traffic and interactions coordination Group * Increased traffic and interaction of on the internet portal * Quarterly engagement of senior Management with staff on IFB operations | **Key performance Indicator**   * Work allocation document for each communication officer is approved * Communication Officers trained in the 2 core area of banking annually | **Key performance Indicators;**   * Proper guidelines and processes in place to ensure correct and timely response to request for information * Proactive disclosure of public information in accordance with the access to Information Proclamation * Increased number of coverage of TSB events by the media * Creation of TSB event by media * Monthly publication in the local newspapers and engagement targeted social media television programs, open discussion or written submission |

# Risk and Assumption

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Risk is an integral part of banking and microfinance business. When TSB provides financings, there is a risk of borrower default. Any institution that conducts cash transactions or makes investments risks the loss of those funds, the bank face risks that they must manage efficiently and effectively to be successful. If the TSB does not manage its risks well, it will likely fail to meet its social and financial objectives. When poorly managed risks begin to result in financial losses, donors, investors, tend to lose confidence in the organization and funds begin to dry up. When funds dry up, the bank quickly goes out of business. However TSB considers the following risks and risk mitigation strategies for its IFB operation.

## **Risks & Risk Mitigation Strategies of Tsedey Bank’s IFB operation**

A number of internal and external risks pose a threat to the successful implementation of this Strategy. Understanding these risks and developing risk mitigation strategies are important to ensure that the Strategy is carried out successfully. The following table highlights key anticipated risks and appropriate mitigation strategies

|  |  |  |
| --- | --- | --- |
| **Risk** | **Description** | **Mitigation Strategies** |
| **Internal Risks** | | |
| Fiscal conditions | Tight fiscal conditions could lead TSB to prioritize spending on other areas not aligned with financial inclusion goals | A funding matrix will be developed to identify financial commitments from TSB, other potential Sources, donors |
| Unexpected and changing macroeconomic conditions | Unplanned macroeconomic conditions could lead to TSB prioritizing other interventions | A contingency plan will be put in place to mitigate any negative impact(s) from macroeconomic outcomes to maintain implementation of the strategy |
| Limited human resources and capacity | Without proper staff levels and/or qualified staff, there is a risk that implementation will be slow and challenging | ● TSB will seek Board approval to ensure appropriate staffing for implementation of the strategy  ● TSB will seek commitments from partners for technical assistance, as needed |
| Shari’ah non-compliance risk | Shari’ah non-compliance risk refers to the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which TSB may suffer arising from failure to comply with the rulings of the SAB | Apply proper Shari’ah risk management function is to systematically identify, measure, monitor and control Shari’ah non-compliance risk and mitigate any potential non-compliance events. |
| Capitalization risk | The IFB vision of TSB may not ensure projected fund moblization, thereby the sustainablilty of the operation would be at risk | TSB will prepare an action plan and make all effort to ensure proper fund moblization in time. |
| Credit risk | Customers may default in their financing provided**,** delinqeuncy in IFB financing etc. | Provide staff training, strong planning, close monitoring and supervision, compulsory savings, loan size control etc. |
| **External Risks** | | |
| Lack of stakeholder engagement | ● Relevant stakeholders are not brought into the implementation process and/or lose interest for various reasons | * Clear ToRs will be developed for each working group with clear roles and responsibilities * Created a communication function that will work closely with TSB’s Public Relations office to develop appropriate communications material |
| Poor and unreliable, or lack of necessary infrastructure | * Core banking system may experience delays in implementation/payments * Limited and poor mobile and internet network coverage | * Install reliable, appropriate and effective system * Closely follow up the banking system * More accountability for timely delivery |
| Political unrest | * Unstable political situation may hamper to reach its objective in the time frame | * Contingent plan to minimize risk and smoth operation. |

**8. Growth and Financial projections**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** |
| ***Branch projections*** |  |  |  |  |  |
| Number of IFB windows | 17 | 20% | 30% | 50% | 100% |
| Number of dedicated IFB branches | 2 | 5 | 15 | 30 | 50 |
| **Number of staff** |  |  |  |  |  |
| District | 0 | 10 | 30 | 60 | 100 |
| Window | 17 | 35 | 100 | 200 | 280 |
| Head officer | 2 | 5 | 15 | 30 | 50 |
| ***Number of clients projections*** |  |  |  |  |  |
| Total number of active clients |  |  |  |  |  |
| Saving clients | 4552 | 10% growth | 20% | 30% | 40% |
| Financing clients | 859 | same as above | | | |
| ***Saving and financing projections*** |  |  |  |  |  |
| Saving mobilization | 408,952,929.48 | 10% growth | 20% | 30% | 40% |
| Net saving | 49,416,702.42 | 10% growth | 20% | 30% | 40% |
| Total financing | 75,738,031.21 | Summation of above | | | |
| **IFB product growth** |  |  |  |  |  |
| Saving products (in number) | 2 | 3 | 3 | 3 | 3 |
| Financing products (in number) | 1 | 3 | 4 | 5 | 6 |
| Micro-takaful products (in number) | 0 | 1 | 3 | 5 | 7 |
| **Financial projection** |  |  |  |  |  |
| Total revenue | 2,218,472.17 | 10% | 15% | 20% | 30% |
| Total expense | 971,117.72 | 5% | 10% | 15% | 20% |
| Net profit | 1,247,354.45 | 5% | 5% | 10% | 10% |
| PAR | 8.6% | 8% | 7.5% | 7% | 6.5% |
| Repayment Rate | 99% | 99% | 99% | 100% | 100% |
| Arrears Rate | 1% | 1% | 1% | 0 % | 0 % |