UNITED REPUBLIC OF TANZANIA

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

UNIVERSITY OF DAR ES SALAAM INVESTMENT POLICY - 2017

REVISED EDITION 2023

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LIST OF ABBREVIATIONS AND ACRONYMS

BCR	Benefit Cost Ratio
CBA	Cost-Benefit Analysis
DARUSO	Dar es Salaam University Student Organisation
DPDI	Directorate of Planning, Development and Investment
DVCs	Deputy Vice Chancellors
EIA	Environmental Impact Assessment
ICT	Information Communication Technology
IP	Investment Policy
IRR	Internal Rate of Return
M&E	Monitoring and Evaluation
NB	Net Benefits
NPV	Net Present Value
PFIC	Planning, Finance and Investment Committee
PPP	Public-Private Partnership
PV	Present Value
RAAWU	Researchers Academician and Allied Workers Union
ROI	Return on Investments
SER	Shadow Exchange Rate
ESIA	Environmental and Social Impact Assessment
TCU	Tanzania Commission for Universities
THTU	Tanzania Higher Learning Institutions Trade Union
TIC	Tanzania Investment Centre
UDSM	University of Dar es Salaam
UDSM IP	University of Dar es Salaam Investment Policy
UFPC	University Funding and Promotion Committee
VC	Vice Chancellor

FOREWORD

The main objective of the University of Dar es Salaam Investment Policy (UDSM IP) is to contribute to the attainment of the long-term investment goals and objectives of the UDSM Vision 2061 and beyond. In this regard, the revised Investment Policy (UDSM IP-2023) provides a general framework for guiding investments, with the intended outcome of achieving sustainability of resources.

There are immense opportunities for investment options in the world and these are extremely fluid and volatile. In such operating environment, investment decisions must be made prudently if returns on investments are to be safeguarded.

Tanzania has implemented successive reforms aimed at improving the domestic framework for promoting investments; thus, expanding the space for investment opportunities domestically and beyond the national borders. This Policy, thus, leverages the enabling investment environment to achieve the University's long-term investment objectives and goals. The successful implementation of this Policy depends on the support of all stakeholders.

Close monitoring of UDSM IP will be required to gauge its performance and continued fitness with UDSM long-term objectives and goals as articulated in UDSM Vision 2061. It is, therefore, expected that various UDSM organs will internalise this Policy as a guiding framework in all investment decisions and operationalise it to gain and sustain traction in their day-to-day investment dealings.

Prof. William A. L. Anangisye
Vice Chancellor
University of Dar es Salaam

CHAPTER ONE

INTRODUCTION

1.0 Background

The University of Dar es Salaam (UDSM) implemented comprehensive transformation programmes from 1990 to 2000 in line with the national reform processes. Ever since the inception of the transformation, UDSM has been expanding in terms of degree programmes and enrolment of students and this has created an immense need for financial resources to enable the fulfilment of its mandate as spelled out in the UDSM Charter (2007). Strategic Plans have been implemented successively over many years to operationalise the University Vision and Mission. In pursuit of all this, the UDSM revenue generation is of paramount importance and one area that needs further consideration is the enhancement of profitable investments. In this regard, this Investment Policy (IP) provides a general framework for guiding investments at the University of Dar es Salaam. It is long-term in nature and aims to ensure that UDSM investment decisions are sound, credible and realistic.

The general objective of the UDSM IP is to enable the relevant organs mandated to handleUDSM investments to make informed decisions that are compatible with national and international best practices. The UDSM IP also serves to ensure good governance and a high level of integrity in undertaking UDSM investments. The ultimate goal of the Policy is to contribute to the realisation of the UDSM Vision and Mission and enable UDSM to reposition strategically to achieve its long-term objectives and contribute to the national and global developmental goals.

The process of developing the reviewed IP was informed by theory, stakeholders' views and best practices at global, regional and national levels. The IP has been formulated to enable investment decisions to respond flexibly, profitably and strategically to earn high returns and also safeguard the net worth of UDSM assets at all times.

The development of this Policy took into consideration the UDSM Vision and Mission, existing investment opportunities, government policies, procedures and guidelines on public investments and investing in public landed properties, financial accountability as well as services ethics for public institutions. Key stakeholders were extensively and intensively consulted in the course of developing and reviewing the Policy and their views have to the best possible extent been incorporated into this reviewed IP.

The reviewed IP has addressed the limitations that were noted in the previous edition. One of the major improvements in this IP is the inclusion of the respective policy issues, objectives and statements in Chapter Four. This edition has also introduced the possibility of using different financing arrangements, including debt and equity, other financing models as deemed relevant such as joint ventures, public-private partnerships and any other feasible options for financing investments. A range of investment options has also been widened in the reviewed edition. The other major reformation is that the reviewed IP now guides UDSM to form a holding company and then situate all UDSM companies in one holding company for productivity and efficiency purposes. In addition, the reviewed IP has expanded the scope of its guidance to the disposal and closure stage of the investment projects. Besides the addressed main issues, the noted errors were corrected, formatting was done and the layout has been improved.

1.1 Overview of the University of Dar es Salaam

The University of Dar es Salaam (UDSM) was established on 16th June 1970 by the University of Dar es Salaam Act No. 12 of 1970. Later, the Act was repealed by the Universities Act No. 7 of 2005. The Universities Act spells out the governance structure of universities and requires universities to be established and run according to their respective Charter. It also provides for the University's principal organs, that is the Council and the Senate. Based on the mandatory requirements of the Universities Act, in 2007, the UDSM Charter was adopted (with rules thereunder). Article 3 of the Charter establishes UDSM as a body corporate with the following powers:

i) Having perpetual succession and a common seal;

ii) In its corporate name, be capable of suing and being sued;

iii) Taking, purchasing, or otherwise acquiring, holding, charging, leasing, licensing the use of, hiring, and hiring out and disposing of any movable or immovable property;

iv) Borrowing such sums as it may require for its purposes;

v) Investing in land, debenture stocks, preferential shares, units in unit trusts and other securities, but not investing in the equity of any company, other than a company in which the University has 95% or more share interest and established for the execution of any of the functions of the University, without specific approval of the Council; and

vi) Doing or performing all such other things or acts as are necessary for the proper performance of its functions and for the furtherance of the provisions of the Charter and which may lawfully be done or performed by a body corporate.

The University operates by the Charter, Rules, Regulations, Policies, Procedures, Guidelines, and Laws of the United Republic of Tanzania.

1.2 University of Dar es Salaam Vision 2061

At its Golden Jubilee in 2011, UDSM inaugurated its Vision 2061. The Vision aims to transform UDSM into "a leading Centre of Intellectual Wealth spearheading Tanzania's and Africa's Quest for Sustainable and Inclusive Development".

By 2061, UDSM shall have been transformed into a world-class, international university, whose performance is distinctive and outstanding from that of runner-up competitors. It will be underlined by the following main distinguishing characteristics:

i) Concentration of inspired faculty, staff, and students;

ii) Visionary leadership; and

iii) Significant and sustainable funding from alumni, own investments, and academic staff who readily attract research and consultancy projects.

Vision 2061 spells out the core functions of UDSM as Teaching and Learning, Research and Innovation, and Knowledge Exchange. The three pillars that sustain the Vision are: inspired staff and students, visionary leadership and sustainable resources.

The core business of the transformed UDSM is "to advance the economic, social and technological development of Tanzania and beyond through excellent teaching, research and public service using talented and motivated faculty, staff and students".

Section 4.3.3 of the UDSM Vision 2061, namely "Strategic Entrepreneurship, Innovation and Investments", spells out its alignment with the Government frameworks that signal strongly for investments in the University's teaching and research and delivering economic, social and environmental benefits to Tanzanians.

1.3 Scope of the Policy

This policy covers inward-bound investments as well as UDSM investment undertakings in the country and beyond. It applies to all UDSM units in terms of assessment of the viability of their decisions to invest in any portfolio at all times, financing, governance, risk management, as well as monitoring and evaluation of outcomes.

The Policy shall guide all investment processes in the project cycle, including scoping, proposal stage, approval, processing, financing management of investment post audit and closure of investments. In this regard, the UDSM IP is a key reference material in the implementation of investment decisions at the University.

CHAPTER TWO

SITUATIONAL ANALYSIS

2.0 Performance of the Current Investment Policy

Financial provisions of the University of Dar es Salaam (University of Dar es Salaam Rules 2007, Rule 38) vest the management of the University assets and investment decisions in the Council; the Rule states "The Council shall manage all the assets and properties of the University, in such manner and for such purposes as in the opinion of the Council would promote the best interests of the University". These powers have been made explicit and their operationalisation is guided by the IP. It is a unifying general policy for guiding investments by various UDSM units and companies. The units are supposed to make investment decisions based on the IP. It provides a hedge against the risk of UDSM allocating resources to sub-optimal investments.

2.1 Stakeholders Consultations

Consultations with stakeholders revealed the need for the UDSM IP. Key considerations that were proposed by the stakeholders for incorporation in the IP can be categorised into four clusters as presented below:

2.1.1 Governance and Management

i) Any investment should take into account the University's Vision and Mission and its core functions;
ii) The institutional framework for managing the UDSM investments from higher administrative levels to departmental/unit levels should be spelt out;

iii) UDSM needs to establish a "holding company" to manage all businesses and assure them autonomy;
iv) The spinoff companies should be appropriate for enterprises' growth and market listing in the future;
v) Establishing a UDSM Investment Advisory Committee which is technical and can advise on the viability of prospective investments regularly; and
vi) Monitoring and evaluation of the investment performance across the University units should be enforced.

2.1.2 Efficiency and Effectiveness

i) Effectiveness and efficient utilisation of the existing resources at the University should be prioritised;
ii) Management of UDSM investments should be done by professionals with qualifications and practical experience;
iii) Businesses development and promotion activities of UDSM investments should be done effectively; and
iv) Disposal of assets should be done timely and according to the guidelines and procedures of disposal of public assets to at least recover the salvage value.

2.1.3 Financing Arrangements

i) Raising capital from both stock and debt markets to operate the UDSM businesses commercially;
ii) Using different investment models as deemed relevant for the respective investments, including Public-Private Partnership (PPP); and
iii) Consideration should be made of equitable and inclusive development by promoting joint ventures; Public-Private Partnerships and other feasible forms for undertaking investments at UDSM.

2.1.4 Responsible Investing

i) Consideration should be given to promoting environmental sustainability;

ii) Ethical issues and transparency about resources invested and incomes generated should be emphasised;

iii) Mainstreaming of cross-cutting issues, including gender and ICT when making investment decisions should be ensured; and

iv) Investment in both human and physical capital needs to be emphasised.

2.2 Available Investment Opportunities

UDSM is endowed with several opportunities, in both soft and hard forms. These opportunities span the horizons of economic considerations – the short-run, medium-term and long-term. Short-run investments mature in three years. Such opportunities include dealings in currencies and debt securities; refurbishments and expansion of existing facilities; provision of conference facilities; upgrading of existing facilities; and scaling up current knowledge-based services (teaching, research and public services delivery). In the medium-term (four to six years), typical investments involve major construction works such as expanding teaching and learning infrastructure. Long-term investments (beyond six years) would typically include higher level training of staff (for example PhD level and beyond) and phased projects such as constructing and opening new campuses outside the existing facilities.

Investment opportunities available at present include but are not limited to the following:

i) Knowledge and professional skills-based investments: These are investments that provide an opportunity to harness the large number of diverse professional academic staff members. Training and capacity building of faculty members are typically a means of enhancing investments through the generation of innovative ideas to deliver the core activities of UDSM and thus produce additional financial sources.

ii) Land-based investments: Typical projects in this category include all types of businesses that promote utilisation of the available prime and suitable land for commercial developments in a manner that will support but not interfere with the core mission of the University, namely; delivery of academic, research and public services. Such investments should comply with the UDSM IP and UDSM Land Use Policy. Available opportunities for land-based investments in Dar es Salaam include land that spans the area adjacent to Sam Nujoma road; Hananasif plot; Silver Sands Hotel and its surroundings; Kunduchi campus and surroundings; and outside Dar es Salaam land and landed properties in Mbeya, Dodoma, Tabora, Zanzibar, Lindi, Kagera, Tanga and Geita regions.

iii) Existing UDSM facilities that are available for upgrading and expansion through capital injection.

iv) Raising capacity utilisation rates of existing facilities to address the seasonality of use: the typical off-teaching season to be promoted should include conversion of some facilities to conference accommodation and related services.

v) Any other investment avenues and opportunities, as they may unfold, that are in line with the objectives of this Policy.

2.3 Guiding Principles on Investments

Guiding principles are usually drawn up by an institution as banners for achieving implementation effectiveness and efficiency. Common principles include the ones mentioned in this section. At all times, the unit responsible for investment shall ensure that these guiding principles are adhered to, that:

i) Returns are maximised and risks are minimised to sustain the investment portfolio;
ii) Returns on investments are realised;
iii) The asset class is diversified, thus building a diversified portfolio to reduce risk;
iv) The portfolio is rebalanced whenever the need arises to reduce risk and increase returns; and
v) Compliance with national and international policy and legal frameworks.

2.4 Challenges to Investment Decisions

In broad terms, challenges to investments relate to predictability of the business environment including the incentive scheme and risk management. At the project/micro level, typical challenges include:

i) Inability to secure adequate funds for investing;
ii) Low predictability of cash inflows to support various phases of the projects;
iii) Conflicts and contradictions between investment types;
iv) Bad sequencing of investment undertakings;
v) Uncoordinated dialogue with prospective investors;

vi) Divergence of committed resources on investments from the Institution's core functions;
vii) Investing in projects which are harmful to the natural environment and its sustainability;
viii) Bad governance (administrative and financial mismanagement, unethical practices, lack of transparency, loss of integrity, mismanagement of conflict of interest, non-disclosure of conflicts of interest, among others); and
ix) Economic interests being compromised by the interests of groups or individuals (political economy issues/capture).

2.5 Guiding Criteria for Investment

The set of parameters that will be used to inform investment decisions shall be but not limited to the following:

i) **Safety:** Investments should not be harmed in any avoidable way, thus guaranteeing the security of the University's resources.

ii) **Liquidity:** At all times, UDSM shall ensure the availability of cash that is quickly accessible for investment and meeting day-to-day cash obligations to support operations, at present and in the future, including debt servicing.

iii) **Profitability/Yield:** Resources shall be committed to only high-yield investments indicated either by well-researched market opportunities and/or feasibility studies. UDSM shall invest in assets of short-, medium- and long-term nature that yield returns higher than or equal to the returns on government papers. Any investment in non-government instruments shall have a return that is over and above the return on government financial instruments at the time of investing, depending on the maturity dates. Also, the yield rates should be above the inflation rate for purposes of protecting the real value of invested monies. This will ensure positive returns and income that will complement other sources of income used to meet the financial needs for the key functions of the University.

iv) **Diversification of Portfolio:** The University shall diversify its investments into various asset classes to spread risk as required by the Asset Allocation Policy.

v) **Feasibility of the Project to Attract Financing and Financial Needs:** An investment proposal shall be scrutinised on its ability to attract funding and the financing requirements should be within reach concerning the ability of the University to raise such finances.

vi) **Growth Potential:** The investment venture should be able to meet the requirements of a going concern. It should also be able to grow and contribute to the overall growth of assets of the University and the nation at large.

vii) **Investment's Fit:** The proposed venture should be in line with overall UDSM Vision Goals and Objectives.

viii) **Applicable Technology about Processes and Scale:** Best practices and state-of-the-art technologies shall inform investment decisions while at the same time assessing the appropriateness of such technologies.

ix) **Social Responsibility:** The University shall sustainably invest in areas that support social development including social services such as education and health without compromising the safety of the investments.

x) **Avoid Ineligible Investments:** As much as investments are desirable, UDSM shall abide by the laws of the land by not indulging in ineligible investments. The Tanzania Investment Act No. 10 of 2022 prescribes ineligible investments as investments producing goods and services restricted on grounds of health, armaments, any type of explosives and environmental considerations. The investments shall observe all environmental standards friendly to the production and conservation of nature.

xi) **Avoid Conflict of Interest:** Any person involved in making investment recommendations and/or investment decisions shall refrain from a business activity that can conflict with the proper execution of the investments, or which can impair his/her ability to make impartial investment decisions.

xii) **Economic Use of Resources:** Cognizant of the reality that resources are scarce relative to the needs, consideration of investment decisions shall adhere to the principle of optimum use of such investible resources efficiently and effectively.

CHAPTER THREE

VISION, MISSION, RATIONALE AND OBJECTIVES

3.0 UDSM Vision

The aspiration of the UDSM Vision 2061 is to become "a leading Centre of Intellectual Wealth spearheading the Quest for Sustainable and Inclusive Development."

3.1 UDSM Mission

As depicted from UDSM Vision 2061, the Mission states: "The University of Dar es Salaam will advance the economic, social, and technological development of Tanzania and beyond through excellent teaching and learning, research, and knowledge exchange."

Towards achieving its Vision and fulfilling its Mission, UDSM subscribes to the following values: academic excellence, academic integrity, academic freedom, internationalism, professional and ethical standards, social responsibility, developmental responsibility, teaching and learning, institutional autonomy, public accountability, equity and social justice, strategic planning culture, research relevance, and ICT use.

3.2 Rationale of the Policy

This UDSM IP serves as an enabler for the University to realise its Vision and Mission. The rationale the IP is provided by the need to contribute to the sustainability of UDSM assets through guiding investment decisions to sustain the optimisation of returns on movable and immovable assets, preserve capital, minimise risks and meet present and future liquidity needs. The Policy, thus, guides on how resources should be put to their most efficient use (optimum utilisation) to promote the best interests of UDSM.

The three pillars[1] of Vision 2061 provide the areas in which investment efforts and resources will be directed to gradually achieve the Vision and thereby enable the University to effectively advance technological, economic and social development. In particular, the third pillar, "sustainable resources", encompasses marketable products/services, strategic networks and internationalisation, as well as strategic entrepreneurship, innovation and investments (for financial sustainability). Now, more than ever before, UDSM needs to mobilise financial resources. The targeted areas include strengthening the Investment and Resource Mobilisation (IRM) Unit (currently known as the Directorate of Planning, Development and Investment (DPDI)), diversifying sources of funding and seeing to it that investments deliver economic, social and environmental benefits.

3.3 Policy Objectives

3.3.1 Main Objective

The main objective of this Policy is to achieve the long-term investment objectives and goals of the UDSM Vision by providing a framework for guiding investments to ensure that:

i) UDSM interests are upheld and protected and that value for money is realised in all investment undertakings;

ii) The University assets and the interest of stakeholders are

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[1] The 3 key pillars of Vision 2061 are: (i) Inspired and motivated faculty, staff and students; (ii) Visionary Leadership; and (iii) Sustainable resources.

protected through directing investments to safe and high-yielding investment opportunities; and

iii) Investment activities obtain an optimum rate of return consistent with safety and liquidity criteria.

3.3.2 Specific Objectives

The specific objectives involve to:

i) support investment activities;
ii) ensure achievement of the short-, medium- and long-term investment goals;
iii) promote due diligence in decisions to invest;
iv) promote continuous capacity building of UDSM for effective and efficient management of investments;
v) ensure continued prudent and effective management of investments;
vi) establish responsible investment management;
vii) guarantee ethical investment norms (integrity, managing conflict of interest, positive investment philosophy, among others);
viii) ensure that investments obtain a reasonable level of return commensurate with risk, safety and liquidity requirements;
ix) protect the real value of the assets;
x) guarantee that investments are made in line with prudent portfolio guidelines;
xi) ensure that surplus cash holdings are invested prudently; and
xii) ensure that investments adhere to national and international best practices.

CHAPTER FOUR

POLICY ISSUES, OBJECTIVES AND STATEMENTS

4.0 Introduction

This chapter underscores key policy issues and their statements that are aimed at achieving the stated objectives. The chapter is focused on the definition, identification and classification of investments; financing options; investment management; and governance.

4.1 Definition, Identification and Classification of Investments

4.1.1 Policy Issues

UDSM is endowed with various investment opportunities, both tangible and intangible, including the short-term, medium-term and the long-term opportunities. Currently, the main sources of income at UDSM are students' fees, funds generated from consultancies, research, and government subvention. There is consensus that the University has not fully utilised the potential investment opportunities at its disposal to optimise the use of its revenue base. Consequently, the University has been earning little returns from its investments despite the immense available investment potential. To address these challenges, it is pertinent to broaden the definition of investments to cover other income-generating activities, such as intangible assets including intellectual property rights and financial instruments. This will enable the University not only to widen its revenue base but also to further decrease its dependence on the Government.

4.1.2 Policy Objective

The objective is to define and provide a clear classification of investments consistent with the national and international best practices.

4.1.3 Policy Statements

UDSM shall:

i) define as broad as possible and classify investment types by considering the national and international best practices;
ii) expand the revenue base spanning from the core University functions (teaching, research and public services) to commercial ventures such as spinoffs, financial investments and landed properties according to the applicable University policies and guidelines;
iii) invest in intangible assets including short-, medium- and long-term financial instruments and recouping benefits associated with intellectual property rights of the University;
iv) ensure continued capacity building in management and governance investments;
v) establish endowment funds, seek and utilise charitable contributions to enhance investments;
vi) leverage the use of UDSM large landed properties and harness landholdings with short- and/or long-term development potentials; and
vii) commercialise UDSM innovation products and services.

4.2 Optimal Choice of Investments

4.2.1 Policy Issue

Available investment opportunities compete for the available scarce resources. UDSM is constrained by scarce investment resources against the need to attract additional revenue. In this case, investments require a quick scan of the (competing) project(s) to determine optimal investment choices. The University is supposed to apply the best practices for screening investment ideas and making choices of the most promising alternatives. To ensure prioritisation, a comparative assessment is to be conducted to find the best choice of investment projects for allocation of the investment outlay. All projects and their absolute assessment results will be listed and compared based on the agreed criteria. The proposed projects will be ranked in the context of the defined criteria.

4.2.2 Policy Objective

The policy aims to choose optimal investment projects for the allocation of available resources.

4.2.3 Policy Statements

UDSM shall:

i) set a standard benchmark for choosing and evaluating investment projects;
ii) assess the contribution to the achievement of institutional and national goals;
iii) determine eligibility and viability of prospective investment projects in line with institutional and national legal frameworks; and
iv) ensure ethical and responsible investment including aligning with applicable societal norms.

4.3 Investment Projects Selection Criteria

4.3.1 Policy Issues

A credible project appraisal assesses the feasibility of the project in terms of technical, financial, environmental and social aspects.

Project appraisal is conducted during the feasibility stage of the project cycle to assess the viability of the proposal in terms of attracting the funding and predicting the costs and benefits of an investment. Most of the ongoing investments at the University did not undergo a rigorous economic and financial assessment. This situation jeopardises the value of the investment and the corresponding decision by the University. The cost-benefit analysis (CBA) helps to identify the potential of an investment for efficient allocation of scarce resources. CBA compares the costs and benefits of investing resources in the project with what would have happened in the absence of the project (i.e., baseline scenario) and provides a forecast of estimated quantifiable values.

4.3.2 Policy Objective

The policy aims to guide the conduct of feasibility assessments to enable sound and informed investment decisions regarding financial and economic projections and minimize the potential conflicts.

4.3.3 Policy Statements

UDSM shall:

i) at all times before approving an investment, undertake a pre-feasibility and feasibility study of the investments by relevant guidelines and according to the national and international best practices;

ii) develop and/or use relevant guidelines to provide for the manner, variables, methodology and procedures of conducting pre-feasibility and feasibility studies of investments according to the national and international best practices;

iii) make investment decisions based on economic costs and benefits, which consider externalities and market distortions;
iv) require rigorous CBA which presents the best estimates of economic costs and benefits of an investment;
v) undertake Environmental and Social Impact Assessment (ESIA) according to the relevant legislation;
vi) use the official discount rate applicable in investment appraisal in collaboration with key stakeholders such as the Bank of Tanzania; and
vii) use results of acceptable project appraisal methods such as cost-benefit analysis (CBA), internal rate of return (IRR) and assessment of payback period as the criteria for choice of investment projects.

4.4 Investments Financing

The main issue in this section is on how investments will be financed at UDSM. In such cases, financing is a key concern to the identified investment projects. These aspects include, among others, sources of finance, cost of funding and the collateral which relate to the acquisition of the funds.

4.4.1 Sources of Finance

4.4.1.1 Policy Issues

The University has various ways of financing investments namely, equity and debt sources. Financing of the investments at UDSM has mainly been done through equity contribution(s). Debt financing, its sources and the collateral used have not been quite clear; thus, it is not widely utilised at UDSM. To date, there is a lack of clarity on how much equity has been contributed to all University projects, and hence, unable to track the real value of its investments. There is also a lack of proper guidance on the appropriate sources of finance for investment projects. The absence of clear and adequate policy guidelines has contributed to inadequate funding and lack of sufficient financial resources for investments. In some cases, the University has been financing the development of products and concepts that arise from research; however, this initial UDSM financing is not accounted as part of its equity when such products are commercialised.

4.4.1.2 Policy Objective

The policy aims to guide the University on viable and effective ways to finance and implement investment projects.

4.4.1.3 Policy Statements

UDSM shall:

i) utilise equity funds that are internally generated and use equity instruments to finance its independently and commercially managed investments;
ii) encourage equity contributions from income-generating units, colleges and schools for its potential investments by preparing an internal memorandum for investments in a particular project;
iii) set aside a development budget for implementing approved investments each year;
iv) set aside at least 10% of all internally generated funds for equity financing of the approved investment projects;
v) convert UDSM research grants geared to the commercialisation of research initiatives into equity contributions to the projects once commercialised;
vi) set a mechanism of valuing its landed properties, intellectual

properties, goodwill and other assets to ensure equitable contributions as part of equity to the investments, especially those involving private parties;

vii) seek external financing in terms of loans, bonds and other financing vehicles as appropriate to finance its approved investment projects;

viii) collaborate with financial institutions, Treasury Registrar, Capital Markets and Securities Authority, the Stock Market and the private sector in designing financing instruments for its investment projects; and

ix) secure funding of the projects through the PPP arrangements as per applicable national policies and legislation.

4.4.2 Cost of Funds

4.4.2.1 Policy Issues

The cost of funds comprises all expenses related to processing and securing funding, as well as costs associated with the funding vehicle. Given the circumstances, the University has not been accounting for the cost of funding associated with financing investment projects, especially, when it comes to equity contribution. The cost of funding is an important aspect in pricing the project and calculating the returns of an investment. Normally, in arriving at the funding structure, the University incurs various costs involving international meetings, travelling, negotiations as well as other costs related to procurement and disbursement of funds.

4.4.2.2 Policy Objective

The policy aims to ensure sufficient accounting of fair costs of funds considering both direct and indirect costs.

4.4.2.3 Policy Statements

UDSM shall:

i) guide on the accounting of the project costs from the initiation stage of the projects and include such costs in the equity contribution of investment projects;
ii) ensure all the costs associated with the project are captured during the implementation stage of the investments;
iii) ensure that the cost of debt is affordable based on market forces and other applicable conditions; and
iv) ensure that the cost of the project funding is integrated into the financial model according to applicable guidelines.

4.4.3 Collateral Consideration in Project Financing

4.4.3.1 Policy Issues

Despite several initiatives undertaken by the University in running investments, there has been a challenge in obtaining collaterals to secure financing of investment projects. Assured attainment of funds is important in overcoming delays in projects implementation. This will enhance the University's investment and ensure effective management of risks associated with collateralised or secured investments.

4.4.3.2 Policy Objective

The policy aims to establish clear guidelines for the use of collaterals in the University investment projects, with the primary objective of optimising returns while prudently managing collaterals-related risks.

4.4.3.3 Policy Statements

UDSM shall:

i) conduct a thorough assessment of the risks and benefits associated with collateralised investments, considering factors such as credit quality, market conditions and liquidity;

ii) maintain a diversified investment portfolio to minimise concentration risk;

iii) regularly evaluate collateralised investments to ensure their value aligns with the underlying obligations and that necessary adjustments are made when required;

iv) adhere to all applicable laws and regulations governing collateralised investments, including collateral agreements and securities regulations;

v) maintain transparency in all investment practices that involve collaterals including the provision of clear information to stakeholders on the terms, conditions and risks associated with such investments;

vi) act in the best interests of the stakeholders when making investment decisions involving collaterals; and

vii) establish a designated committee or office responsible for overseeing investment practices involving collateral and conduct periodic reviews to assess the effectiveness and appropriateness of these practices.

4.5 Risk Management Framework

4.5.1 Policy Issues

Risk management is a key component when undertaking any significant investment activity. However, the University still faces a challenge in managing and mitigating risks associated with the University's investment portfolio. The aim is to ensure the long-term financial growth and sustainability of the University; hence, a need to streamline decision-making and assess cost uncertainty or operational costs in harnessing the potential opportunities.

4.5.2 Policy Objective

The policy aims to establish a comprehensive and systematic approach to risk identification, risk analysis and risk management in the University's investment activities. The primary goal is the preservation and growth of the University's investments while minimising potential losses and supporting the University's core vision.

4.5.3 Policy Statements

Policy statements are stated for the University risk identification, risk analysis and risk management, respectively.

4.5.3.1 Risk Identification

UDSM shall establish a risk identification mechanism with the view to the identification and assessment of relevant risks associated with the investment portfolio.

4.5.3.2 Risk Analysis

UDSM shall:

i) conduct regular risk assessments of its investment portfolio to identify potential vulnerabilities and opportunities;
ii) mitigate various types of risks, including market risk, credit risk, liquidity risk and operational risk;
iii) consider historical data, market trends and expert analysis to evaluate the overall risk profile of the portfolio; and
iv) involve collaboration between the University's investment committee, external advisors and experts in finance, investment and other relevant fields.

4.5.3.3 Risk Management (Mitigation and Elimination)

UDSM shall:

i) develop a risk management strategy tailored to the identified risks to an individual investment project;

ii) include a diversified investment approach, setting risk tolerance levels and implementing risk mitigation measures; and

iii) be guided by the principle of balancing risk and return, with a focus on preserving the University's capital and generating sustainable returns.

4.6 Investment Management and Governance

4.6.1 Management

4.6.1.1 Policy Issues

Currently, management of various business-related matters at UDSM faces a number of challenges. For instance, low turnaround time for vacant investment areas and unrealistic or delayed economic benefits for various investments and services. It is acknowledged that some businesses need prompt decision-making, transparency and less bureaucratic processes to enhance effective and efficient investment returns. A commercial approach is the best way to go if UDSM is to attract more investment and get things effectively done. Streamlining the management of investments in less bureaucratic, recruiting or outsourcing competent and qualified personnel to run and operate investments and enabling autonomous and independent units to coordinate and run investments are of paramount importance.

4.6.1.2 Policy Objective

The policy aims to guide UDSM to manage investments in an effective way that will make optimal returns to its investments.

4.6.1.3 Policy Statements

UDSM shall:

i) form an investment holding company that will manage all investments and ensure more autonomy;
ii) place all existing UDSM companies in the holding company and start new businesses under the holding company;
iii) provide a governance structure that is less bureaucratic, knowledgeable and effective in managing investments;
iv) employ competent professionals in running UDSM investments;
v) outsource some of the activities when undertaking investments; and
vi) facilitate units' capacity building for undertaking investments.

4.6.2 Roles and Responsibilities of Stakeholders in the Investment Ecosystem

4.6.2.1 Policy Issues

Currently, UDSM has not set clear and defined parameters on the role and responsibilities assumed by various key stakeholders in the investment ecosystem. It is appreciated that to have a functional, rewarding and lucrative investment, an interplay of involvement (including the clear demarcation of the roles and responsibilities) is necessary. The diversity of stakeholders (and their inputs) and setting roles and responsibilities will shape the quality of investment decisions, inclusivity, participation, best practices and synergised experiences to achieve positive results. To ensure that stakeholders are aware of the roles, a clear guideline and operating framework is necessary.

Investments are broad and should be scrutinised by several technical, qualified and experienced persons with demarcated sets of responsibilities to avoid potential overlaps, disharmony, inconsistent application of guidelines and non-conformity with existing regimes. To ensure these issues are carefully addressed, it is necessary to identify the roles and responsibilities of key investment stakeholders and their underlying relationship to develop synergies, inclusiveness as well as better performing and rewarding investments.

4.6.2.2 Policy Objective

The policy objective is to guide the involvement and set clear definitions, roles and responsibilities of key stakeholders for effective management of UDSM investments.

4.6.2.3 Policy Statements

UDSM shall:

i) involve as much as possible the stakeholders about respective investments;
ii) set clear and defined roles and responsibilities of stakeholders to enable a harmonised and functioning investment ecosystem; and
iii) provide mechanisms by which the ideas and inputs of stakeholders shall be provided, collected and utilised.

4.7 Monitoring and Evaluation of Investments

4.7.1 Policy Issues

Investment activities require effective monitoring and evaluation to ensure that they align with investors' financial goals, risk tolerance and investment performance. Monitoring and evaluation aspects of investment opportunities are essential components in appraising investment strategies, operations and making informed decisions. Currently, the University faces challenges in reporting, monitoring and evaluation of investments including economic and social benefits. Furthermore, there are no clear and adequate institutional mechanisms to evaluate how the University is performing in its investments. This compels the need for the University to define clear institutional arrangements for monitoring and evaluation, including engagement with investors for their feedback.

4.7.2 Policy Objective

The policy objective is to define and provide mandates, roles and institutional mechanisms for conducting monitoring and evaluation of UDSM investments.

4.7.3 Policy Statements

UDSM shall:

i) establish investment monitoring and evaluation guidelines;
ii) define mandates and roles of UDSM units in carrying out monitoring and evaluation of investments;
iii) provide clearly definitive and quantifiable indicators to be used in the evaluation of investments consistent with national and international best practices;

iv) develop tools and mechanisms for monitoring and evaluation of investments; and
v) design and regularly implement stakeholder surveys (questionnaire) with the view of receiving feedback, challenges and performance of investments.

4.8 Reporting of Investment Activities

4.8.1 Policy Issues

To monitor the performance and implementation of investments, the submission of periodic reports to UDSM management is important. Reporting enables the University to assess whether investments are run according to the agreed terms. Currently, the University is witnessing defiant units that do not submit reports or submit them late. Other challenges include the submission of inadequate information in the reports and lack of proper coordination by units in the preparation and submission of reports. As such, it is important to have well set and adequate mechanisms which will provide a framework for periodic reporting.

4.8.2 Policy Objective

The policy objective is to guide the manner and timelines for submission and enforcement of the periodic investment reports.

4.8.3 Policy Statements

UDSM shall:
i) provide a guideline on the mode, timelines and procedure for submission of reports;
ii) put in place an internal mechanism to verify the correctness and sufficiency of the submitted reports;

iii) guide relevant units on the manner of preparing and overseeing the submission of reports; and
iv) use the submitted investment reports to make informed decisions.

4.9 Disposal or Closure of Investments

4.9.1 Policy Issues

UDSM may terminate its investments as circumstances require or permit. In such situations, care must be taken to ensure that there is a smooth closure and disposal of investments. This includes ensuring that: all outstanding debts and/or monies have been fully paid; all obligations have been sufficiently discharged (or as applicable such waivers); all taxes, levies and fees to relevant government authorities have been paid; the investment premises and environment have been restored to the habitable conditions accepted by the University; all reporting and filing requirements have been duly complied with in the manner acceptable under applicable guidelines; and a handover or clearance note executed as acceptable to parties and such other obligations satisfied. Currently, the University does not provide clear mechanisms on the manner and compliance issues at the time of closure and termination circumstances of investment activities. As such, it is pertinent to address a smooth exit that ensures perpetuity and onward movement of investments.

4.9.2 Policy Objective

The policy aims to ensure clear and adequate mechanisms on the manner and compliance issues required for the smooth closure or exit of UDSM investments.

4.9.3 Policy Statements

UDSM shall:

i) provide a clear guideline on the manner and procedures to be adhered to at the time of closure or exit of investments;

ii) design and implement an information checklist of clearance to be fulfilled at the time of closure of investments;

iii) ensure that an investment is not permitted to exit without satisfying and complying with all requirements and obligations under the agreements; and

iv) undertake various legal redress or measures where applicable in the event of default to investment so closed.

CHAPTER FIVE

LEGAL AND INSTITUTIONAL FRAMEWORK

5.0 Legal Framework

Implementation of the IP hinges on the available legal framework. The legal framework is provided at both the institutional (University) and national levels (which is informed by the international regime). Effective utilisation of the available legal frameworks is essential to ensure a coordinated and regulated establishment, financing, management and operation, dispute resolution and closure of investments. This Policy conforms to the legal (and institutional framework) set herein and appreciates the importance of the existing legal framework in the realisation of the purpose of investments at the University of Dar es Salaam.

5.1 Legal Framework at the National Level

The Government of Tanzania is committed to promoting and protecting investments. It has set its support through the adoption of several policies, strategies and action plans relevant to investments. The Government has also enacted several principal and subordinate legislations to provide, among others, the institutions to oversee investments, investment guarantees, investment benefits, rights and obligations of the Government and investors, as well as a framework for investment disputes. To a great extent, several initiatives and enabling environments are in place to encourage investments while upholding the principle of permanent sovereignty of resources and the principle of fair and equitable sharing of proceeds of investments.

Article 24 of the Constitution of the United Republic of Tanzania, 1977, in clear and unequivocal terms, provides the right to own property and protects against unlawful deprivation of a person's property (including artificial persons such as organisations) subject to fair, adequate and equitable compensation.

The Tanzania Investment Act No. 10 of 2022 and attendant regulations provide for rights, obligations, incentives and several protections and guarantees to investors (including a guarantee against expropriation), wide freedom and scope of settlement of investment disputes, as well as an ongoing obligation to respect and uphold laws of the land including human rights, corporate governance, social responsibility, environment, employment, as well as labour and taxation.

The University has and intends to utilise the potential of PPP as one of the viable investment vehicles. In this regard, effective compliance and utilisation of the Public-Private Partnerships Act, Cap. 103 of the laws of Tanzania is necessary concerning the establishment, financing and management of investment ventures at UDSM.

To the extent possible and as permitted by relevant regulations, investments may be placed under a holding company and/or autonomous corporate structure incorporated for such purposes. In that regard, the Companies Act, Cap. 212 of the laws of Tanzania is the relevant legal framework in so far as incorporation, ownership management and liquidation of companies are concerned.

The University considers investing in financial assets and harnessing its potential on innovations and other intellectual assets. In this regard, the relevant legal framework on capital markets, money markets and intellectual property, respectively, are relevant to this Policy.

The University, as a public organisation, is bound in procurement processes, including those relating to investments (where applicable) to conform to the procedures set under the Public Procurement Act, Cap. 410 of the laws of Tanzania and its attendant regulations. Correspondingly, adhering to the Public Finances Act is necessary and critical. Further, as a public corporate body, the conduct of UDSM affairs and central functions must conform to the laws of Tanzania, particularly, the Universities Act of 2005. UDSM is also subject to such oversights, directives and control under other relevant laws and guidelines.

5.2 Mandate of UDSM

At the institution level, the mandate to invest is provided under the UDSM Charter, 2007 which is made under the Universities Act, 2005. Section 45 of the Universities Act, 2005 and Article 17(1)(c) of the Charter empowers the University Council to: manage and administer University revenues, movable and immovable properties including the investment of funds and assets; and receive gifts, loans, donations as well as grants on behalf of the University.

Responsibilities of the Council stem from the powers conferred to the University under the Charter. The University is a corporate body under Article 3 of the Charter and as far as investments are concerned, the University is capable of:

i) taking, purchasing, or otherwise acquiring, holding, charging, leasing, licensing the use of, hiring and hiring out as well as disposing of any movable or immovable property;
ii) borrowing such sums as it may require for its purposes;
iii) investing in land, debenture stocks, preferential shares, units in unit trusts and other securities but not investing in the equity of any company–other than a company in which the University has 95% or more share interest and established for the execution of any of the functions of the University–without specific approval of the Council; and
iv) Doing or performing all such other things or acts as are necessary for the proper performance of its functions under and for the furtherance of the provisions of the Charter and which may lawfully be done or performed by a corporate body.

From the above provisions, the University has powers to: acquire, license and dispose of properties; borrow funds; invest in real and financial instruments; and perform other activities necessary to achieve its functions under specific Regulations and the laws of the land.

Within the framework of the University Charter, the Council is empowered to promulgate Regulations and constitute committees and directorates to implement this Policy. At minimum, committees will be required to execute the following responsibilities:

i) Overseeing the implementation of investment and related guidelines;
ii) Coordinating and assisting in the operation of investments;
iii) Designing Policy Portfolio that is an asset mix, which has

the potential long-term results (maximises returns and minimises risk over the long term);

iv) Financing investments;

v) Risk management; and

vi) Monitoring and evaluation of investments.

5.3 Institutional Arrangement

5.3.1 University Council and Relevant Committees

This is the final approving organ which is empowered by the Charter to oversee investments. For the Council to be in an informed position to approve investments, it is assisted by the University management, units, directorates and committees established for such purposes.

5.3.2 Role of the Government

The Government's roles include providing national policy guidelines, stimulation and promotion of investments and overseeing the general development of the country. These roles are performed to meet the primary functions of guiding, promoting, facilitating and providing service for investments.

The Government agency responsible for investments is the Tanzania Investment Centre (TIC) established under the Tanzania Investment Act, of 2022. TIC coordinates, encourages, promotes and facilitates investments in Tanzania. It is a one-stop centre for the promotion, coordination and monitoring of investments in the country.

The Ministry responsible for Finance plays the role of allocating financial resources as part of the Government subvention to support UDSM in general and investments in particular.

As a custodian of public institutions in Tanzania, the Office of the Treasury Registrar is responsible for issuing guidelines and overseeing the performance of UDSM as a going concern.

The role of the parent Ministry of Education is that of safeguarding academic standards. The Tanzania Commission for Universities (TCU) is the regulator of higher education in Tanzania. Both institutions work to ensure that the core mission of UDSM is not compromised.

The Office of the Attorney General is the chief legal advisor of the Government. While managing investments, UDSM enters contracts with investors. Such contractors must be approved by the Office of the Attorney General Chamber or other designated legal authority in the event the contract meets certain criteria and thresholds prescribed under the applicable laws and guidelines.

If the University seeks to mobilise capital as well as finance and undertake certain investment ventures, specific regulatory bodies to the extent set under the applicable legislation will be adhered to, including the Capital Markets and Securities Authority (CMSA), the Dar es Salaam Stock Exchange, the Business Registration and Licencing Agency (BRELA) and the Public Procurement Regulatory Authority (PPRA).

CHAPTER SIX:

MONITORING AND EVALUATION

6.0 Introduction

Monitoring and evaluation are important tools that inform whether an investment project is on track and achieving its objectives. This chapter underscores monitoring and evaluation systems and the roles of the responsible committees. The University shall evaluate its portfolio performance by comparing periodic targets against the actual performance.

6.1 Monitoring and Evaluation System

Monitoring involves collecting, recording and reporting information on all aspects of project performance to keep track of important variables in the three critical areas of project implementation, namely cost, performance and time.

Implementation of this Policy will need to be monitored and evaluated to review progress, identify implementation bottlenecks and make necessary adjustments. Monitoring and evaluation shall focus on effectiveness, efficiency and impact.

It is proposed that the UDSM IP should be reviewed whenever major developments unfold at the University, nationally and/or globally that call for repositioning of strategies and tactics. A review is necessary to gauge both performance and alignment with the UDSM Vision 2061. This Policy shall be reviewed after every 10 years or earlier should it be deemed necessary to do so to cater for new developments within the University and/or beyond.

6.2 Reporting System

6.2.1 Head of Investments

There shall be an established section of a Head of Investments who will be responsible for day-to-day activities of UDSM investments. The section shall be staffed with professionally competent personnel and will have adequate supporting staff. The University shall prescribe establishment, qualifications, benefits, rewards and sanctions for all staff manning the Office. The Head of Investments shall report to the Director of Planning, Development and Investment.

6.2.2 Investment Committees

Two investment committees are in place to monitor the investment activities of the University, namely the Planning, Finance and Investment Committee (PFIC) and the University Funding and Promotion Committee (UFPC).

6.2.2.1 Planning, Finance and Investment Committee (PFIC)

The PFIC shall be constituted in keeping with instruments providing for such constitution.

6.2.2.2 Functions of PFIC

The PFIC shall:

i) receive, deliberate on and make recommendations on the proposed Investment Portfolio;

ii) review and evaluate submitted investment proposals according to the investment policy and guidelines;

iii) monitor the performance of the Directorate of Planning, Development and Investment;

iv) prescribe ceilings for investments in the various investment portfolio categories to avoid concentration risk;
v) authorise investments in areas such as placements, Treasury Bills and relatedinstruments;
vi) deliberate on reports received from the Directorate of Planning, Development and Investment executed since the last meeting of the UFPC; and
vii) receive, deliberate and make recommendations on the proposed investments.

The committee shall hold their ordinary meetings once every three months. Extraordinary meetings shall be convened with the approval of the Chairperson. The Directorate of Planning, Development and Investment shall be the secretariat of the respective committees.

6.2.2.3 University Funding and Promotion Committee (UFPC)

The UFPC shall be constituted in keeping with instruments providing for such a constitution.

6.2.2.4 Functions of UFPC

i) Developing fundraising plans;
ii) Identifying potential sources of funds;
iii) Receiving, deliberating and recommending the fund-raising proposals and grant applications;
iv) Ensuring the raised funds are used for the designated purposes; and
v) Maintaining relationships with funders, grant agencies and sponsors.

6.3 Performance Indicators

An elaborate Monitoring Plan shall be put in place with clear indicators, a time frame and a responsible organ. Monitoring shall be a continuous undertaking. In performing monitoring, it is important to have a set of agreed indicators. However, different investment projects will require different sets of performance indicators. Performance indicators shall be developed and agreed upon as part of investment project conceptualisation. Some of these indicators shall include but not be limited to:

i) Liquidity ratio;
ii) Rates of return;
iii) Asset mix/concentration;
iv) Quality of investments;
v) Investment portfolio (as a measure of diversification);
vi) Economic sustainability;
vii) Environmental sustainability;
viii) Social sustainability;
ix) Portfolio performance (comparing periodic targets against the actual performance); and
x) Any other indicator as deemed vital.

This UDSM IP provides a general framework for guiding investment decisions at the University. In addition to this document, supporting documents that detail the Implementation Strategy, Communication Strategy, Financing Strategy as well as Monitoring and Evaluation Strategy shall be developed. It is, thus, pertinent for the various units of UDSM to draw up details on how to operationalise this Policy according to their lines of business.

APPENDIX I

KEY CONCEPTS

Capital/Financial Capital: This includes money, credit and other forms of funding used for investing. Tanzania Investment Act, 2022 defines capital as all cash contributions, plant, machinery, equipment, buildings, spare parts and other business assets other than goodwill that are not consumed in the regular operations of the business and have a life of more than twelve months.

Effectiveness: This refers to a measure of the extent to which the set specific objectives are achieved.

Efficiency: This is a relative measure of the extent to which an input into a process performs.It is the extent to which a utilised input at minimum produces the highest possible output.

Evaluation: This refers to a comparison of actual project impacts against the agreed strategic plans. Evaluation emphasises the assessment of outcomes and impact rather than the delivery of outputs. Evaluation is the systematic and objective assessment of ongoing and/or completed undertakings (e.g., policies), in respect of design, implementation and results. The most commonly applied criteria are objectives, efficiency, effectiveness, impact and sustainability.

Impact: It is a measure of the extent to which the intervention made a difference to the problematic situation that was intended to be solved.

Investment: This refers to the creation or acquisition of new business assets and includes the expansion, restructuring, or rehabilitation of an existing business enterprise (Tanzania Investment Act, 2022).

Incentives: These are the tax reliefs and concessional tax rates which may be accessed by an investor under the Tanzania Investment Act, 2022, the Income Tax Act, 2004, the Customs Tariff Act, R.E 2019, the Value Added Tax Act, 2014 and any other law for the time being in force. The incentives also include additional benefits that may be accessed by an investor under other Applicable laws.

Indicator: This is a measurable or tangible sign that something has been done. An indicator may be a quantitative or qualitative variable (though a numerical indicator is preferred as it can be measured over time to show changes).

Liquidity: This refers to a measure of the financial health of an enterprise. It indicates the ability to meet cash obligations including debt servicing. Common measures of liquidity are based on ratios that include the following:

i) *Cash Ratio:* This is the cash divided by current liabilities. A ratio of 1 (one) or greater indicates that the business has sufficient liquidity to meet debt payment obligations.

ii) *Quick Ratio:* This refers to the cash plus accounts receivable and stocks/bonds divided by current liabilities.

iii) *Current Ratio:* This refers to current assets divided by current liabilities. It determines the ability to pay off short-term debt; the larger the ratio, the greater the ability.

Monitoring: This is the process of systematic collection and analysis of information as a project progresses. Monitoring is a continuing function that uses systematic collection of data on specific indicators to provide the management and the main stakeholders of ongoing intervention with information on the extent of achievement of objectives and progress.

Opportunity Cost: This refers to opportunities foregone when one decision is taken rather than the other. This basic economic concept considers the value of the benefits that could have been obtained had the inputs been used for another purpose. Economic value means the alternative chosen is at least as good or as valuable as the alternatives that were not chosen.

Public-Private Partnership: This is a contractual agreement between a public agency and a private sector entity. Through this agreement, the skills and assets of each party are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares the potential risks and rewards in the delivery of the service and/or facility.

Project: Broadly defined, it is an undertaking that utilises investible resources.

Project Appraisal: This is a decision tool used to assess the viability of a project to enable the decision-maker to reach an informed and rational choice on whether to commit funds to a project or not. It is a decision between undertaking and not undertaking a project.

APPENDIX II

PROJECT APPRAISAL METHODS AND SELECTION CRITERIA

The rule of thumb is a quick estimate method that is not based on exact measurementor science but is from experience and common sense. Cost-benefit analysis (CBA) is a method for determining whether the value of a project is greater than the cost of resources it uses; the greater the excess of benefits over costs, the more worthwhile the project.

Accept the project if:
Benefits (B) > Costs (C) or
Net Benefits (NB) = B - C > 0.

Benefit–Cost Ratio: BCR > 1 (alternatives with highest scores selected).

1) Net Present Value (NPV) or Real Rate of Return
When a project's life is long, discounting of costs and benefits has to be performed.

$$PV(NB) = NB/(1+r)\ t$$

Where:
r = discount rate

t = project duration time

$$NPV = (Bn - Cn)/(1+r)\ n$$

Where:
n = number of years

NPV = sum of discounted benefits less the sum of discounted costs

Accept the project if NPV > 0.

The rule of thumb is: to accept projects with the highest NPV.

1) Return on Investments (ROI)

ROI is a measure of the efficiency of an investment that indicates gain or loss on the investment. The higher and more positive the ratio is, the greater the gain relative to the cost of investment. The drawback of this measure is that it disregards the time horizon of an investment and as such, it is recommended to be used together with the rate of return.

While NPV and ROI are popular selection criteria, other appraisal methods that can be used for assessment of the robustness of selection criteria regarding alternative projects as deemed necessary include:

2) Internal Rate of Return (IRR)

The IRR is a metric used to estimate the profitability of potential investments. It is the rate at which a project breaks even in terms of NPV. The IRR is a discount rate (at which NPV=0), which means the present value of benefits equals the present value of costs. A project should be accepted if it has a positive NPV and the IRR higher than the discount rate; otherwise, it should be rejected.

3) The Payback Period

The payback period method helps to determine the time required for a project to recoup its initial investment in terms of net cash inflows. It gives a straightforward view of how quickly an investment can pay back its initial cost; however, it does not consider any cash flows after the payback period. It is a relevant metric when it comes to matching returns and maturities of financing instruments.

4) Benefit-Cost Ratio (BCR)

The benefit-cost ratio is a metric that can quickly tell if a project will provide positive value. A ratio greater than 1.0 would mean that it is expected to provide value and could then be applied to several other analysis techniques to determine if the project is worthwhile. This can include benefits not directly tied to revenue, though a value must be assigned. It may be used as the initial measure of the relevance of the project.

5) Risk-Adjusted Discount Rate (RADR)

Instead of just looking at straight costs and benefits, a RADR considers the risk associated with a project and adjusts the discount rate accordingly. This can help in making better decisions about whether or not to undertake a risky project, giving a more accurate estimate of future returns.

Use of Shadow Prices

The use of shadow prices is recommended during a project appraisal. Shadow prices reflect the true economic value or economic price (hidden value/shadow price) of scarce resources, for example, highly skilled labour, very scarce inputs and foreign exchange. The simplest way of computing the shadow price is to multiply the price of that resource by a factor that indicates the extent to which such a resource is more valued at domestic price, for example, a shadow exchange rate (SER).

Environmental and Social Impact Assessment (ESIA)

The selected projects should undergo ESIA, which is a comprehensive Environmental Impact Assessment (EIA) that covers a wider area than the project area alone. It covers more issues than EIA, for example, livelihoods and social systems impact of a project.

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