



**FINANCIAL PRODUCTS FOR FARMERS AND SERVICE PROVIDERS  
REPORT  
TANZANIA.**

**Farm Mechanization and Conservation Agriculture for Sustainable Intensification  
(FACASI).  
September 2015**

## **Acronym**

2WTs	Two Wheel Tractor
4WTs	Four wheel Tractor
SACCOs	Social Agricultural Credit Organizations
AMCOs	Agricultural Market Cooperatives
SP	Service provider
NMB	National Microfinance Bank
TIB	Tanzania Investment Bank
NMB	National Micro finance Bank
CRDB	Commercial Rural Development Bank
KCBL	Kenya Commercial Bank
SARI	Selian Agricultural Research
SMEs	Small and Medium Enterprises
PASS	Private Agricultural Sector Support
EFTA	Equipment fund Tanzania
VFT	Vision Fund Tanzania
FACASI	Farm Mechanization and Conservation Agriculture for Sustainable Intensification
TSHs.	Tanzania Shillings
NGOs	Non-Governmental Organizations.
GDP	Gross Domestic Product

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## **1.0 Introduction**

### 1.1 Background of financial status to Tanzania economy.

Tanzania has a total population of 50.7 million. As per the African Economic Outlook despite high economic growth averaging 7% over the past decade, about 28.2% of Tanzanians are poor, and poverty remains more prevalent in rural areas than in urban areas. Fin Scope Tanzania 2013 reports that the number of people who are financially excluded has seen a significant drop in 2013. Around 11.7 million people were financially excluded in 2009, this number has almost halved in 2013. This is mainly due to a rise in the usage of mobile financial services. Around 99% of the Tanzanian adult population is aware about mobile money and 45% of them are using it actively. The main financial institutions in Tanzania constitute commercial banks, licensed financial institutions (micro-finance institutions), and development banks. The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks, savings and credit cooperative societies, and several NGOs whose microcredit delivery operations are funded and supported by international donors.

The number of commercial banks has reached 34, licensed financial institutions 20, and development banks 2; this is according to the bank of Tanzania-last modified on August 2015. The financial sector remained stable and efficient in providing financial services to the economy during the year ending March 2014. The banking sector which accounts for about 70 percent of total assets of the financial system, continued to grow in line with strong performance of the economy. The growth was driven by stable macro-economic conditions, establishment of new banks and expansion of branch network, growing banks linkage with SACCOS, introduction of agent banking, expansion of mobile banking and integration of mobile financial services to the banking system. During the year ending March 2014, the banking system remained profitable, liquid and adequately capitalized. However, asset quality deteriorated on account of increase in non-performing loans in the personal, trade, manufacturing and agricultural credit

categories. During the year ending March 2014, total assets of the banking sector increased by 12.0 percent to TZS 20,141.3 billion, while deposits increased by 10.9 percent to TZS 15,726.5 billion. As percentage of GDP, bank assets were 37.9 percent in March 2014 compared to 40.2 percent in March 2015.

During the same period, the banking industry was adequately capitalized to cushion against inherent risks. On aggregate, the industry Total Capital Adequacy Ratio was 19.4 percent which was above the regulatory threshold of 10.0 percent. Sustainability of this capital level will depend on capacity of the system to improve asset quality. The banking industry remained highly liquid. During the period, liquid asset ratio was 36.4 percent compared to the regulatory requirement of 20.0 percent. In addition, the ratio of total loans to total customer deposits was 71.9 percent in March, 2014 growing from 68.8 percent in March 2013.

All these indicators show the growing contributions of MFIs to poverty reduction both in rural and urban areas through their focus on low income segments of the society. The financial service offerings to agricultural sector players in Tanzania face gaps in terms of access to financial services, product quality, and quantity. In terms of access, only few financial institutions serve rural areas in Tanzania, leading to low levels of financial inclusion. In terms of product quality, gaps exist for all major product categories, including credit, savings, insurance, and payments, and all major types of agricultural players, including producers, traders, and manufacturers of all sizes. Importers of farm machineries have been supported by the government to access credit through Agricultural import window established by the government. Key issues include lack of input credit for agricultural technologies and insurance for smallholders, lack of inventory financing for traders, , as well as lack of enough long-term credit, cash-flow-based lending, attractive deposit products, and reliable payment products for all players. In Tanzania agriculture is strongly affected by this credit crunch compared with other sectors of the economy.

## 1.2 Current financial condition in the project areas.

FACASI works to support farmers and entrepreneurs to improve farm productivity and increase incomes through use of farm machineries mainly two wheel-tractors and its implements. Areas of intervention are Arumeru, Babati, Mbulu and Karatu districts. The project tries to identify and bring onboard all financial actors in small mechanization industry that will support rural entrepreneurs and farmers to improve farming and create businesses. Financial actors mostly preferred are those with mechanization financial products.

One of the main problems that farmers and 2WT service providers face is lack of capital or low purchasing power to access small scale farm machineries. Most farmers depend on incomes from farming activities which are not enough to cover their needs. There is lack of financial information among farmers and rural entrepreneurs, most of these institutions don't reach farmers and even their financial packages are not known. Smallholder farmers and farm machinery service provider's contribution to the farming industry is very crucial for sustaining the production of maize, beans and other crops in Arusha and Manyara regions. Farm machinery service providers contribute much in ensuring farming services availability to farmers hence generating incomes from the services. Smallholder farmers need to access farm machinery services (2WT based services) from customer hire owners but most of them have low purchasing power to afford the cost of the services. Low purchasing power has hindered most farmers to engage in farm businesses positively and they have been doing farming as subsistence not as business to increase household incomes.

## **2.0 Objective**

The main objective is to assess, and develop appropriate financial products targeting 2WT-rural service providers, and farmers seeking 2WT services in the project areas. Engagement through collaboration will be done through information sharing between the project and financial service providers. Financial institutions will be informed on small machinery industry its strength and opportunities available for them to engage. Also the project will share the economic analysis of the 2WT model to see the profitability of the industry and get informed to make better decision.

The specific objectives being to:

- Identification of financial providers for long term loan (banks and non-bank)
- Identification of various agricultural financial packages that suit: rural service providers and farmers and
- Develop of appropriate financial packages targeting farmers and 2WT service providers.
- Inform and advocate for actors of the availability of potential mechanization financial services.



### **3.0 Methodology**

This section describes the methodology adopted to collect information from financial institutions. Information was collected from financial institutions; commercial banks and micro-finance institutions in different times. Checklists prepared and developed by Cimmyt Agribusiness Officer in collaboration with Cimmyt Business model specialist. Two types of checklists developed; for commercial banks and for micro-finance institutions or non-bank organizations to facilitate data collection. One commercial bank EQUITY bank involved and four micro-finance institutions such as PASS Trust, ECLOF, EFTA equipment loans and Vision Fund. The technical information collected was supported by an in depth study to assess the readiness and capability of the organization in supporting small holder farmers. Data collection included:

- Financial packages they provide in their organization
- Agricultural financial packages they provide especially to smallholder farmers and rural entrepreneurs
- Availability of small farm machinery loan packages.
- Loan condition especially to farmers and rural entrepreneurs
- Their desire to work together

- And the way forward to work together

The methodology included the information sharing on the economic analysis of business models the project conducted. The meeting conducted in the model of one to one meeting and to some cases involved meeting with top management to discuss more on the agenda to speed up decision making.

## **4.0 Findings.**

### **4.1 PASS TRUST.**

The Private Agricultural Sector Support Trust (PASS) is a facility established in the year 2000 in order to stimulate investment and growth in commercial agriculture and related sectors. Organization mission is provision of business development and financial services to small and medium agribusiness entrepreneurs through linkages to financial institutions and to stimulate investments and promote growth in agribusinesses through enabling entrepreneurs to access loans (equipments loans). PASS offers the following services: business development services and financial services through linkages to financial institutions.

#### **4.1.1 Business development services**

PASS assists Agricultural entrepreneurs (Producers or farmers, processors, traders, individuals, cooperative groups) to develop their proposals into acceptable business plans after making feasibility studies of their projects. Also support customers in entrepreneurial skills through seminars and mentoring activities.

#### 4.1.2 Financial package Services

*Links entrepreneurs (both farmers and service providers) to financial institutions to access **loan facilities**, PASS intervene as a guarantor for the loans. They guarantee at a minimum amount of TZS 3,500 usd below that customer must form groups to meet the minimum requirement. The Trust for the moment works with the following banks under specific agreement: NMB, CRDB, EXIM, TIB, FBME, KCBL and ABC.*

##### ***Specific machinery Technology to support:***

*The Trust supports any farm machinery technologies that create value in agribusiness including: tractors (4WTs, 2WTs) and associated implements, greenhouses and construction of storage facilities etc.*

*Payback period: Farm machineries loan fall under long term long category; 3-4 years.*

*Cash loan/for capital; 1-2 years. Interest rate: PASS doesn't interfere with banks interest rates procedures just intervene for security.*

#### 4.1.3 Customers

Customers are rural agricultural entrepreneurs ( farmers and service providers) who are in need of both farm machineries plus irrigation equipments and working capital for crop and livestock production (individual, associations/registered groups/SACCOS/AMCOSS ).Supports customers from all areas in the country because PASS has branches in each zone in Tanzania.

#### 4.1.4 Conditions for the services from PASS

Farmers or service providers must have land of at least 10 acres below that customers must form a group/Association in order to fulfil the requirements. Pass prefer farmers or service providers who have already started doing or engaged in a business, the purpose being to develop or expand that business (This is most preferred by PASS). In farm machineries supports or provide guarantee of 50-60% (of 80% loan from bank)-bank provides 80 percent loan for farm any machineries and customer pay the remaining 20%.

#### 4.1.5 PASS associated costs.

There are associated costs for the loan; applicant must fill the form and return it with 15 usd bank pay slip. PASS conduct customer business assessment- prepares a business plan for a customer plus linkage with banks.

*Support the whole value chain: inputs supply, farming, processing, trading and marketing. The Trust supports those customers who want to construct storage facilities for crops. Also work with individuals, registered groups, AMCOS/SACCOS. PASS get encouraged to support customers if there is reliable market; assess the market for the customer's products before the engagement.*

#### 4.1.6 Institution strategies to support farmers

The institution has strategies to support farmers and rural entrepreneurs to access equipments loans. The first strategy is to encourage smallholder farmers to join in groups of common understanding to allow them to meet the criteria for provision. Also the institution has seen big gap among farmers in the area of business development services, so is committed to provide business development services to smallholder farmers or customers.

#### 4.1.7 Constraints or challenges.

There are constraints or challenges that hinder the organization from provision of loans to service providers or smallholder farmers; lack of experience on farm machinery farming business and lack of collateral or assets among farmers.

#### 4.1.8 Opportunities in farm mechanization.

Plenty opportunities are found in mechanization such as high demand of farm machinery by smallholder is increasing due to movement from hand hoe to farm mechanization. Also in Tanzania many companies have been engaged in supplying 2WTs in different areas in the country, so this availability of farm machinery technologies has been potential to the industry.

## **4.2 EQUITY Bank**

Equity is a commercial bank with many agricultural loan packages or products among other banks in Tanzania. It has established agricultural loan product called 'Kilimo biashara' (Agribusiness) with several and different loan packages: small-scale,

agribusiness-groups, agribusiness and modern agriculture mechanization. All these products are set based on the different financial conditions of the customers. Also the bank has got low interest rates compared to other commercial banks in the country as described below.

#### 4.2.1 Loan packages provided by this financial entity:

***Kilimo Biashara (Agribusiness) Small Scale:*** is a credit product specially designed to cater for modern agricultural tools and equipments for smallholder farmers cultivating grains and other crops. The product target SHFs for working capital and expansion purposes. Minimum amount is 50 usd and more depending on the requirements. Interest rate 20 percent, payback period 24 months depend on the amount of loan.

***Kilimo biashara vikundi (Agribusiness groups):*** This is an agriculture credit product to support smallholder farmers working in organized groups and associations such as Cooperative Societies, Community Based Organizations, Self Help Groups, Agricultural Marketing Federations, etc. Under this concept, members aggregate their financial requirements and the Bank is able to fund them jointly as opposed to having individual loans for each farmer: Minimum loan is 500 usd and maximum is 15,000 usd. Interest-16 percent, payback period one year.

***Kilimo biashara – (Agribusiness):*** is designed to deliver financial services to the small scale and medium, agribusinesses and agriculture based entrepreneurs (Agriculture value chain players such as agricultural traders and agro-processors such as farm output buyers, etc. (These include farm and home based value addition businesses, on-farm processing and agro based micro enterprises, middlemen etc.) at **post-production** levels of the agriculture value chains. Minimum loan is 500 usd and maximum is 15,000 usd (depending on the borrowers' requirement and ability to pay).Interest rate is 19% on flat rate basis (or as may be advised from time to time)

#### 4.2.2 Other packages

##### **Modern Agriculture-Mechanization**

**Product definition:** Kilimo Kisasa is a credit product specially designed to cater for modern agricultural tools and equipments. These will include but not limited to:

*irrigation equipments, green houses, spraying equipments etc. Product Justification; enhance utilization of modern agricultural technology to achieve higher yields, better market, food security, job creation, and improve livelihoods, reduce risk of crop failure due to unreliable weather patterns and over reliance on rain-fed agriculture, modern farming through irrigation and greenhouses gives the farmers assurance of production throughout the year and it is a clear means of revolutionizing agriculture and transforms more lives.*

**Target client are;** *small holder and commercial farmers, seed producers and suppliers, agro-mechanization companies, fertilizer producers and suppliers, individuals and companies that seek to use Irrigation schemes and greenhouse farming methods and installation of drip irrigation system. Loan amount is 500usd, payback period of 24 months depending on the crop cycle with interest rate of 20%.*

#### 4.2.3 Institution strategies to support farmers

Equity bank has several strategies to reach its customers including agricultural customers; such as enabling Small, Micro and Medium Agriculture Enterprises (S.M.A.E's) to contribute to the economy and be part of the financial system, to promote an innovative commercially oriented and modern agricultural sector, a social responsibility to avail financial services to the lower segment majority of whom are rural community and supports empowerment to target customers through; increase productivity and incomes, less collaterals / requirement to borrow under schemes and use group lending approach. Also to design several Agricultural loan packages including mechanization loans that are accessible by many farmers.

#### 4.2.4 Constraints or challenges.

There are constraints or challenges that hinder the organization from provision of loans to service providers or smallholder farmers; lack of experience on farm machinery farming business and lack of collateral or assets among farmers. Most of these agricultural loan products are not known to many customers especially those living in the rural areas. The bank has been taken several measures such as attending exhibitions,

advertisement through media and distribution of leaflets to reach many customers in remote areas.

#### 4.2.5 Opportunities in farm mechanization.

Equity bank has seen business opportunities in agricultural sector especially for small and medium enterprises, smallholder farmers, and post-harvest process technologies and in farm mechanization. Many farmers are moving from hand hoe to farm mechanization. Also in Tanzania many companies have been engaged in supplying 2WTs in different areas in the country, so this availability of farm machinery technologies has been potential to the industry.

### 4.3 VISION FUND TANZANIA.

Vision Fund Tanzania is a microfinance institution for provision of quality products and services to families and communities to foster sustainable livelihood. This micro-finance institution has changed its name from SMALL ENTERPRISES DEVELOPMENT AGENCY (SEDA) to Vision Fund Tanzania (VFT). Vision Fund has 4 financial packages for small businesses and rural entrepreneurs. These loans of low costs are loans for business, for bundle loans, self-development loans and special loans for farmers.

#### 4.3.1 Loan packages provided by this financial institution:

***Bundle loans:*** provided to individual entrepreneur and it has the following qualities;

- *Provide loan starting from Tshs 500 usd in a short period.*
- *Addition loan from one loan to another up to 5,000 usd*
- *You are not forced to put money in saving account-though it is good*

- *Payback period a customer choose herself or himself*
- *Interest rate is low*
- *No deductions*

***Business loans:*** *These are special loans for small businesses that are in groups of 6 and more and have the following qualities:*

- *You ca get a loan without individual collateral but through a group of few people*
- *Interest rate is low*
- *No deductions*
- *Paid once every month*
- *The first loan is up to 200usd and additional loan after the first loan is 100 usd.*

***Self- development loan:*** *These loans are for medium businesses that are in groups of 3 to 5 people and take loans through giving security or collateral for each other, have the following qualities:*

- *No waiting each other from the group, you are given another loan without waiting others*
- *The costs of this loan have lowered.*
- *Starting loan is 250usd-350usd*
- *Additional loan after the first is 150 usd*

***Agriculture loans:*** *These are special loans for farmers, provided to group of 10 to 25 farmers. These loans have the following qualities:*

- *You pay once the all loan after you have harvested*
- *Starting loan is 100usd and additional loan after first payment is 100 usd*
- *No deductions*
- *Interest rate 4%*

#### 4.3.2 Other Vision Fund loan conditions

According to the director Mr. Shukrani Vision fund doesn't have financial products for



farm machinery but can make arrangements with World vision to provide those packages. Entrepreneurs can take a loan of 250 usd to 1,250 usd in this case can buy any farm equipment. Farmers who are already in group and are saving qualify to get a loan to purchase 2WT, but after being assessed by vision fund. Groups and individual entrepreneurs must open saving account at Vision fund; this is criteria for support. If the groups will fail to qualify Vision fund will find a way to accommodate them.

#### 4.3.3 Institution strategies to support farmers

Vision Fund Tanzania has strategies to continue to provide loans to small scale farmers; to continue to work with smallholder farmers who have joined in groups, to support rural individual entrepreneurs who have started entrepreneurial activities, to continue to encourage farmer groups to establish village community banks or saving groups and farmers and other customers to open saving account in this microfinance institutions.

#### 4.3.4 Constraints or challenges.

There are constraints or challenges that hinder the organization from provision of loans to service providers or smallholder farmers; lack of loan management skills among farmers, lack of organizational skills, lack of experience on farm machinery farming business and lack of collateral or assets among farmers.

#### 4.3.5 Opportunities in farm mechanization.

There are many opportunities in agricultural industry in Tanzania, for instance in land tillage, in after harvest processes and transportation. All these require investment in machineries; the institution has released these opportunities and is looking forward to capitalize on them in the future.

### **4.4 ECLOF Tanzania.**

ECLOF Tanzania is a microfinance institution that provides loans to small and medium entrepreneurs for the purpose of empowering them economically. The organization provides financial services to people who would not easily have access to these services. Eclof believe that appropriate financial services, such as credit, savings, and insurance can empower disadvantaged and vulnerable people as well as communities to break the cycle of poverty and improve their livelihoods. Aim at creating partnerships of equals

with clients. Eclof recognize the inherent capabilities of the clients hence simply facilitate and help them to implement their own projects.

#### 4.4.1 How to join ECLOF.

There are ways to join ECLOF, every person is allowed to join the organization but should have at least 18 years of age, type of business you are doing or expect to do should be acceptable by law. For smallholder farmers or small businesses should join groups of 5 members who know each other and are trustful and should be Tanzania.

#### 4.4.2 Loan packages and its ceiling provided by this financial institution:

- *Jikwamue (Succeed)-100 usd 500 usd*
- *Jitegemee ( be independent)-500 usd-5000 usd*
- *Institutional loans- 2,500usd-50,000 usd*
- *Income loans-250 usd-5,000usd*
- *Agriculture loans-250 usd-1000 usd*
- *Usafi (hygiene) loans-250 usd-5000 usd*
- Loan packages such as Jitegemee (Independent) loans and Agricultural loans can be used to purchase any farm machineries.

*For Agriculture loans interest rate is 18%, payback period is 6months to 24 moths (time to harvesting).*

#### 4.4.3 Qualities of ECLOF

ECLOF has several qualities in this industry, the aim is to make sure that reach more customers with good products. The micro-finance provides loans at reasonable conditions; conditions that small business owners can afford, allow its customers to open and put savings for today and future businesses, provides entrepreneurship education to its customers to enable them to manage their businesses in a more profitable way and finally support farmers to get farm inputs (fertilizer and seeds) timely and connect them to the market.

#### 4.4.4 Roles of members:

All customers have roles to play to make sure that they continue to have positive relationship with the institution. They must be responsible to attend meetings with other

group members and make sure that the loans is paid accordingly, be ready to value assets for loans they wish to undertake, must provide right and reliable information on his or her business and members businesses and individual members should be ready to provide security on behalf of other group members to enable loans provision.

#### 4.4.5 ECLOF other information

The institute provides other important information for the customers to capitalize on for better business relationship. This information is such as customer to have documents on title deeds from village government. Eclof also help entrepreneurs who invest or have invested in post-harvest processes (e.g. millers, shelling etc.).The institute makes sure that within 5 months a customer pays the interest only but in the six month pays the principle and the interest rate.

ECLOF is working in Arumeru (Bagata village with 7 groups).

*ECLOF currently support farmers and entrepreneurs within Arusha town and Arumeru only.*

#### 4.4.6 Institution strategies to support farmers.

ECLOF Tanzania has several strategies to reach its customers such to provide good financial services to all customers especially to small entrepreneurs, to provide loans with simple and reasonable conditions, to provide entrepreneurship education, and to buy farm inputs timely and connect them to the market. ECLOF has a strategy to bring smallholder farmers into groups to allow them to put together their small resources they have for the purpose of qualifying for the loans or financial and business support.

#### 4.4.7 Constraints or challenges.

Most of the challenges and constraints are on the side of farmers or smallholder farmers. Lack of organizational skills among many farmer groups has been obstacle to smoothen loan provision. Most of these groups are not so strong with common commitment, they are not effectively saving to accumulate and attract finances at their level. Most customers have no collateral to guarantee their loans and lack of trust in loan repayment is another challenge especially to farmers finally lack of experience on farm machinery farming businesses.

#### 4.4.7 Opportunities in farm mechanization.

This micro-finance institution understand and is aware of available opportunities in farm mechanization especially post-harvest process technologies such milling and shelling. Also has realized the opportunities to work with small and medium agricultural enterprises that mostly add value in crops in the area of processing. Many farmers are moving from hand hoe to farm mechanization. Also in Tanzania many companies have been engaged in supplying 2WTs in different areas in the country, so this availability of farm machinery technologies has been potential to the industry.

#### **4.5 EFTA-Equipment loans**

EFTA Tanzania is a microfinance Institution that provides equipment loans to small and medium entrepreneurs for the purpose to empower them economically. The organization provides equipment financing without financing lease, collateral free; the organization continue to own the machine until the repayment is finished. To ensure risk sharing before you qualify for the loan the company assess the capacity of customer to pay, experience of a customer on that field; after qualification you pay down payment of 5% of total value. EFTA provides financial lease for machines: minimum value 8,000 usd, maximum-50,000 usd. Most of the customers are service providers and commercial farmers.

Loan conditions are such as viable business plan, experience in that business, areas to be reachable within 2hour from the office; mode of payment is monthly payment if a customer is not capable to pay monthly can pay per season. Interest rate is 16.7 percent per year and is payable 1.4 percent per month; payback period is 3years-under monthly or season payments. The company provides grace period of three months and customer should pay down payment of 10% of the total equipment value. An area in agricultural investment is farm machinery; EFTA consider strongly quality of the machine or durability on field for at least 5years and provides warranty of one year. EFTA has the same package for both, but for the group-one member from the group must be chosen to be responsible for the loan.

#### 4.5.1 Type of farm equipments EFTA supports.

All farm machineries of value from 8,000 USD to 50,000 USD except 2WTs or power tillers are not supported. The company doesn't support 2WT with the reason that its efficiency is very low but all 2WT accessories such as Shellers, threshers, planters, disc ploughs, trailers being in a combination that amount to 8,000 usd are supported.

#### 4.5.2 Opportunities in farm mechanization and strategies to support entrepreneurs especially farmers to access equipment loans.

The organization has seen the high demand of farm machinery from smallholder farmers due to movement from hand hoes to farm mechanization. Also is encouraging contract farming that ensure

market for the farmers. The institute has strategies to support customers especially farmers such as collateral free long term loans, the approach of not giving cash but machine direct to ensure that customer meet targets intended and business support to write business proposal/plan.

#### 4.5.3 Constraints or challenges, strengths and weaknesses of 2WT in Tanzania

There are several challenges that hinder provision of loans to farm machineries to entrepreneurs or farmers such as lack of working capital for smallholder farmers, lack of profitable market for farmer's produce and lack of business experience especially for smallholder farmers. Strengths of 2WT industry in the country convincing; availability of various 2WTs technology in the country and continuous advertisement of farm machinery by dealers-awareness creation indicate positive strength to the industry. For the weaknesses; dealers are after profit- provides high price to farmers, low quality of 2WTs are flooded in the market, lack of enough information on available appropriate farm machineries and less participation of farmers in trade fairs to know the technology.

#### 4.5.4 How to join EFTA.

The process to access equipment loan starts by the entrepreneur to have viable business idea or opportunity to grow from the existing business. A customer needs to possess good experience in that business even though it is start-up business. Also ability to get access to operating capital is crucial factor to be considered and must possess enough area for business.

## **5.0 Discussion.**

In Tanzania there are many commercial banks and micro-finance institutions that operate even in north-zone of Tanzania (Arusha, Moshi and Manyara regions). Some of them have branches at district level in these regions but many are operating at region level. Most of the commercial banks have tight loan conditions compared to micro-finance institutions and are not so attractive to many smallholder farmers and rural entrepreneurs. These banks set interest rates in the range of 8 to 30 percent which are so much higher to enable farmers to afford but micro-finance institutions have a lower interest rates ranging from 6 to 16.8 percent of which many farmers and rural entrepreneurs can afford and capitalize.

In Tanzania the agricultural sector is considered as profitable but risky due to the fact that it is dominated by rain fed agriculture, so many financial institutions consider the sector has having many risks that is why many commercial banks do not support smallholder farmers. Rural farm entrepreneurs with land area of at least 5 acres have been supported by Tanzania Investment banks if are committed to farm that areas as farm business, so many farmers with large farming land have been getting loans from this commercial banks. Farm mechanization has been growing in Tanzania; farmers are trying to move completely from hand hoes and animal draft to modern agricultural

mechanization such as 2WTs and its accessories as well as 4WTs, that is why there is huge supply of small farm machineries such as 2WTs (power tillers) in Tanzania since 2007 to date. Most farmers have failed to access these machineries because of low purchasing power and high price of the equipments.

In another hand many financial providers don't understand well the importance of mechanization in promoting agriculture in the country. They are just assessing the risks associated with the industry but not the profitability of the sector especially to smallholder farmers. Commercial banks and micro-finance institutions are not aware of high demand of small farm machineries like 2WTs and accessories among farmers, this being the reason that most of these institutions don't have loan packages or products for small mechanization, example of these financial organizations are such as Equity bank, EFTA, and NMB. Among of the commercial banks assessed are National Micro finance banks (NMB), and Equity bank, these selected because they have financial packages for rural entrepreneurs and farmers, also micro finance institutions visited were Vision Fund Tanzania, PASS Trust, ECLOF Tanzania and EFTA equipment loans. Among these financial institutions only two have direct loan packages for small mechanization; these are PASS Trust, Equity banks and EFTA loan equipments (with condition of lending as described in the report above). PASS provides equipment loans to any agricultural inputs including any farm machinery (small and big agricultural machineries), also Equity bank provide loans for agricultural equipments including 2WTs. EFTA provide loans for farm machinery for value at least 8,000 usd, but for small machineries for instance 2WT need to combine with other attachments that will reach that value of 8,000 usd.

Vision Fund and ECLOF don't have loan products for mechanization but after sharing the economic information of business models of 2WT and its accessories with FACASI project, promised to revise their strategies to capture the increasing demand of mechanization equipments especially 2WTs. Vision Fund will wait until the management to make decision to introduce mechanization loans in their products but ECLOF accepted to support rural entrepreneurs and farmer groups who will need loans for 2WT-mechanization if they will fulfil institution conditions. All these institutions accept

PASS have low interest rates as we have seen above compared to commercial banks that are operating in the country. PASS just connect customers to banks and all financial conditions fall under respective bank procedures. Following all those above, the project through agribusiness development specialist has engaged and shared crucial economic information with these institutions.

The project advised these institutions the profitable areas in mechanization to build up financial products such as in post-harvest processing technologies like shelling, milling and transportation, also advised to build up packages for seeders and irrigations with small pumps. These products should focus on rural entrepreneurs or 2WT- custom hiring services and farmers who have established farm business ventures; for individual and group of farmers. All financial institution showed interest on these and accepted to work effectively on these opportunities.

## **6.0 Conclusion and recommendations**

The project has developed appropriate financial packages or products that target rural entrepreneurs and farmers. Support to financial institutions have been done through information sharing on economic analysis of 2WT-models and this has motivated these institutions to put in management agenda the importance to capitalize on farm mechanization opportunities especially for smallholder farmers and rural entrepreneurs. The project should closely engage with these four financial institutions and connect farmers and rural entrepreneurs to access financial support.

These financial institutions in collaboration with the project must conduct surveys to smallholder farmers (groups and individuals) to assess their capacity and to share financial information on mechanization packages. Facasi project should work closely



with Vision Fund, ECLOF Tanzania and EFTA to continue with discussions and share with them economic information of 2WT models to convince them to establish 2WT loans products.

The following are recommendations to make sure that appropriate financial packages are available to farmers and rural entrepreneurs:

- Vision Fund and ECLOF Tanzania should visit individual farmers or entrepreneurs and groups in the project area in Arumeru, Babati and Mbulu to assess their capacity and viability to secure loans.
- Vision Fund Tanzania promised to design a new financial package to fit FACASI beneficiaries if they will not qualify for the terms and conditions in place.-the project must make follow-up on this.
- Vision Fund agreed to discuss with World vision to see how we can work together.
- Equity bank agreed to visit rural entrepreneurs and meet them to assess them and mentor them on business and financial management before engagement.
- ECLOF Tanzania has already working with some farmers group in Arumeru (Bagata village), agreed to meet with farmer groups and individuals to facilitate loans engagements through agriculture loan package for farm machinery (especially post-harvest machines).
- PASS Trust to assess individual entrepreneurs and groups in both districts in Manyara and Arusha region to come up with the way to engage in loan support through guarantee approach (recent feedback from PASS).

**Annex 1: Checklist for micro-finance institutions.**

**BUSINESS MODEL ANALYSIS  
MICRO-FINANCE INSTITUTION CHECKLIST FOR FINANCIAL  
PRODUCT DEVELOPMENT**

**FACASI Project:** Farm Mechanization and Conservation Agriculture for Sustainable Intensification.

**Objective:** To support development of mechanization financial products.

**Institution name:** -----

**Address:** -----

**Name:**.....

Place: .....

Items/Issues	Response	General observation
<ul style="list-style-type: none"> <li>▪ Tell us about your business</li> </ul>		
<ul style="list-style-type: none"> <li>▪ How does the business operate?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Do you have loan packages for mechanization/agricultural sector? If yes, what loan packages are you giving to different farm technologies? With what interest rates, and payback period?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Are your loan products known to customers especially farmers? If not what strategies to make sure that these packages are known?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Are your loan packages affordable to your customers/farmers?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ What challenges do you have in working with rural entrepreneurs who invest in farm businesses?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ What is your strategy to continue/ or to start deliver loan packages of 2WT farm machineries to SHFs?</li> </ul>		

**Annex 2: Checklist for Commercial banks.**

**BUSINESS MODEL ANALYSIS  
COMMERCIAL BANK INSTITUTION CHECKLIST FOR FINANCIAL  
PRODUCT DEVELOPMENT**

**FACASI Project:** Farm Mechanization and Conservation Agriculture for Sustainable Intensification.

**Objective:** To support development of mechanization financial products.

**Institution name:** -----

**Address:** -----

**Name:**.....

**Place:** .....

Items/Issues	Response	General observation
<ul style="list-style-type: none"> <li>▪ Tell us about your bank regarding to types of loans is giving</li> </ul>		
<ul style="list-style-type: none"> <li>▪ How does the business operate?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Do you have loan packages for agricultural sector? if Yes, do your bank provide loans to smallholder farmers and rural entrepreneurs?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ What loan packages are you giving to different farm technologies? With what interest rates, and payback period?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Are your loan packages affordable to your customers/farmers? If not what your strategies to make sure that farmers</li> </ul>		

<p>and rural entrepreneurs afford these products?</p>		
<ul style="list-style-type: none"> <li>▪ Are your loan products known to customers especially farmers? If not what strategies to make sure that these packages are known?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ What challenges do you have in provision of loans to small entrepreneurs especially farmers?</li> </ul>		
<ul style="list-style-type: none"> <li>▪ What is your strategy to continue/ or to start deliver loan packages of 2WT farm machineries to SHFs?</li> </ul>		