

ACCESS TO FINANCE FOR MICRO, SMALL & MEDIUM ENTERPRISES IN TANZANIA

Prepared under the Delivering Expertise,
Capacity, and Investment to Developing
Enterprises (DECIDE) Project



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Acronyms and Abbreviations

Acronym	Full Expansion
BDS	Business Development Services
BoT	Bank of Tanzania
BRELA	Business Registrations and Licensing Agency
DECIDE	Delivering Expertise, Capacity, and Investment to Developing Enterprises
ECAT	Enterprise Capacity Assessment Tool
EPZA	Export Processing Zones Authority
FIs	Financial Institutions
LGA	Local Government Authority
MSME	Micro, Small and Medium Enterprise
NEC	National Electoral Commission
NMB	National Microfinance Bank
NORAD	The Norwegian Agency for Development Cooperation
NSSF	National Social Security Fund
OSHA	Occupational Safety and Health Agency
SAGCOT	Southern Agriculture Growth Corridor of Tanzania
SIDO	Small Industries Development Organization
SOEs	State Owned Enterprise
LGA	Local Government Authority
TADB	Tanzania Agricultural Development Bank
TAHA	Tanzania Horticultural Association
TBS	Tanzania Bureau of Standards
TIB	Tanzania Investment (Development) Bank
TZS	Tanzanian Shillings
VETA	Vocational Education and Training Authority
VICOBA	Village Community Banking

Executive Summary

This paper explores the existing financing options available to MSMEs engaged in the horticultural sector in Tanzania that enable these businesses to make informed decisions on the most desired financial services from both public and private lending institutions in Tanzania. It has been prepared as part of the Delivering Expertise, Capacity and Investment to Developing Enterprise (DECIDE) project implemented by Farm Africa in 10 regions of mainland Tanzania. The project is funded by the Norwegian Agency for Development Cooperation (NORAD) to catalyse increased productivity, job creation and economic growth in the Tanzanian horticulture sector through development of MSMEs, particularly those that operate within horticultural value chains.

The study was conducted in Dar es Salaam where the headquarters for most financial institutions are concentrated. A non-probability sampling technique was used to determine the sample size for financial institutions. A key informant interview method was used to gather primary data. Secondary data was collected through the review of available literature on MSMEs' access to available financial services.

The study indicates that access to financial services by MSMEs engaged in the horticultural sector from financial institutions remains a challenge. Although financial institutions have products tailor made for MSMEs, the demand for collateral, higher interest rates and lack of information on available financial products impede MSMEs from accessing such financial services and products.

One of the outcomes of the DECIDE project is to promote access to financial services to unlock private and commercial investment for MSMEs. This is done both by building the capacity of businesses to overcome challenges of financial record-keeping and management and also by supporting and informing MSMEs about all available financial products for their business growth. As a result of these interventions, the number of SMEs accessing financial products increased from 20% recorded in 2020 to 57% in 2021.

The financial sector has recently focused on improving interest rates and tailoring products that are more accessible and affordable for MSMEs. For example, NMB announced in October 2021 that they were cutting interest rates to customers from the agriculture, fisheries and livestock value-chains, and new rates will not exceed 10%.¹ In addition, alternative forms of financing like asset financing, from companies such as EFTA, provide access where MSMEs would otherwise struggle with up-front collateral and other requirements. The Bank of Tanzania has also enacted strategies to reduce higher interest rates.

A key lesson learnt during the implementation of the DECIDE project, which was further confirmed and substantiated by interviews with key informants from the various financial institutions, is that well managed financial and business records help MSMEs to access financial services for their economic growth and are critical for financial institutions to assess the credit need and eligibility of a business. The 30 MSMEs supported by the DECIDE project have been technically supported to develop business plans, establish marketing strategies, set up and streamline financial management systems, establish formal registration, and open bank accounts, among other business development services (BDS). However, financial institutions also need to create favourable conditions for MSMEs to more easily access financing. These conditions include lowering interest rates, finding new and alternative ways for MSMEs to provide proof of collateral, and simplifying the process for MSMEs to easily navigate and access finance.

¹ <https://www.nmbbank.co.tz/about-us/resources/nmb-in-the-news/705-nmb-bank-starts-offering-loans-at-affordable-interest-rates-to-agriculture-livestock-and-fisheries-sectors>

1.0 INTRODUCTION

Farm Africa, through the Norwegian Agency for Development Cooperation (NORAD) funded Delivering Expertise, Capacity and Investment to Developing Enterprise (DECIDE) project, is currently supporting 30 horticultural MSMEs across 10 regions of Tanzania. Among these, 56% are female-owned enterprises. The supported MSMEs are challenged by limited access to financial services, especially loans, equipment and working capital. This has been a constraint for the growth of many MSMEs and has limited the expansion of their businesses. In 2020 only six (20%) of the MSMEs supported by the DECIDE project had taken a loan from a formal financial institution (commercial bank). These loans were taken in order to increase working capital as well as invest in machinery and facilities. The remaining 80% of the supported MSMEs had various financing needs to boost their investment and working capital but were reluctant in engaging with formal financial institutions. Many businesses reported that they were more comfortable and familiar with receiving small financial support from relatives and friends or through village community banking (VICOBA) and similar micro-finance arrangements. Many of the businesses said that they did not have sufficient information about the various funding arrangements available for MSMEs in Tanzania. Therefore, the project decided to assess the different financial institutions and funding products available to these types of businesses and explore the constraints faced by MSMEs in the horticultural sector in taking up the available financial products.

1.1 Importance of the horticultural sector in Tanzania

Tanzania's horticulture sub-sector is growing rapidly and has increasingly become one of the major contributors to the agricultural sector, with annual average growth of 11% which is two times the annual overall growth rate of agriculture. Currently, the sector provides 4.5 million direct and indirect employment opportunities, comprised of both large-scale and small-scale production, with a significant proportion being held by women and young people. Moreover, horticulture production is labour-intensive and dominated by smallholder farmers who account for over 70% of the producers with land size of less than two hectares.² Horticulture in Tanzania has contributed significantly to food security and nutrition, as well as being a source of employment, raw materials for primary processing industries, and foreign earnings from export. The Government of Tanzania has identified horticulture as a priority Commodity Value Chain in the Agriculture Sector Development Program phase two (ASDP II)³ and an important driver towards the realisation of the National Development Vision 2025.⁴

Major horticultural crops grown in Tanzania include fruits, vegetables, spices and flowers, including avocados, pineapples, bananas, oranges, jackfruits, onions, carrots, cabbages, round potatoes, tomatoes, baby corns, baby carrots, green (French) beans, and mange tout, cloves, roses, gerbera, flower seeds, and cuttings. Horticulture production is practised in all regions of Tanzania; however, there are major concentrations of production in Kilimanjaro and Arusha, especially flowers and vegetables for export, due to the proximity to Kilimanjaro International Airport, and in the SAGCOT regions due to favourable climatic conditions.

The horticulture sector is especially attractive for women and young people since horticultural crops take shorter cycles to maturity as compared to other field crops. Horticultural crops can be grown intensively under a small piece of land with a high value gained compared to other crops.

This sector has a vast number of MSMEs who do different levels of sorting, packaging, processing and value-addition to horticulture products. Examples of different end products created by MSMEs engaged under the DECIDE project include pickles, juices, tomato

² <https://www.repoa.or.tz/wp-content/uploads/2021/06/Horticulture-PB.pdf>

³ <https://www.tanzania.go.tz/home/pages/364>

⁴ https://www.kilimo.go.tz/uploads/dasip/English_ASDP_II_version_Novemba_2017_.pdf

sauces, chilli sauces, spices, dried fruits and vegetables, and fruit wines, which are supplied to both domestic and export markets.

1.2 Status of MSMEs' access to financial services in Tanzania

Access to reliable and affordable financial services for MSMEs matters in fostering economic development through the realisation of the industrialisation agenda in the Tanzania Development Vision 2025.⁵ Financial institutions play an important role in transferring funds from surplus spending units (savers) to deficit spending units (investors), promoting efficiency and economic growth of both the financial institutions and the nation at large.⁶ According to the Bank of Tanzania (BoT) website⁷, there are currently 34 commercial banks, four microfinance banks, two development finance banks as well as various other non-banking institutions licensed to operate in Tanzania. These non-banking institutions include financial leasing institutions, mortgage financing institutions, credit reference bureaus and foreign banks' representative offices. The BoT regulates and supervises all financial matters in the country, including social security schemes. These institutions as a whole work closely in respect to BoT rules and regulations to provide financial services to communities. They offer credit services to businesses of all forms including MSMEs. According to the Tanzania Investment report released in August 2021 there were 48 financial institutions in Tanzania with a total capital of TZS five trillion as of December 2019.⁸ However, the BoT reports that a survey conducted to 318 MSMEs in 2019 revealed that only 28% received loans.⁹



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⁵<http://www.tzonline.org/pdf/theTanzaniadevelopmentvision.pdf>

⁶ Wilfred Mbowe Fredrick Shirima & Deogratus Kimolo (2019). Role of Financial Innovation in Enhancing MSMEs Access to Credit: An Empirical Investigation on Tanzania. Bank of Tanzania WP No. 18
<https://www.bot.go.tz/Publications/Other/Working%20Papers%20Series/en/202006092200592834.pdf>

⁷ Bank of Tanzania. List of Licensed Intuitions. <https://www.bot.go.tz/BankSupervision/Institutions>. Accessed 20 July 2022

⁸ <https://www.tanzaniainvest.com/banks>

⁹ Wilfred Mbowe Fredrick Shirima & Deogratus Kimolo (2019). Role of Financial Innovation in Enhancing MSMEs Access to Credit: An Empirical Investigation on Tanzania. Bank of Tanzania WP No. 18

1.3 Objective of the study

The main objective of the study was to assess the funding arrangements available to MSMEs in Tanzania in order to support MSMEs to make informed decisions upon selection of desired financial services from a particular financial institution.

Specific objectives were:

1. To understand the constraints on MSMEs in accessing financial services from formal financial institutions.
2. To map out key financial institutions and other financial providers that target MSMEs and their respective financial products available.
3. To identify strategies that address MSMEs' constraints to financial services.

2.0 METHODOLOGY

2.1 Study area

The study was conducted in Dar es Salaam where the headquarters for most of the financial institutions are concentrated. Thus a total of six interviews were conducted (Annex 1), including with three commercial banks (CRDB and NMB), two micro-finance banks (FINCA and Letshego), two development finance institutions (TADB) and TIB Development Bank and one equipment leasing company (EFTA). These financial institutions were interviewed because they provide different services to MSMEs. Commercial banks have the ability to give larger loans compared to microfinance institutions, which provide smaller loans, which generally target smaller businesses and have easier collateral and other requirements. Development finance institutions like TADB provide loans with small interest rates for farmers, but also it was important to get insight from equipment leasing companies such as EFTA, because MSMEs have a need for equipment in order to increase production.

2.2. Sampling technique

Convenience sampling, which is a type of non-probability sampling technique, was used to determine the sample size and select individual financial institutions for the sample. Only financial institutions that were easily accessible and agreed to be interviewed were counted.

2.3 Method and tools for data collection

Primary data was collected through key informant interviews. Through an interview guide (Annex 1), Farm Africa staff conducted in-depth face to face interviews as well as phone interviews with key staff from financial institutions responsible for SMEs' services.

Secondary data was collected through a review of available literature on MSMEs' access to available financial services. Information concerning loan acquisition by the MSMEs supported under the DECIDE project was drawn from DECIDE project progress reports that were generated during routine data collection from 30 MSMEs.

2.4 Data analysis

Both narrative and thematic approaches were used to analyse qualitative data, while simple descriptive statistics were used to analyse quantitative data.

3.0 RESULTS AND DISCUSSION

3.1 MSMEs' constraints in access to finance

MSMEs take a leading role in the horticultural sector and have long been recognised as a very important source of employment, innovation and economic development. However, funding constraints limit entry of new businesses and development of existing enterprises, thus affecting their growth. Tanzania's MSMEs often struggle to earn a consistent profit and/or fail before they can fully test or scale their business models to their full potential. Across the country, most MSMEs engaged in the horticultural sector are challenged by limited capital and cannot easily access financial services from financial institutions and other capital venture providers due to the following reasons:

- i) **Need for collateral:** Financial institutions normally request collateral, mostly in the form of immovable assets such as land or houses. This is a huge hindrance because most MSMEs do not have these collaterals and therefore cannot access products from financial institutions.
- ii) **High interest rates:** Banks and microfinance institutions often charge very high interest on the loans provided. Average commercial lending rates were about 18-23% in June 2021. For this reason MSMEs end up finding alternative means of funding from relatives, friends and VICOBA where they are offered affordable loans with no interest or very little interest.
- iii) **Lack of information to MSMEs:** MSMEs lack not only proper information on the available products and facilities that can be beneficial to them, but also information on why it is necessary to take loans or other financial products for the growing their business.
- iv) **Mismatch of the present financial products:** Most of the financial products available on the market are not specifically tailored to the needs of each specific MSME, and this is especially true for businesses working in the agricultural sector. This starts with the products that are available, but also includes the eligibility criteria put in place that are out of reach for MSMEs.

As a result, MSMEs are not well served by the formal financial market and often try to exploit other resources such as savings, loans from relatives or friends, community-level financial groups such as VICOBA or even informal local money lenders. Although savings and loans from friends and relatives can provide start-up funding, they are not always appropriate when there is a need for larger amounts of capital and for enduring business problems, such as smoothing cash flow. Local money lenders can charge extortionate interest rates, making such loans unaffordable or only last-case options. This limits business investment opportunities that would drive employment opportunities and economic growth.

3.2 Key financial institutions targeting MSMEs

3.2.1 Commercial banks

In mainland Tanzania there are 45 commercial banks that provide various types of financing for businesses. Some of the well-known commercial banks include ABSA Bank, Azania Bank, CRDB Bank, Diamond Trust Bank (DTB), Ecobank, Exim Bank, I&M Bank, National Bank of Commerce (NBC) and Stanbic Bank. During the study two commercial banks were interviewed about the products they offer to MSMEs. These include National Microfinance Bank (NMB) and CRDB Bank.

NMB offers medium-sized loans to MSMEs. The credit need is analysed based on the size, nature and viability of the enterprise to be financed. Applicants can borrow from TZS 50,000,000-1,500,000,000 (\$21,500-\$650,000) with an interest rate ranging from 18% to 23%. NMB provides loan funds for both working capital and long-term investment needs. The bank has the largest existing network, with over 215 branches all over the country. Their

officers are regularly trained to equip borrowers with business skills. Flexibility in repayments range from six months to five years depending on the credit purpose and anticipated cash flows. SMEs can graduate and become eligible for a corporate loan, which is a bank credit facility for companies that offers longer repayment periods from 12 months to five years, mainly for financing large capital investments.¹⁰

CRDB has two specific products for SMEs which include SME *Bidii* working capital loans and SME *Bidii* investment loans. SME *Bidii* working capital loans provide funds to meet SME business working capital needs in day to day business operation costs (eg purchasing of raw material for production and stocks for resale), while SME *Bidii* investment loans equip businesses with capital needed for acquiring machinery, equipment, construction and vehicles, renovating business premises or other capital investments.

For the SME *Bidii* loan, CRDB bank provides loans ranging from TZS 1,000,000 to 2,000,000,000 (\$425-\$850,000), with a flexible loan repayment period. They have interest rates ranging at 14-21% and flexible collateral requirements, whereby collateral can be negotiated to include not only houses and land but also capital equipment, cars, motorcycles, bajaji and chattels. They provide free training in business and loan management to recipient MSMEs, and a loan is obtained in seven days.¹¹

For both NMB and CRDB banks the eligibility criteria are similar:

- Applicants must be at least 18 years of age
- At least three years' experience in operating same or similar business
- The business must be located within a location served by a bank branch
- Business must have a steady cash flow
- Applicant must have proper recording system and also show the capability of operating the business profitably
- Applicant must have a premise (owned or rented) as a physical address
- The borrower must have a business licence/permit from the relevant local authorities in his or her own name
- Applicant must have a good reputation in the community
- Applicant must open or have a dedicated business account



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¹⁰ <https://www.nmbbank.co.tz/>

¹¹ <https://crdbbank.co.tz/en/sme-banking-loan/>

3.2.2 Microfinance banks

Microfinance banks target individuals and small businesses who lack access to more conventional banking and financial services. Microfinance banks provide microcredit, which is the provision of loans that are usually smaller than those available at commercial banks. Microfinance services are generally designed to target a different type of client than commercial banks, especially those that are otherwise unreached by or excluded from commercial banks, and such institutions may try to simplify the financing process to make it more accessible to their target clients. The BoT lists four microfinance banks in Tanzania, including Access Microfinance Bank, FINCA Microfinance Bank, VisionFund and Yetu Microfinance Bank.¹² For the purposes of this study, key informants from FINCA and Letshego Bank were interviewed about the types of products available to MSMEs.

FINCA offers loans to MSMEs ranging between TZS 500,000 and 220,000,000 (US \$220-\$95,000) for the first application depending on the business.¹³ Their loan products are simple and designed to the unique needs of each customer. The business should be registered and have operated for at least six months in order to receive financing. Once approved for any loan product, the customer can access the funds within three working days. These loans are generally given for working capital and for purchasing equipment.

Letshego Bank offers loans to MSMEs that have been operational for at least six months, with an interest rate of 4-6%. They offer loans from TZS 1,000,000 to 350,000,000 (\$430-\$152,000) to an MSME depending on the value of the collateral provided and evidence of assured market of their goods and services. The repayment period is from three months to three years, and they offer a grace period of 30 days before repayment can begin.

3.2.3 Development finance institutions

There are two development finance institutions in Tanzania, namely Tanzania Agricultural Development Bank (TADB) and TIB Development Bank (formerly Tanzania Investment Bank). Both are government-owned and focus on providing financing to support the economic development of the country. TADB was interviewed for this study.

TADB offers a range of financial products to meet its development financing mandate to facilitate and support SME business growth. The products aim to increase and expand access to finances by SMEs as well as improve business operations and the working environment to enhance growth and prosperity.

The SME products offered by the bank are:

- **Direct lending to registered entities:** TADB provides direct loan financing to registered business (as Limited Liability Companies or registered Cooperative societies) with good business track records.
- **Technical assistance and advisory services:** The bank provides capacity building services in terms of training to equip SMEs who have taken loans in areas of business management skills, financial management and establishment of market linkages. Advisory services also aim to assist SMEs to improve business management operations. Advisory service is provided to start-ups and on-going SMEs on good business practices and other types of consultancy services.

The bank offers loans to medium and large enterprises ranging from TZS 50,000,000 to 1,000,000,000 (\$21,700-\$434,700) at the interest rate of 5% for all agriculture focused enterprises with flexible repayment periods to match with the business cycle and project cash flows. They also provide long-term loans with repayment period of up to 10 years which is crucial for investment. Loans offered are for financing capital investments and initial

¹² Bank of Tanzania. List of Licensed Institutions. <https://www.bot.go.tz/BankSupervision/Institutions>. Accessed 20 July 2022

¹³ <https://finca.co.tz/products/business-loan/>

operational capital. A grace period for principal repayment is provided depending on the nature of the project.

3.2.4 Financial leasing institutions

Institutions such as Pass Leasing, which was established by Private Agriculture Sector Support (PASS) Trust¹⁴ and EFTA Ltd (formerly Equity for Tanzania Limited) are finding new and innovative ways to provide access to asset financing for MSMEs. EFTA is an equipment finance company, which specialises in service SMEs. The company supplies businesses with equipment loans, with no collateral except for the equipment itself. EFTA focuses on equipment loans of TZS 5,000,000-140,000,000 (\$2175-\$61,000) and works with various equipment suppliers to provide high-quality options to clients.¹⁵ EFTA's zero collateral requirement addresses one of the key constraints on MSMEs borrowing levels, allowing customers to pursue more ambitious growth plans. The business is required to do an initial deposit of between 25%-35% of the value of the equipment, and interest rate is charged at 16% per annum.



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3.2.5 Government institutions

Small Industries Development Organisation (SIDO) was established in 1973 as a parastatal organisation under Ministry of Trade, Industry and Marketing (now Ministry of Industry and Trade). Its objective is to develop the small industry sector in Tanzania. It was expected to fulfil a very wide range of functions, from policy formulation to direct support to industries to hands-on involvement in the establishment of MSMEs in both rural and urban areas.

SIDO extends credit facilities in two programmes: the National Entrepreneurship Development Fund (NEDF) and Regional Revolving Fund (RRF) for individuals and group loans¹⁶. SIDO provides MSMEs with loans from TZS 500,000 (\$200) up to TZS 2,500,000 (\$1085) and TZS 6,000,000 (\$2600) for NEDF and RRF programmes respectively. The repayment model is based on monthly instalments, with a repayment period of up to three

¹⁴ Private Agriculture Sector Support (PASS) Trust. (2019). Available at: <https://www.pass.or.tz>. Access on 20 July 2022.

¹⁵ <http://www.equityforafrica.org/efta.html>

¹⁶ <https://www.sido.go.tz/en/credit-services-offered>

years, depending on the type and size of the project. Interest rates are 18% per annum for production sectors. Beneficiaries are both start up MSMEs and existing businesses.

Additional eligibility criteria include:

- Applicant must be an adult citizen of Tanzania.
- The business seeking funding must be legally registered.
- The place of residence of the prospective borrower must be permanent and well known by local authorities.
- The applicant must be ready to verify the existence of the entrepreneur and the enterprise.
- The borrowing entrepreneur must have the capability and willingness to repay the respective loan and must possess or be ready to open a valid bank account in the name of the respective business.
- Applicants must have two guarantors.
- The security (collateral) in form of immovable assets (e.g. land, house) should cover at least 125% of the loan amount.

For MSMEs who require higher value loans, SIDO provides support to liaise with and link the enterprises with financial institutions which have shown interest and willingness. Through its credit linkages, SIDO collaborates with four other institutions to provide a loan of between TZS 8,000,000-500,000,000 (\$3500-\$215,000) for equipment and machinery to MSMEs. SIDO plays the part of identifying and introducing MSMEs who have gone through SIDO trainings and consultations and are eligible for the loan. Institutions involved are Azania Bank, National Electoral Commission (NEC), National Social Security Fund (NSSF) and Vocational Education and Training Authority (VETA). This loan had 13% interest rate and could be paid for up to seven years with the machine itself being the main collateral. This loan was administered through Azania Bank with SIDO acting as the guarantor and liaison.

SIDO also offers a Credit Guarantee Scheme¹⁷. This new lending programme was implemented by SIDO and CRDB. Here SIDO acts as a guarantor to enable MSMEs to acquire a loan from the bank. Currently the scheme operates in sixteen regions (Morogoro, Dodoma, Singida, Manyara, Arusha, Kilimanjaro, Mbeya, Iringa, Tanga, Mwanza, Dar es salaam, Njombe, Ruvuma, Pwani, Mtwara and Kigoma) to promote and support MSMEs which have a significant role in the economy by creating enabling environments for them to access finance from commercial banks with the minimal collateral they have.

The target group are growth-oriented MSMEs mostly engaged in agro-processing and agri-businesses which have successfully graduated from a SIDO financing scheme such as NEDF and RRF, and is offered to SMEs with other SIDO services or programmes such as Technology, Marketing, Training and Extension Services. Loans provided range from TZS 10,000,000-50,000,000 (\$4,300-21,500). The interest rate is 17% (on declining method, whereby when the loan is paid monthly the interest rate is calculated from the current loan balance). Both traditional and non-traditional collateral are accepted and include landed properties, guarantees from close relatives with title deeds except non-traditional securities, stock under collateral management, motor vehicles owned by the borrower (five years from first registration in the country), shares listed at Dar es Salaam Stock Exchange (excluding CRDB shares), a fixed deposit account and *Malkia* Account (Monthly Saving Plan for Women offered by CRDB Bank). The repayment period is from six to 36 months including grace period.

¹⁷ <https://www.sido.go.tz/en/credit-guarantee-scheme>



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3. Strategies to address SMEs' constraints in access to finance

Recent efforts by the Government of Tanzania, donors and non-governmental institutions have aimed at facilitating MSMEs to overcome major bottlenecks in access to finance. The government has recently issued various policy measures to promote access to credit for the private sector and lower interest rates, as well as increase lending specifically to the agriculture sector. At the same time, NGOs are providing business development services to SMEs to help strengthen their business planning, financial management, operations, governance and compliance in order to enhance the eligibility of such enterprises to access credit. The efforts and strategies the government of Tanzania has taken to increase access of finance to MSMEs also describes strategies that have been used by Farm Africa to increase SMEs' access to financial services for beneficiaries under DECIDE project.

3.3.1 Government of Tanzania's efforts to increase access to finance

In a public notice on 27 July 2021, the BoT enumerated policy measures to promote credit to the private sector and to lower interest rates.¹⁸ In particular, the BoT reiterated that prior to the outbreak of COVID-19, macroeconomic conditions in Tanzania were stable and that the economy experienced annual growth averaging 6.7% from 2010-2019. During this period credit extended by banks to the private sector grew at 15%. However, the COVID-19 pandemic significantly affected economic activities in Tanzania and globally. One of the biggest reasons for this was the lockdown measures and travel restrictions implemented in countries which trade with Tanzania. In 2020 the economic growth rate slowed to 4.8% from 7% in 2019. Private sector credit growth in 2020 was also low, while interest rates on loans charged by banks have remained high, at an average of 17%. Therefore, in order to speed up economic recovery and increase the up-take of credit to the private sector and lower interest rates, the BoT decided to implement various policy measures. Most relevant to MSMEs and the agriculture sector is the reduction of statutory minimum reserve requirement (SMR). This policy states that *"A bank that extends credit to agriculture shall be eligible to a reduction in SMR amount, equivalent to the loan extended. In addition, a bank shall be required to submit evidence of lending to agriculture at interest rate not exceeding*

¹⁸ Bank of Tanzania. Public Notice. 27 July 2021. Accessed at: <https://www.bot.go.tz/Adverts/PressRelease/en/2021072711314743.pdf>

10 percent per annum. This measure intends to increase lending to agriculture, which is the mainstay of Tanzanians. It also aims to reduce interest rate on loans to agriculture".¹⁹ The BoT also directed banks and other financial institutions to implement strategies of lowering lending rates and increasing deposit mobilisation.

NMB has started to implement BoT measures, and the bank announced through a public address²⁰ that from 7 October 2021, it would start issuing loans with annual interest rates of 10% for all MSMEs in the agricultural value chains, including horticulture.

3.3.2 Unlocking commercial investment through BDS Support

Farm Africa has been implementing the Delivering Expertise, Capacity and Investment to Developing Enterprise (DECIDE) project funded by NORAD since 2019. The DECIDE project has supported 11 micro enterprises, 17 small enterprises and two medium enterprises in the Tanzanian horticulture sector to grow their businesses, unlock commercial investment through BDS support, mentoring and training and improve productivity and market linkages. The project has been implemented in 10 regions and 15 districts of the Tanzania mainland, including Arusha, Tanga, Pwani, Dar es Salaam, Morogoro, Dodoma, Iringa, Njombe, Mbeya and Songwe. Project interventions are focused on addressing the systemic constraints related to technical, financial, and operational capacity gaps; inefficient market linkages; and low eligibility for investment finance.

The targeted SMEs manufacture diversified horticultural products, including fruit and vegetable wine, dried fruits and vegetables, a range of processed and blended spices for food seasoning, fresh fruit juice, crisps and blended nutritious flour. The project engages SMEs through a formal Memorandum of Understanding (MoU) after an assessment of their organisational capacity, using Farm Africa's tailor-made Enterprise Capacity Assessment Tool (ECAT). The assessment is built on six organisational capacity components, which include: Leadership & Management; Financial Capacity; Stock Purchasing Capacity; Processing Capacity; Sales Capacity; and Enabling Environment. The results of the assessment are then used to plan specific support required and prioritised by each enterprise in their MoU.

Support provided to individual MSMEs includes: training in record keeping and general financial management, preparation of business plans, preparation of enterprise strategic plan, coaching on regulatory compliance, and providing technical skills in production and processing of various vegetables and spices. The project is building the capacity of MSMEs to strengthen business relationships with local BDS providers while creating linkages with financial institutions.

Some of the MSMEs have used their strengthened management system to leverage and secure loans from commercial banks and private lenders. The baseline survey conducted in 2019 showed that only 20% of the businesses had accessed financial services from formal financial institutions. In 2020 the same results were found whereby no new business had taken a loan from a formal financial institution. However, after engaging with the DECIDE project and receiving tailored BDS and technical assistance, results of the survey conducted by Farm Africa in October 2021 showed that for the period January to September 2021, 57% of the engaged MSMEs have received external financing for investment from various financial institutions (Table 1). The presence of well-developed business plans, coupled with strong financial records management has enabled more MSMEs to qualify for financial products.

¹⁹ Bank of Tanzania. Public Notice. 27 July 2021. Accessed at: <https://www.bot.go.tz/Adverts/PressRelease/en/2021072711314743.pdf>

²⁰ <https://www.nmbbank.co.tz/about-us/resources/nmb-in-the-news/705-nmb-bank-starts-offering-loans-at-affordable-interest-rates-to-agriculture-livestock-and-fisheries-sectors>

Table 1: Do you have any loan you are currently servicing?

Business size ²¹	Number of MSMEs with loans		
	Yes	No	Total
Micro Enterprise (<5 staff)	6	5	11
Small Enterprise (5 to 49 staff)	10	7	17
Medium Enterprise (50 to 99 staff)	1	1	2
Total	17	13	30
Percentage (%)	57%	43%	100%

The total value of commercial investment secured by these businesses for the period of January to September 2021 was TZS 372,600,000 (\$162,000) (Table 2). Commercial banks have provided 50% of the total loans secured by the MSMEs. These include CRDB bank, NMB, Equity Bank and TADB. These banks have tailor made products for agriculture/ horticultural MSMEs. It is also worthwhile to note the contribution of the Tanzanian government to provide 47% of the total loan amount through SIDO, the Youth and Women Fund at the district level and from the SELF Microfinance project²². More than 80% of SMEs have used the loans to increase their working capital.

Table 2: Value of loan taken from different financial institutions

Business Size	Commercial Bank	Government Institution	Private lenders	VICOBA	Total (TZS)	%
Micro Enterprise	70,000,000		3,500,000	2,100,000	75,600,000	20%
Small Enterprise	70,000,000	175,000,000		3,500,000	248,500,000	67%
Medium Enterprise	48,500,000				48,500,000	13%
Total	188,500,000	175,000,000	3,500,000	5,600,000	372,600,000	100%
Percentage (%)	50%	47%	1%	2%	100%	

4.0 LESSONS LEARNT

Through the DECIDE project implementation; there are a number of lessons learned in the issue of MSMEs' access to financial services. These include:

- **MSMEs' financial management and business development services**

Strengthened and streamlined financial management practices enable MSMEs to appreciate the need to formalise their businesses and be able to access financial services for growth. The 30 MSMEs supported by the DECIDE project have been technically supported to develop business plans, establish marketing strategies, set up and streamline financial management systems, establish formal registration, and open business bank accounts among other business development services. These processes helped businesses to assess

²¹ Farm Africa uses the following categorizations for business size: micro-enterprise (1-4 staff), small enterprise (5-49 staff), and medium enterprise (50-99 staff).

²² <https://www.self.go.tz/>

and understand their credit needs, while also improving their eligibility to access and qualify for formal financing.

- **MSMEs' awareness on financing options available**

Information gathered from commercial banks, microfinance banks, development banks, equipment lease institutions and government institutions show that there are various financing options; however, many MSMEs are not aware of all of the different options available. From working with 30 MSMEs under the DECIDE project, Farm Africa has learnt that MSMEs often require someone to tell them of the products available and to support linkages between the business and financial institutions. In addition, MSMEs can be supported so that before taking a loan, they scrutinise several financial institutions and financing options to see which one is the best for them so that they can match together in their journey to economic growth.



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5.0 RECOMMENDATIONS

Based on this study the following are the recommendations to MSMEs, financial institutions and other key players.

Recommendations for MSMEs to improve access and eligibility for finance:

- MSMEs should keep clean financial records and analyse them on a routine basis in order to follow up closely on the performance of their business. This will also help them adhere to proper governance and regulations that are put in place for running a business such as statutory tax filing.

- MSMEs need to open and run a dedicated business bank account in order to create a good banking history that will make them eligible for external funding.
- MSMEs need to prepare viable business plans that will guide their work. A business plan should be a live document that is used to provide direction for growth of the business, and should be reviewed and updated on an annual basis. A business plan also helps an enterprise determine future financial needs and having a business plan is also one of the key criteria that financial institutions look at when assessing the credit worthiness of a businesses.
- MSMEs need to build a culture and attitude of exploring different funding opportunities as well as financial products available on the market. While traditional commercial financing has always been one of the mainstays of the financial sector and has generally targeted large enterprises, new and innovative financial products are opening up the options for MSMEs. Options such as equipment finance, loan guarantees and no-interest loans targeting women and youth-owned enterprises allow smaller and earlier stage businesses to access growth financing.



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Recommendations for financial institutions to increase lending to MSMEs:

- Financial institutions need to create favourable interest rates that will attract MSMEs to their products. In this study the interest rates were found to be high, up to 24%, which is prohibitively expensive, especially for small and early-stage businesses, which make up the majority of enterprises in Tanzania. If these rates are reduced to less than 10%, it will create more room for MSMEs to access funds easily and affordably. Extending less expensive credit to MSMEs will open up a large new market for financial institutions.
- Financial institutions need to specifically target MSMEs and design products that meet their needs and requirements. Financial institutions should work on creating more products that are specifically designed for MSMEs, including lending smaller amounts, providing repayment flexibility that accounts for agriculture cycles and meets the specific needs of agribusinesses and even lease-to-own equipment and machinery arrangements.
- Financial institutions need to find innovative alternatives to meet collateral requirements that are more easily available to the MSMEs. Current collateral requirements are mainly immovable assets such as land, houses and vehicles, which are often expensive and many MSMEs do not yet have and need initial start-up capital to establish. This puts them in a catch-22 situation where they don't have the collateral needed to access financing, but need the financing to purchase and establish such collateral. Alternative collateral arrangements could include equipment and machinery financing and lease-to-own equipment arrangements. Loan guarantee schemes can also serve to de-risk the provision of financing to SMEs and can be especially effective when linked with other BDS and technical assistance.
- Financial institutions should make the credit process as simple and accessible as possible. Many MSMEs find the process of applying for a loan or other financing to be intimidating and complicated, and this may result in MSMEs getting confused about the process or not applying to begin with. Financial institutions should recognise this challenge and take steps to simplify the process and language to be more accessible to such businesses. This should also be considered in the way financial products are marketed and communicated.

Recommendations for the government and other stakeholders to play a key role in improving access to finance for MSMEs:

- The government must ensure that the financial policies and regulations that are in place to govern the financial institutions are well adhered to. At the same time, the government should provide an enabling environment that makes it easy for financial institutions to introduce new and innovative products into the market. For example, equipment financing firms may not need to be governed and comply with all of the same requirements as commercial financial institutions, as they have a completely different offering.
- Donors and development banks can play a role in providing incentives for financial institutions to provide credit to MSMEs by de-risking the credit provision, loan guarantees or even impact incentives. Donors can also provide direct support with grants and soft financing that specifically target various high-priority and high impact sectors, and encourage innovation.

6.0 CONCLUSION

The study has shown funding arrangements currently available for MSMEs from commercial banks, development banks, microfinance banks, financial leasing institutions and government institutions. Information gathered shows that there is an increasing interest from these institutions in lending to the SME sector and developing products that meet their needs. The Government of Tanzania has made moves to encourage lending to the private sector and reduce interest rates. The access barrier for MSMEs can be reduced, for instance by lending equipment to hold as collateral. BDS support to businesses can help build the financial management systems, governance and operational capacity, which will increase the eligibility and unlock financing for MSMEs. Finally, knowledge on available financial products and requirements is key to access financial services for MSMEs. Before taking a loan, MSMEs should scrutinise several financial institutions to see which one is the best for them so that they can match together in their journey to economic growth.



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Annex 1: Key Informant Interview guide

1. What is the name of the institution?
2. What is the name of the person?
3. Does the bank work with MSMEs?
4. What kind of businesses does the institution work with?
5. What is the checklist for receiving a loan?
6. Can you customise loans according to the needs of the MSMEs?
7. How much interest rates do you charge?
8. Can your institution share loan portfolio available?

Annex 2: Terms and Conditions for Loan application for different types of business

Source	Eligibility criteria for loan application for				
	<i>Individual</i>	<i>Cooperative Societies, Registered Group and Associations</i>	<i>Partnership</i>	<i>Sole proprietor</i>	<i>Limited company</i>
Overall criteria (All FIs including SACCOS, MFIs & Banks)	<ul style="list-style-type: none"> • ID card • Insurance policy • <u>Business status</u> <ul style="list-style-type: none"> ○ LGA introduction letter ○ Business license • <u>Financial status</u> <ul style="list-style-type: none"> ○ Operational bank account ○ For business loan(s): <ul style="list-style-type: none"> - Revenue & expenses records - TIN - Tax clearance • <u>Mortgage</u> <ul style="list-style-type: none"> ○ Title deeds or lease agreement and other prove of ownership. ○ Introduction letter from local government office ○ No collateral required (if employer) 	<ul style="list-style-type: none"> • TIN • Certificate of registration • CV of key persons(Optional) • Insurance policy • Constitution of the cooperative • Board resolution to borrow • Minutes from Annual General Meeting authorizing signatories • <u>Business status</u> <ul style="list-style-type: none"> ○ Business license • <u>Financial status</u> <ul style="list-style-type: none"> ○ Operational bank account ○ Financial statement(s) ○ Tax clearance ○ Annual Audited Accounts • <u>Mortgage</u> <ul style="list-style-type: none"> ○ Title deeds or lease agreement and other prove of ownership 	<ul style="list-style-type: none"> • TIN • Certificate of registration • Partnership Deed • CV of key persons (Optional) • Insurance policy • Minutes confirming the authorized signatories and permission for borrowing(Optional) • <u>Business status</u> <ul style="list-style-type: none"> ○ Business license • <u>Financial status</u> <ul style="list-style-type: none"> ○ Operational bank account ○ Financial statement(s) ○ Tax clearance • <u>Mortgage</u> <ul style="list-style-type: none"> ○ Title deed(s) or lease agreement and other prove of ownership ○ Value of properties of partners 	<ul style="list-style-type: none"> • TIN • Certificate of registration • CV of key persons(Optional) • <u>Business status</u> <ul style="list-style-type: none"> ○ Business license • <u>Financial status</u> <ul style="list-style-type: none"> ○ Operational bank account ○ Financial statement(s) ○ Tax clearance ○ Annual Audited Accounts • <u>Mortgage</u> <ul style="list-style-type: none"> ○ Title deeds or lease agreement and other prove of ownership 	<ul style="list-style-type: none"> • TIN • Certificate of registration • CV of key persons • Insurance policy • Memorandum and Article of Association for companies • Board resolution to borrow • List of (amounts and votes) shareholders • <u>Business status</u> <ul style="list-style-type: none"> ○ Business plan ○ Business license • <u>Financial status</u> <ul style="list-style-type: none"> ○ Operational bank account ○ Interim Financial statement(s) (Current Financial year to date) Tax clearance ○ Annual Audited Financial Reports for previous year ○ Other sector specific permits

	<ul style="list-style-type: none"> becomes guarantor) • <u>Marital status</u> <ul style="list-style-type: none"> ○ Marriage certificate ○ Spouse's approval ○ Spouse's identity 				<ul style="list-style-type: none"> • <u>Mortgage</u> <ul style="list-style-type: none"> ○ Title deed(s) or lease agreement and other prove of ownership
Microfinance institutions: FINCA	<p>FINCA Microfinance Bank</p> <ul style="list-style-type: none"> • Business must be operational for ≥ 6 months • Evidence of assured market • Loan <ul style="list-style-type: none"> ○ TZS 200,000 - 220 million ○ Interest rate 4.3% monthly ○ Repayment method = monthly (with grace period of 30 days) ○ Repayment period = 12 months 	<p>FINCA Microfinance Bank</p> <ul style="list-style-type: none"> • Business must be operational for ≥ 6 months • Evidence of assured market • Loan <ul style="list-style-type: none"> ○ TZS 200,000 - 220 million ○ Interest rate 6% monthly ○ Repayment method = monthly (with grace period of 30 days) <p>Repayment period = 12 months</p>	<p>FINCA Microfinance Bank</p> <ul style="list-style-type: none"> • Business must be operational for ≥ 6 months • Evidence of assured market • Loan <ul style="list-style-type: none"> ○ TZS 200,000 - 220 million ○ Interest rate 6.3% monthly ○ Repayment method = monthly (with grace period of 30 days) ○ Repayment period = 12 months 	Not preferred customers	Not preferred customers
Microfinance institutions: Letshego	<p>Letshego Bank</p> <ul style="list-style-type: none"> • Business must be operational for ≥ 6 months 		<p>Letshego Bank</p> <ul style="list-style-type: none"> • Business must be operational for ≥ 6 months 	<p>Letshego Bank</p> <ul style="list-style-type: none"> • Business must be operational for ≥ 6 months 	<p>Letshego Bank</p> <ul style="list-style-type: none"> • Business must be operational for ≥ 6 months

	<ul style="list-style-type: none"> • Evidence of assured market • Loan <ul style="list-style-type: none"> ○ Between TZS 1 – 350 million (depending on value of collateral) ○ Interest rate 4 – 6 % monthly ○ Repayment method = monthly <p>Repayment period = 3 months – 3 years</p>		<ul style="list-style-type: none"> • Evidence of assured market • Loan <ul style="list-style-type: none"> ○ Between TZS 1 – 350 million (depending on value of collateral) ○ Interest rate 4% – 6% monthly. ○ Repayment method = monthly <p>Repayment period = 3 months – 3 years</p>	<ul style="list-style-type: none"> • Evidence of assured market • Loan <ul style="list-style-type: none"> ○ Between TZS 1 – 350 million (depending on value of collateral) ○ Interest rate 4% – 6% monthly. ○ Repayment method = monthly <p>Repayment period = 3 months – 3 years</p>	<ul style="list-style-type: none"> • Evidence of assured market • Loan <ul style="list-style-type: none"> ○ Between TZS 1 – 350 million (depending on value of collateral) ○ Interest rate 4% – 6% monthly. ○ Repayment method = monthly <p>Repayment period = 3 months – 3 years</p>
Commercial Banks CRDB	<p>CRDB</p> <ul style="list-style-type: none"> • TZS 3 – 50 million • Interest rate = 23% annual <ul style="list-style-type: none"> ○ 20% with certificate of property ownership ○ 20% for women • Repayment period is negotiable • Loan processed within 7 days 	<p>CRDB</p> <ul style="list-style-type: none"> • Interest rate 16% per year 	<p>CRDB</p> <ul style="list-style-type: none"> • TZS 3 – 50 million • Interest rate = 23% annual <ul style="list-style-type: none"> ○ 20% with certificate of property ownership ○ 20% for women-owned businesses • Repayment period depends on agreement with the bank 	<p>CRDB</p> <ul style="list-style-type: none"> • TZS 3 – 50 million • Interest rate = 23% annual <ul style="list-style-type: none"> ○ 20% with certificate of property ownership ○ 20% for women-owned businesses • Repayment period depends on agreement with the bank 	<p>CRDB</p> <p>Interest rate 16%</p>

Commercial Banks: NMB	<ul style="list-style-type: none"> Fixed deposit account or Bonus account Interest rate 16% per year 	<ul style="list-style-type: none"> Business must be operational for ≥ 6 months Interest rate 16% per year 	<ul style="list-style-type: none"> Business must be operational for ≥ 6 months Interest rate 16% per year 	<ul style="list-style-type: none"> Business must be operational for ≥ 6 months Interest rate 16% per year 	<ul style="list-style-type: none"> Business must be operational for ≥ 6 months Interest rate 16% per year
Guarantee Schemes: Pass Trust		<p>PASS Trust</p> <ul style="list-style-type: none"> Business plan Certificate of maximum liability for those registered under cooperative act 3 years' Annual Audited Accounts or 3 years' financial projection (new business) 	<p>PASS Trust</p> <ul style="list-style-type: none"> Feasibility study or business plan with 1-3 years' financial projections 	<p>PASS Trust</p> <ul style="list-style-type: none"> Feasibility study or business plan with 1-3 years' financial projections 	
Guarantee Schemes: SIDO			<ul style="list-style-type: none"> Applicant must be an adult citizen of Tanzania. The business seeking funding must be legally registered. Applicants must have two guarantors. <p>The security (collateral) in form of immovable assets (e.g. land, house) should cover at least 125% of the loan amount</p>	<ul style="list-style-type: none"> Applicant must be an adult citizen of Tanzania. The business seeking funding must be legally registered. Applicants must have two guarantors. Security (collateral) in form of immovable assets (e.g. land, house) should cover at least 125% of the loan amount 	
Financial leasing institution (EFTA)	EFTA	EFTA	EFTA	EFTA	EFTA

	<ul style="list-style-type: none"> • Start-up businesses can be financed • No business plan needed • Loan (equipment) <ul style="list-style-type: none"> ○ TZS 20 million and above ○ Interest rate = 18 – 20% ○ Repayment schedule = 1 – 3 years ○ Upfront repayment 15% - 50% annual • Repayment period = 36 months with prior two-month grace period • No Collateral needed 	<ul style="list-style-type: none"> • Start-up businesses can be financed • No business plan needed • Loan (equipment) <ul style="list-style-type: none"> ○ TZS 20 million and above ○ Interest rate = 18 - 20% ○ Repayment schedule = 1 – 3 years ○ Upfront repayment 15% - 50% annual • Repayment period = 36 months with prior two-month grace period • No Collateral needed 	<ul style="list-style-type: none"> • Start-up businesses can be financed • No business plan needed • Loan (equipment) <ul style="list-style-type: none"> ○ TZS 20 million and above ○ Interest rate = 18 – 20% ○ Repayment schedule = 1 – 3 years ○ Upfront repayment 15% - 50% annual • Repayment period = 36 months with prior two-month grace period • No Collateral needed 	<ul style="list-style-type: none"> • Start-up businesses can be financed • No business plan needed • Loan (equipment) <ul style="list-style-type: none"> ○ TZS 20 million and above ○ Interest rate = 18 – 20% ○ Repayment schedule = 1 – 3 years ○ Upfront repayment 15% - 50% annual • Repayment period = 36 months with prior two-month grace period • No Collateral needed 	<ul style="list-style-type: none"> • Start-up businesses can be financed • No business plan needed • Loan (equipment) <ul style="list-style-type: none"> ○ TZS 20 million and above ○ Interest rate = 18 – 20% ○ Repayment schedule = 1 – 3 years ○ Upfront repayment 15% - 50% annual • Repayment period = 36 months with prior two-month grace period • No Collateral needed
Development Finance Institution (TADB)	TADB <ul style="list-style-type: none"> • Business must be operational ≥ 2 years • Cash or agricultural equipment(s) by providing 75% of the total asset's cost 	TADB See Smallholder Farmers Credit Guarantee Scheme	TADB Business must be operational ≥ 2 years	TADB Business must be operational ≥ 2 years	TADB Business must be operational ≥ 2 years

	<ul style="list-style-type: none">• Interest rate = 15% Repayment period = 1 – 15 years				
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 FarmAfrica

 FarmAfrica

 FarmAfrica

 Farm_Africa

Farm Africa Tanzania
Amverton Towers., Plot No. 1127
Chole Road, Msasani Peninsular
PO Box 105181
Dar es Salaam
Tanzania
T: +255 22 292 7802

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www.farmafrica.org

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