



# SCALING IMPACT THROUGH GUARANTEES IN TANZANIA

PRIVATE AGRICULTURAL SECTOR SUPPORT TRUST

## Synopsis

### Primary investors:

- Danish International Development Agency
- Swedish International Development Cooperation Agency

**Value chain or sector:** N/A

**Country:** Tanzania

**Type of risk addressed:** Business model risks associated with financial institutions serving agri-SMEs or smallholder clients

### Type of blended finance instruments:

Guarantees  
Technical Assistance

## Executive summary

Since its inception in 2000, the Private Agricultural Sector Support Trust (PASS Trust) has been working to significantly change the narrative of agriculture in Tanzania. Its mission is to provide business development and financial services to farmers and small and medium-sized agricultural enterprises, to open up their access to finance. PASS enables these entrepreneurs to feasibly and profitably borrow from commercial financial institutions for the purpose of improving their agribusinesses.

As of December 2018, PASS worked with 15 financial institutions across Tanzania. It provides credit guarantee cover with the aim of topping up clients' collateral to help them become eligible for loans. Although other credit guarantee schemes exist in Tanzania, PASS is the only one offering banks a guarantee coverage ratio of 50 to 75%, with up to 80% for projects owned by women or youth.

PASS has developed a range of guarantee and insurance products, with support from international partners. Beneficiaries can be individuals (farmers or small businesses) or farmer groups. PASS also offer business development services to support the growth and development of agribusinesses.

### Contributed by

Nicomed Bohay, The Private Agricultural Sector Support Trust (PASS). PASS was established in 2000 to stimulate investment and growth in commercial agriculture and related sectors.

## Introduction

Agriculture is central to the Tanzanian economy; over 75% of the working population relies primarily on this sector. Agriculture contributes a sizeable proportion of the country's GDP (about 27%) and is a major source of foreign exchange earnings (about 30%), in addition to its role in ensuring food security. Despite its importance to the nation, the sector continues to face substantial challenges, including a lack of finance. In Tanzania, as in other developing countries, many financial institutions and microfinance companies do not invest in agricultural projects because they perceive the risks to be too high and the financial returns too low.

Tanzania has more than 50 national and regional banks, as well as other licensed financial institutions, the majority of which focus mostly or completely on corporate lending. These institutions claim that the small loans requested by micro, small and medium-sized enterprises (MSMEs)<sup>i</sup> do not justify the high transactional costs incurred in doing loan appraisals. They also view agricultural lending as risky, due to factors such as weather and volatile market conditions. Further to this, most of these banks have high collateral requirements (up to 125% of loan value), which MSMEs find difficult, if not impossible, to muster. When all these factors are combined, very little credit finds its way to MSMEs or the agriculture sector.

Financing alone cannot solve the problems. Given the prominence of agriculture and small-scale industry in the Tanzanian economy, it is crucial to find ways to increase supportive credit facilities, to the benefit of the economy as a whole and the livelihoods of millions of Tanzanians working in these sectors. The PASS Credit Guarantee Scheme, which involves blended finance, offers an approach to solve this problem.

PASS Trust was established to reduce the risks for financial institutions by providing loan guarantees to suppliers in the agricultural value chain and insurance products that reimburse investors in the case of a default. The organization got its start in the year 2000 as a project to stimulate investment and growth in agriculture and related sectors by helping smallholder farmers and small agribusinesses obtain access to finance. PASS was later registered as a non-profit, nongovernmental organization under the 2002 Trustees Incorporation Act. It is therefore taxed as a charitable organization.

So far, PASS Trust's guaranteed loans have benefited more than a million agricultural entrepreneurs and created more than 2.5 million jobs. This demonstrates the catalytic role that PASS plays in boosting the agricultural sector in Tanzania by facilitating lending from commercial banks.

## Blended Finance Approach

Blended finance is at the heart of the services PASS Trust delivers to its clients. In addition to guarantees, PASS provides business development services, such as preparation of business plans and, when necessary, tailor-made training. PASS Trust's is not the only credit guarantee scheme in Tanzania; an estimated 15 of these have been, or still are, in operation. However, PASS Trust has the only active credit guarantee scheme offering a coverage ratio of between 50% and 75%—even 80% in certain cases, such as for projects owned by women or youth.

While other guarantee schemes offer better rates, PASS remains competitive through its unique combination of business development and financial services, deposit of cash in partner banks and swift response to claims. PASS works with more than 15 commercial banks in the country to provide credit guarantees for agribusiness loans. With its guarantee funds, PASS can attract other private sector funds for development objectives. It provides credit guarantees across the agricultural value chain and offers different products, such as traditional guarantees, portfolio guarantees and institutional guarantees. PASS Trust has forged close relationships with a range of stakeholders to establish blended donor funds (guarantees); sovereign guarantees (unfunded), in the case of Sweden; commercial senior debt or private equity investments; and weather index insurance.

At the beginning, the leverage with financial institutions was 1:1; in other words, for every loan it guaranteed, PASS had to commit the full amount for which it had assumed risk. However, with increased financing from DANIDA (Denmark's development cooperation agency) and other donors, as well as a track record of paying claimed guarantees on time, PASS Trust's leverage increased to 1:3 in 2018. That gives it much deeper pockets. For example, if PASS were to offer a 50% guarantee on a loan of 600 million, the credit guarantee is for 300 million but PASS has to deposit donor guarantee funds of only 100 million (1:3). That frees up more money to offer guarantees to other borrowers.

Due to the availability of guarantee funds to expand access to finance, PASS also attracts private equity investors to its projects (usually from 20% to 40%, and in some cases up to 80%). It has also improved market access for farmers, for instance, by using blended finance models in contract farming and off-taker agreements, as well as deploying the tools across different value chains.

For PASS, blended finance has made—and continues to make—a significant contribution to the expansion of credit in Tanzania.

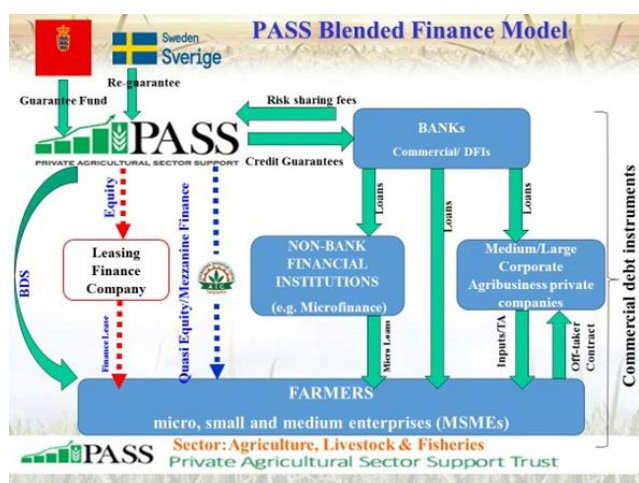
Specifically, it has served to help address challenges related to:

- price stability
- financial literacy and corporate governance
- access to finance
- productivity
- marketing

In addition to serving small businesses, PASS works with large agriculture firms on different value chains to support MSMEs' access to markets, inputs and extension services.

The organization also works with various stakeholders—including the United Nations World Food Programme (WFP), SNV and Alliance for a Green Revolution in Africa (AGRA)—to offer training services for maize and sunflower farmers in the Southern Highlands. Roughly 7,000 farmers have benefited from these trainings and have been linked to financial institutions for credit.

Figure 1. PASS Blended financing guarantee scheme model



Source: PASS

## Implementation Process

PASS has worked with financial institutions since 2002 to ensure that credit guarantee systems bring new borrowers into the credit system. Having originally set out with one product, PASS has now developed three additional ones. This, in turn, has served to bring in more players and provide additional business development services.

Project reviews and business planning have focused on ensuring that guaranteed loans go only to good borrowers and support products that otherwise could not access credit due to onerous collateral requirements or a lack of credit history. PASS works closely with financial institutions, taking care to negotiate in good faith and document the details as comprehensively as possible.

Sensitive matters like the nature of default events, claim submissions, payment processes and eligible loans are clarified as much as possible, and claims are paid on time. This high standard has persuaded other financial institutions to get on board. PASS started working with one financial institution in 2002, and as of December 2018, it was working with 15. In addition to that, PASS' support helps in transforming the expected borrower from non-Bankable borrowers to Bankable borrowers by investing in technical capacity for both borrowers and financial institutions( in simple term is bridging the Gap between the two in terms of agribusiness and financing).

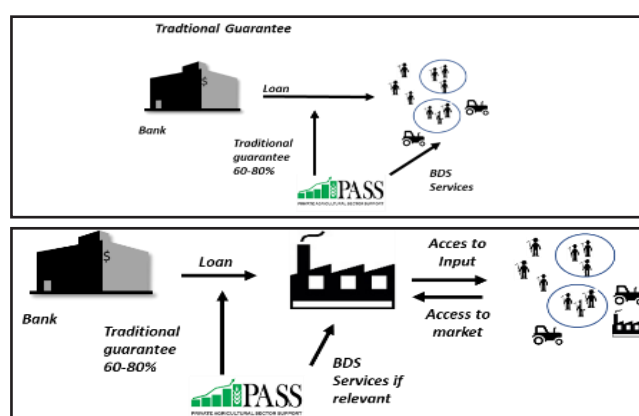
## PASS Products

### Traditional Guarantee

This is the original PASS product, which has been fine-tuned and expanded over the years. Based on a borrower's business plan, PASS provides banks with a 60% guarantee (up to 80% for women) of the loan amount. Beneficiaries can be individuals (SMEs or farmers) or farmer groups. PASS also provides business development services, such as feasibility studies; supports the development of business plans; promotes organization of farmer groups; and conducts training. With traditional guarantees, PASS also works with larger clients, provided that they are important drivers in the value chains and that smaller agribusiness entrepreneurs receive benefits, such as access to inputs or markets.

Figure 2 shows the set-up of the traditional guarantee when PASS works with individuals or farmer groups, or with larger clients to reach smaller agribusiness entrepreneurs.

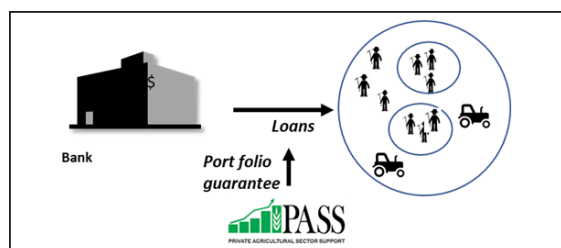
Figure 2. Traditional Guarantee



### Portfolio Guarantee

This was introduced in 2012. In this case, a bank identifies a group of agribusiness entrepreneurs. PASS subsequently provides a portfolio guarantee based on an application submitted by the bank. Assessment of the individual farmers is conducted by the bank.

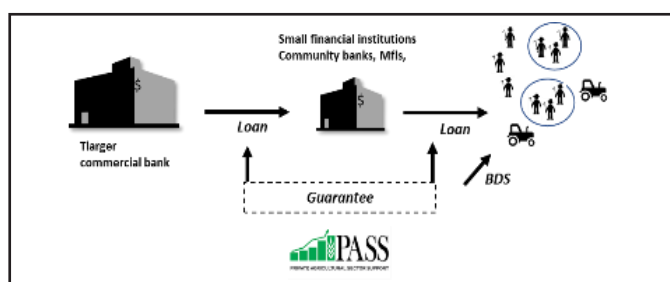
Figure 3. Portfolio Guarantee



### Institutional Guarantee

Smaller community banks and microfinance institutions are closer to the farmers and are more likely to see agriculture as an attractive market. In some cases, they are constrained by undercapitalization. PASS Trust will guarantee a loan from a large commercial bank to a smaller financial institution, which then on-lends to agribusiness entrepreneurs. In parallel, PASS can provide traditional guarantees to the smaller financial institutions to encourage loans to agribusiness entrepreneurs and provide business development services.

Figure 4. Institutional Guarantee



### Upcoming Green Guarantee

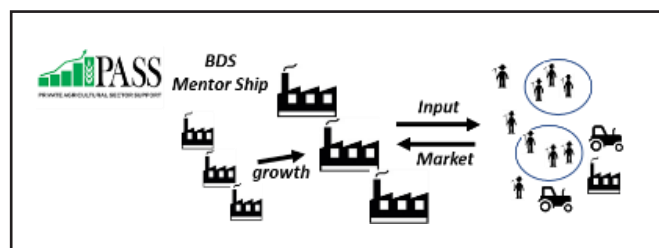
In 2020, PASS is setting up a new credit guarantee product called the green credit guarantee. This product is meant to facilitate access to environmentally friendly, innovative techniques that may otherwise fail to attract investment because they are not necessarily the central activity of the business. Green guarantees specifically target agribusinesses that focus on green technologies and practices, adding further social and environmental value to the investment. The objective is to facilitate access to renewable and efficient energy use, technology for water and soil conservation, and other agricultural practices that have the potential to reduce greenhouse gas emissions and enhance resilience of the business through adaptation to climate change.

The new product will provide a guarantee cover similar to that of the traditional credit guarantee. Green guarantees will cover procurement of equipment that supports green activities and have flexible, case-specific grace periods and installment schedules. Options for reducing the application fees and the costs of business development services will also be considered.

### Agribusiness Incubation Centre (AIC)

Pass Trust established the Agribusiness Incubation Centre in 2015 to nurture high-potential SMEs through mentorships and business development services. The goal is to quick-start young entrepreneurs on the journey to own, establish, operate and grow their own agribusinesses—profitably and sustainably— anywhere in the country, using local resources and local markets as a starting point.

Figure 5. Agribusiness Incubation Centre



## Impact

PASS Trusts works to support the government's key priority areas of job creation and investment in the country. In the 20 years it has been in operation, it has truly empowered smallholder farmers and small agribusinesses by expanding access to financial services. A total of 1.15 million agricultural entrepreneurs have benefited from PASS-guaranteed loans, which amounted to some 845 billion Tanzanian shillings (TZS) between 2000 and 2019—nearly two thirds of that in the last four years. Over 2.5 million jobs have been created as a result. (See Figure 6.)

Figure 6. PASS beneficiaries, 2013-2019

Year	No. of business proposals supported	Value of business proposals (TZS Billions)	No. of beneficiaries	No. of jobs created
2013	310	48.8	129,000	387,000
2014	378	75.5	117,901	353,703
2015	564	56.1	128,796	386,388
2016	1,010	101.0	183,249	549,747
2017	623	122.7	170,974	211,055
2018	15,563	191.7	196,873	387,804
2019	10,666	129.7	226,689	225,198
<b>TOTAL</b>	<b>29,114</b>	<b>725.5</b>	<b>926,793</b>	<b>2,500,895</b>

Statistics from the Bank of Tanzania show that of the nearly TZS 1.8 trillion in loans given by the banking industry to the country's agricultural sector in the first 11 months of 2019, a total of TZS 277 billion—nearly 16%—had been guaranteed by PASS. This underscores how PASS serves as a catalyst to drive lending to the agricultural sector.

PASS's intention is to make it easy for Tanzanians in the agribusiness sector to access finance from various financial institutions in the country. This has not only increased agricultural production but also contributed to the country's food security, sustainability, economic growth and employment.

In 2019 alone, PASS benefited a total of 226,689 agricultural entrepreneurs through loan guarantees and business development services across the country. This was achieved through PASS guaranteeing a total of 10,666 business proposals worth TZS 129.7 billion that were presented to various collaborating banks and approved for financing. In addition to credit guarantee support, PASS also offered different types of training to its clients and staff from financial institutions that have signed guarantee contracts with PASS Trust. Training topics included business skills, entrepreneurship, post-harvest food safety and packaging, financial literacy and access to finance. More than 1,900 individuals benefited from a PASS guarantee induction seminar.

In partnership with Sokoine University of Agriculture in Morogoro, Tanzania, PASS is also working through its AIC project to transform the mindset of youth and encourage them to receive modern agricultural business training. In 2019, 18 young people successfully exited the program after a 12-month agribusiness incubation period. They are now establishing their own horticulture businesses in the Morogoro and Handeni districts with commercial financing from a local institution, Tanzania Agricultural Development Bank. Once these participants establish and properly manage their own agribusinesses at their own premises, they will have shown the full potential of the AIC youth agribusiness incubation model.

During the 2019-2020 period, 60 youths are undergoing agribusiness incubation in horticulture and livestock production. An additional 65 will join the program in mid-2020 to receive support in open-field crop production and meat processing. A further increase in incubation capacity is planned in 2020 to accommodate another 30 young people in dairy businesses and agro-processing enterprises. Within five years, the AIC program expects to open the door to 850 youths so that they can own and operate their own successful, sustainable and growing agribusinesses.

As noted above, PASS has been collaborating with WFP, SNV and AGRA to offer training services for maize and sunflower farmers in the Southern Highlands. Seven thousand farmers have benefited from these trainings and have also been linked to financial institutions for credit.

## Impact at personal level

### Livestock and Livelihoods

Kapurwa Kisawanyi—a farmer and livestock keeper from Mtibwa ward, in the Mvomero district in Morogoro—has become a role model in his community, after his business began to expand following support from PASS Trust. It wasn't that long ago that Mr. Kisawani did not understand how he could use his animals and farm to build a better life. Although he had been raising and fattening cattle for years, he had viewed this activity more as a tradition and not a business.

In June 2015, he approached PASS for support and received his first credit guarantee. "I have always wanted to rear livestock in large scale, and that has been my dream because I have all it takes," he said.

The guarantee enabled him to get a loan from a financial institution; he used that as working capital and increased his cattle from 270 to 400. Mr. Kisawanyi raises the livestock on his 150-acre farm in Lukenge village in Mvomero.

Despite all his field experience, Mr. Kisawanyi lacked business planning and management skills. After a thorough assessment of his business while doing due diligence, PASS was able to coach him on the development of a business plan and offered guidance on the day-to-day management of his operations. "I had never kept any records about my farm and my animals. PASS has enabled me to know the importance of keeping these records for my business," he said.

As time passed, Mr. Kisawanyi's fortunes began to improve. He started selling milk to his neighborhood—something he had never done before—which made his neighbors start to notice the changes on his farm. After moving from a grass thatched house where he had lived for many years, Mr. Kisawanyi, a father of six children, now lives in a modern residential home, which he built using proceeds from his expanded business. And all of the Kisawanyi children are now in school. (They used to help him herd his cattle part of the time.)

*"Mine is a testimony that you cannot make it alone as a single farmer, you have to look out for support and opportunities from institutions like PASS. I have really benefitted from PASS and I will continue to seek out their services,"* Mr. Kisawanyi said.

Armed with proper knowledge about markets and business linkages, the entrepreneur now taps into a broad network of contacts across his region to buy cows, fatten them up and then sell them at a healthy profit two to three months later. Apart from rearing livestock, he also started growing maize on another 20-acre piece of land he owns, and in 2018 he harvested 110 bags of maize. PASS Trust has continued to keep a close eye on Mr. Kisawanyi's progress to ensure that he succeeds and meets his business targets. In March 2019, PASS guaranteed him yet another loan so that he could further increase his herd and expand his farm.

## An Abundance of Maize

When her husband died, in 2017, Agnes Adam Mwakatole did not know how she would continue keeping up his business. Her late husband had managed the operation, which mostly involved growing maize for their own consumption and for sale. Despite initial misgivings, the 51-year-old widow did not give up. She resolved that the family's agricultural activities would continue and be successful.

When PASS Trust visited Mrs. Mwakatole in 2019 in the village of Nkangamo, in the Momba district of the Songwe region, Mrs. Mwakatole had just harvested 2,000 bags of maize that she had cultivated on her 120-acre farm. This had been made possible through a PASS Trust credit guarantee of TZS 50,000,000 in working capital, along with a tractor purchased through a PASS loan guarantee scheme. With the working capital, she was able to purchase her farm inputs, pay her workers and cover all the farm activities that demanded her attention. Without the PASS guarantee, Mrs. Mwakatole said, she would not have been able to get the loan and pay her workers. The bank did not trust her; they only knew her husband, and so did not want to give her a loan after his death.

"The bank told me to continue working first as they assessed my ability to pay. Another bank told me to approach PASS Trust and request them to guarantee me the loan since I needed it, and that's what I did. I have never regretted my move with PASS Trust," she said. Before her husband's demise, Mrs. Mwakatole said, they cultivated only about 50 acres of land and primarily paid casual laborers to plough and weed, using hand-held hoes. When she acquired the tractor, she more than doubled the acreage of maize, which is why she was able to harvest 2,000 bags in 2019.

"The tractor has really reduced my cost of production. I no longer pay daily costs for ploughing because I have employed a driver who I pay monthly," she said. "From what I have seen," she added, "I now can cultivate more land using less costs, and I harvest more."

Indeed, when PASS Trust visited her again in early 2020, Mrs. Mwakatole had received another TZS 50,000,000 loan from her bank, again through a PASS guarantee. She had finished paying her 2018/2019 loan and had been awarded another loan to be used as working capital. She had also increased her land under maize cultivation from 120 to 180 acres and was expecting to harvest at least 3,600 bags of maize. Mrs. Mwakatole, who used to have 2 permanent employees and would typically hire about

10 casual laborers, now has 7 permanent employees, and on a busy day, she might hire up to 50 casual laborers. The mother of one says she is happy she is doing well in her agribusiness. "The support I have received from PASS Trust has been immense. I am highly respected in this village and beyond," she said. "Above all, I am happy that I am able to touch lives and support many women and youths who work in my farm."

## Lessons learned

1. Providing smallholder farmers with financial services alone does not provide sustainability in smallholder farming systems. A more diverse set of actors is required, such as financial service providers, funders, and market and technical assistance providers. This enhances collaboration and provides greater access to information and technology.
2. Women often struggle to access the resources that they need to continue with farming or other economic activities. The obstacles are mainly:
  - a. lack of decision-making authority—cultural barrier;
  - b. the need to attend to domestic responsibilities; and
  - c. exclusion from mainstream civil society.

It is not just the women themselves who suffer when they are excluded. Their families, communities and countries would all be better off if women were better able to have access to finance.

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### Notes

i Micro defined as up to 4 employees, mostly family, and up to TZS 5 million capital investment; Small: 5 to 49 employees, TZS 5 to 200 million capital investment; Medium: 50 to 99 employees, TZS 200 to 800 million capital investment; Large: 100+ employees, TZS 800+ million capital investment. Source: Government of Tanzania SME Development Policy 2003.

Cover image: ©IFAD/GMB Akash

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### About

This case study is part of an effort by the Smallholder and Agri-SME Finance and Investment Network (SAFIN), the Inter-American Development Bank (IDB) and the Organization for Economic Co-operation and Development (OECD) to document the use of blended finance to strengthen agri-SME finance supply.

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