

**THE ROLE OF PASS IN PROMOTING PRIVATE COMMERCIAL FARMING IN
TANZANIA**



BY

NGONZO MPUGA KITEJA

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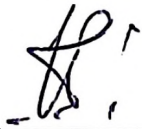


ABSTRACT

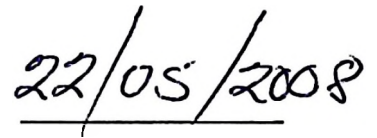
Success for PASS and other stakeholders in promoting commercial farming depends on their ability to anticipate and prepare for the benefits and challenges associated with the process of agricultural commercialisation. This study on the role of pass in promoting private commercial farming in Tanzania was conducted at PASS in Morogoro municipality. The objective of this study was to analyse the role of PASS in promoting private commercial farming and agribusiness. The study used secondary data only, which were subjected to a simple descriptive analysis. Results show that, PASS alone cannot address all the problems hindering agricultural commercialisation due to unfavourable environment for a vibrant commercial farming and complexity of some problems, which call for government interventions. PASS management structure is still that of a project, it is also flat and lean and therefore falls short of an organization that would conveniently and effectively penetrate to the hinterlands of Tanzania. The majority (63%) of PASS clients are in Morogoro region receiving more financial services (37%) than other regions. It was also found that, due to poor information regarding to PASS products and services, there is a tendency of PASS clients in some regions to concentrate on same particular business, which is very risky due to competition and the possible outbreak of diseases. However, due to availability of the CGF funds, PASS is in an overall strong competitive position and it can continue to pursue its current business- or corporate-level strategy profitably. The corporate strategy that PASS is pursuing is to operate in just two core businesses (business development services and financial services) with related diversification. But only financial services are found to contribute more (95%) to PASS competitive advantage than the business development services (5%). This indicates that, the clients mostly need financial services than business development services from PASS.

DECLARATION

I, NGONZO MPUGA KITEJA do here by declare to the Senate of Sokoine University of Agriculture that, this research paper is my original work and has neither been submitted nor being currently submitted for a degree award in any other University.

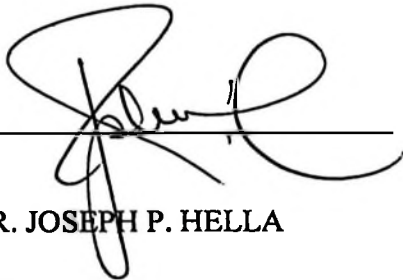


NGONZO MPUGA KITEJA
(MBA-Agribusiness) candidate



Date

This declaration confirmed by:



DR. JOSEPH P. HELLA
(Supervisor)



Date

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Finally I would like to express my sincere thanks to every one whom in one way or another contributed to the accomplishment of my internship as well as this study on the role of PASS in promoting private commercial farming in Tanzania. May God Bless you all.

DEDICATION

To my beloved parents, Mr and Mrs Mpuga.

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LIST OF ABBREVIATIONS

| | | |
|--------|---|--|
| ASDP | - | Agricultural Sector Development Plan |
| ASDS | - | Agricultural Sector Development Strategy |
| ASPS | - | Agricultural Sector Programme Support |
| BDS | - | Business development service |
| CGF | - | Credit Guarantee Facility |
| CRDB | - | Community Rural Development Bank |
| DANIDA | - | Danish International Development Agency |
| FAO | - | Food and Agriculture Organization of the United Nations |
| IFPRI | - | International Food Policy Research Institute |
| LGAs | - | Local Government Authorities |
| MAFS | - | Ministry of Agriculture and Food Security |
| MDGs | - | Millennium Development Goals |
| NSGRP | - | National Strategy for Growth and Reduction of Poverty |
| PASS | - | Private Agricultural Sector Support |
| PRSP | - | Poverty Reduction Strategy Paper |
| SACAs | - | Savings and Credit Associations |
| SACCOS | - | Savings and Credit Cooperatives Societies |
| SAPs | - | Structural Adjustment Programmes |
| TASDSP | - | Tanzania Agricultural Sector Development Support Program |
| URT | - | United Republic of Tanzania |
| WB | - | World Bank |

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

The agricultural sector is a key to Tanzania's economic development, now and in the future (URT, 2005). Apart from providing food, agriculture remains the country's main source of income for the rural population, which forms 80% of the total population and employs 70% of the active labour force of the population (MAFS, 2008). Though slightly declining, the sector contributes about 50% of the gross domestic products and about 75% of the foreign exchange earnings (Rweyemamu, 2003; Shayo, 2006). The agriculture sector in Tanzania is dominated by smallholder producers who rely on small size land holdings and simple farm implements (URT, 2005). Large scale commercial farming accounts for a very small part of the sector. According to the Ministry of Agriculture and Food Security (MAFS) (2008), most smallholders use the hand hoe as the main cultivating tool, ox ploughs are used by about 20% of the farmers and about 10% use tractors.

The smallholder production has been experiencing increasing commercialisation over the years. According to Sokoni (2007), the commercialisation of smallholder production involves a shift from subsistence production to production for the market. The process is taking root and has been enhanced in various ways by colonial and post-independence development policies and strategies. Much hope is generally put on the process of commercialisation of smallholder producers for achieving higher agricultural productivity, higher incomes, reduction of poverty and improving food security.

As a process of agricultural commercialisation, Private Agricultural Sector Support (PASS) was established in 2000 as a project under the Danish funded

Agricultural Sector Programme Support (ASPS) to become the engine of economic growth by promoting, facilitating and stimulating growth of private investments in the primary agricultural sector and agro-businesses in Tanzania (ASPS II, 2002). Thus speeding up the process of transforming centrally government-operated economy to a market driven economy.

1.1.1 The idea of establishing PASS

The idea of establishing PASS came from a need identified, as only commercial sustainable agro business will create the increase in turnover needed in Tanzania. The establishment was initially to cater for the regions of Morogoro, Dodoma, Iringa and Mbeya. So in actual fact Morogoro happened to be convenient to farmers and administratively easily reaching Dar-es-Salaam. But now Morogoro seems to be the centre with agricultural endowment in many cases.

1.1.2 Services offered by PASS

Since its inception, PASS has been playing a great role in promoting commercial farming by offering financial and business development services in the following agricultural sub sectors: sugar cane, coffee, tea, livestock, oil processing, pyrethrum, floriculture and horticulture industries. Other areas are: large scale rice production, produce trading (coffee, sugar cane, cereals etc.), large scale maize production, commercial production of sesame and sunflower, development of vineyards and wine production.

Some of the services offered by PASS to transform the above mentioned sub sectors into commercial farming are: to provide it's clients with detailed technical and operational information on how to establish a successful business in the agricultural industries; to undertake feasibility studies tailored to the clients' size of business and advise them

accordingly; to prepare business plans of international standards for it's clients' enterprises that will show them the potential for profitability and scope of growth of their businesses; and to provide credit guarantee that will enable them to access sizable credit from reputable financial institutions.

PASS embarks on supporting the objectives of the National Strategy for Growth and Reduction of Poverty (NSGRP) of which Tanzania has now developed the successor to its first Poverty Reduction Strategy Paper (PRSP). PASS supports the objective of the Agricultural Sector Development Strategy (ASDS) of creating and enabling co-operative environment for improving the production and productivity of the agricultural sector, which is the basis for, improved farm incomes and reducing rural poverty in the medium and long term. According to Tanzania Agricultural Sector Development Support Program Document (TASDSP) (2002), various innovative and practical actions are included in the ASDS as part of its strategy. Among them is a focus that agricultural productivity and profitability come first. Other actions include: the promotion of the private sector/public sector and processor/contractor growers' partnership, and the participatory implementation of the strategy.

The PASS initiatives, therefore, forms an integral component of ongoing agricultural commercialisation process, poverty reduction initiatives such as vision 2025, the poverty reduction strategy, the United Nations Millennium Development Goals (MDGs) and Danish International Development Agency (DANIDA) supported business sector programme support goals.

1.2 Problem statement and justification

Commercialisation of agriculture is occurring rapidly in some countries; while in others there is stagnation or even a return to subsistence agriculture on a large scale. Most farmers in developing countries including Tanzania still practice mainly subsistence agriculture on much of their land, forgoing the potential benefits from domestic and international trade. Though the process of agricultural commercialisation in Tanzania is taking root and has been enhanced by various development strategies of the government, not all rural dwellers have benefited equally from greater economic opportunities brought about through the commercialisation process. The withdrawal of the government from direct production and service delivery in anticipation of creating a room for private sector involvement has not had its anticipated result. Substantial private sector entry into the sector has not materialized and has left agricultural producers inadequately supplied with the necessary inputs for production. Under the reform process, agricultural producers have continued to have limited access to market and financial services which are necessary elements for accelerating agricultural growth and reduction of poverty. In addition, removal of subsidies has resulted to low use of modern inputs and agriculture technology due to low purchasing power of the agriculture producers.

The contribution that PASS is making, commercialisation and monetisation of agriculture, is very crucial to the overall development of commercial farming and Tanzania as whole. Development of commercial agriculture is rated highly in the NSGRP and PASS can play a role in buttressing the sub-sector to contribute more towards commercialisation for equitable growth, employment in the economy and to government revenue.

In view of the above observation, there is justification for PASS to continue, expand and deepen the services it is providing. However, in doing so, PASS has to continue balancing

between the crucial 'development services' it provide to the rural poor, smallholder agriculturalists who are the majority these are the most needy in terms of support to commercialise and monetise their enterprises. The challenge is that PASS earnings from such a sub-sector are low. On the other hand PASS has to pursue courses of actions to make the organization self-sustainable to ensure long-term continued support to the needy.

1.3 Objectives

1.3.1 General objective

To analyse the role of PASS in promoting private commercial farming and agribusiness.

1.3.2 Specific objectives

- (i) To study the roles and services of PASS in promoting commercial farming.
- (ii) To assess the kind (nature) of corporate strategy pursued by PASS in promoting commercial farming.
- (iii) To categorize and analyse PASS's clients based on outreach regions, sub sectors, types of enterprises and financial services.
- (iv) To identify PASS's strengths, weaknesses, opportunities and threats in promoting private commercial farming in Tanzania.

1.3.3 Research questions

Given the relatively poor financing of agriculture sector in Tanzania as compared to other sectors, it is essential to better understand:

- (i) What services and resources do smallholder farmers want and/or get from PASS and other private and public sectors for commercialisation of their enterprises?

- (ii) How can PASS contribute more effectively in promoting commercial farming in Tanzania?
- (iii) Where in the agricultural sector the services of PASS creates more commercialisation, poverty reduction, turnover, increased production (food & cash crops) and thereby increased government revenue?
- (iv) How can PASS enhance its financial self-sustainability, efficiency and profitability?
- (v) How can the government of Tanzania revamp agriculture through commercialisation?
- (vi) What are the PASS's strengths, weaknesses, opportunities and threats in promoting commercial farming?

Findings from this study can provide initial answers to the above questions. The results also can provide baseline information by which PASS can describe itself and its benefits to farmers, policymakers, agriculture sector stakeholders, and others who make decisions concerning development and growth of the agriculture sector. Such findings can then be used to develop both state-wide and local strategies to assess private agricultural services provision with existing funding levels and to propose solutions.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Agricultural commercialisation

According to Sokoni (2007), commercialisation of smallholder production is a process, which involves a transformation from production for household subsistence to production for the market. This essentially implies monetisation of the rural economy. Through the process, traditional smallholder producers are integrated into the world market economy (Ponte, 2000). Commercialisation of agriculture is occurring rapidly in some countries because of economic restructuring and the shift from planned to market-oriented economies that have resulted in increased income and employment risks (Bruan and Kennedy, 1994).

According to Bruan and Kennedy (1994), specialization and the development of markets and trade that characterize commercialisation are fundamental to economic growth. The significant advantages of market-oriented policies and the powerful forces of trade for development are unquestionable. However, according to Glover (2000), the risks of policy and market failures, deficiencies in knowledge and information of actors in production and markets at all levels, and household-level complexities and intra-household conflicts are also determinants of inefficiencies and inequities during the transformation of traditional agriculture.

2.2 Subsistence production

Low-income farmers practice subsistence production, rather than growing cash crops, because it is usually the safest option, given all constraints. According to Bruan and Kennedy (1994), about 440 million farmers in developing countries still practice mainly

subsistence agriculture on much of their land, foregoing the potential benefits from domestic and international trade. Subsistence crops cover more than 50 percent of land resources in the majority of low-income countries, yet land constraints, ecological problems, and rapid urbanization call for change. Glover (2000) noted that, the change from subsistence to commercial farming can be advantageous to smallholder producers in the following ways: maintenance of home production, development of financial markets, employment, increased incomes, increased spending, benefits to smallholders and household distribution of benefits. According to Bruan and Kennedy (1994), the distributional benefits of commercialisation of agriculture, access to commercialisation opportunities, and sharing of commercialisation risks are functions of institutional arrangements.

2.3 The process of agricultural commercialisation in Tanzania

The process of integration of smallholder producers into the world market economy can be traced as far back as the colonial economy and has been continued in different ways during the post-independence period, including rural transformation programmes of the “ujamaa” era, state control / intervention on agricultural production and marketing, and the era of the Structural Adjustment Programmes (SAPs) (Sokoni, 2007). The colonial economy marks the beginning of a formal process of commoditisation of rural economies in the country as the rural producers were steadily drawn into the world trading system (Wiggins, 2006). As far as farmers are concerned, the intentions of SAPs were to open new market opportunities, help them to diversify their crop cultivation, ameliorate their terms of trade, and raise their incomes. They were expected to trigger transformation of predominantly subsistence agriculture to more commercial production (Sokoni, 2007). According to Ponte (2000), two components are keys to the process: liberalization of agricultural markets (free markets) and withdrawal of the government from agricultural

market intervention (price liberalisation and removal of subsidies). Under market reforms, Tanzania has been going through an “increasing commercialisation of rural life” (Ponte, 1998).

According to Sokoni (2007), SAPs enhanced commercialisation of smallholder production in Tanzania in two main ways: first, SAPs enabled the availability in rural areas of plentiful consumer goods that replaced the shortage of goods of the early 1980s. This was due to a friendlier environment towards private businesses. Secondly, introduction of user charges in various services such as education, health, agricultural extension, etc and increases in price of agricultural inputs made the rural lifestyle more expensive such that household demand for cash increased tremendously. As Ponte (2000) notes, market liberalization has increased the degree of commercialisation of rural life due to easier access to incentive goods and higher cash needs. SAPs have contributed greatly towards the commercialisation of agriculture and rural life in Tanzania (Ponte, 1998). The economic liberalization brought through SAPs was expected to bring a strong stimulus to agriculture, resulting in increasing yields, increased labour productivity, rising agricultural production and higher incomes (Sokoni, 2007).

Agricultural commercialisation is bound to continue during this era of globalisation. Mitchell (2006) sees the change from subsistence to a commercial mode of production as a desired part of the transformation of the rural economy. Tanzania’s vision 2025 envisages a modernized, commercial, highly productive and profitable agriculture that utilizes natural resources in an overall sustainable manner and acts as an effective basis for inter sectoral linkages (URT, 2005). The vision requires the existing subsistence dominated agricultural sector to be transformed into commercially profitable production systems.

2.4 The features of agricultural commercialisation in Tanzania

Commercialisation has involved a transformation of pre-colonial subsistence agriculture. It has involved changes in the structure and social relations. The traditional social structure based on solidarity is replaced by more individualized social relations. It has involved rising levels of contractual *vis a vis* traditional social negotiations over access to factors of production such as land, labour, capital and services (Ponte, 1998).

2.4.1 Commercialisation of land resources

The process of smallholder commercialisation has involved monetisation of farmers' access to land. Traditional mechanisms of land transactions are increasingly being replaced by land transactions through the market by buying and hiring (Sokoni, 2001). According to Sokoni (2007), through the 1995 land policy, Tanzania opted for official commoditisation of land. It allowed individuals to obtain individual titles within areas not designed for communal uses, land conservation and other specified village or community projects.

2.4.2 Commercialisation of labour

Commercialisation of labour has replaced traditional mechanisms of accessing labour. Traditional ways of accessing labour through work parties and rotating work groups are declining in importance. Farmers have shifted from recruiting farm labour through social networks, to recruiting hired farm labour (Ponte, 2000). Cash payment is increasingly becoming the major way of accessing labour. This implies a change from social capital to monetary capital as a means of ensuring access to labour by smallholders (Sokoni, 2007)

2.4.3 Commercialisation of agricultural material inputs

According to World Bank/International Food Policy Research Institute (WB/IFPRI)

(2000), the process of commercialisation of smallholder production has involved changes in access to agricultural inputs. A major change in this aspect is the liberalization of input supply. Through SAPs the government has withdrawn from input supply control. Instead the private sector has been entrusted with the responsibility of supplying inputs to rural producers.

2.4.4 Commercialisation of agricultural services provision

The process of commercialisation has also involved further commercialisation of agricultural services including: extension services; marketing services; and credit services. The shift from courtesy and exchange of favours to contractualisation accounts for further commercialisation of agricultural services. A salient feature of the process has been the separation of extension services and input supply. In the liberal system, the private input supply is separated from extension services provision (World Bank, 2003).

2.4.5 Changes in organization of produce marketing

Through SAPs, produce marketing has been liberalized. Liberalization of produce markets was expected to correct market imperfections brought about by government intervention and raise produce prices. It is expected to enhance competition among buyers and hence bring better and competitive prices (Sokoni, 2007).

2.5 Agro-finance in Tanzania

There is a myth in Tanzania that, banks consider agriculture sector too risky to qualify for financing. According to Win2PDF (2008), critical factors a financier usually considers before taking a decision to finance agriculture are: ability of the business to generate sufficient income; adequate property rights, which a lender may have recourse in case of default; administration costs in managing the loan; ability of a commercial farmer to underwrite a good number of risks inherent in farming; Efficient (and smooth) mechanism

of enforcement of contractual obligations and type of financing, whether short-term or long-term funding.

2.6 Factors affecting performance in agriculture

Tanzania farmers like all farmers in the developing world are faced with a number of problems affecting their performance, consequently the output. According to the embassy of Denmark in Tanzania (2007), the following are few of them: unreliable rainfall; low prices; limited access to markets; limited access to inputs; uncertain transport and infrastructure; and high transaction cost.

According to PASS (2007), our farming in Tanzania is confronted with a lot of problems. The first and foremost is low yield. The second is the low technology deployed in farming and livestock keeping. The third is lack of market, which in a way is a result of low quality and quantity. The fourth is the low level of the agriculture related processing industry, lack of more improved equipment and technology. The fifth is lack of capital to undertake a reasonable agriculture and agro-business investments. According to MAFS (2008), the current low level of productivity is caused by inappropriate livestock husbandry practices, use of low potential varieties and breeds and poor crop management.

2.7 Initiatives for commercial farming in Tanzania

Agricultural development draws together various stakeholders with distinct roles, responsibilities and interests. These include the public and private sectors organizations.

2.7.1 Public sector organizations

- (i) **The lead ministries:** Generally, the lead ministries namely Ministry of Agriculture and Food Security (MAFS) and ministry of water and livestock

development, will set policy and the regulatory framework, create a conducive environment for implementation of ASDP and develop a monitoring and evaluation system to ensure a proper supervisory and feedback mechanism (MAFS, 2008).

- (ii) The regional secretariats:** The regional secretariats have been streamlined under the local government reform programme to play four basic roles: (a) create a conducive environment for Local Government Authorities (LGAs) to operate efficiently, (b) assist LGAs in capacity building, (c) provide technical support to LGAs and (d) monitor the performance of LGAs (MAFS, 2008). According to ASPs II (2002), the LGAs, play a critical role in the implementation of the ASDP. Essentially, they guide and implement the development initiatives needed to support improved production. These functions include promoting investment in the sector; participating in the formulation of policies and the regulatory and institutional framework; facilitating promotion of research; training and the provision of advisory services; facilitating private sector marketing and access to financial services; and ensuring for effective coordination with the other sectors.
- (iii) Academic and research institutions:** They play important research and training roles in the agricultural sector, their role fall under three main categories: (a) conduct long- and short-term training to meet professional needs in the sector including specific tailor-made training programmes for various clienteles; (b) conduct research as guided by the national agricultural research master plan and implement outreach programmes as one way of disseminating research results; and (c) provide advisory services to the

government and private sector through consultancy and other means (MAFS, 2008).

- (iv) **Parastatal organizations:** In the course of the implementation of the ASDP, these parastatals provide important regulatory services such as setting, monitoring and enforcing standards for the quality of agricultural inputs to ensure the safety of humans, livestock and the environment (TASDSP, 2002).
- (v) **Commodity boards:** The functions of the boards include: formulate and implement development strategies; set operational rules and enforce them in their respective industries to ensure transparency and competition; institute a regulatory regime geared towards promotion of good quality products; finance research and extension services for the respective industry; and disseminate relevant information to stakeholders in the industry (MAFS, 2008).

2.7.2 Private sector organizations

There are many actors in the private sector, falling under different categories, each with specific responsibilities and roles to play.

- (i) **The producers (farmers and livestock keepers):** As the process of agricultural commercialisation, peasants, medium and large-scale farmers are encouraged to increase productivity through agriculture investment and to engage in processor and contract grower partnerships with smallholders. This will facilitate primary producer access to markets, inputs and technology, and will provide a sustainable raw material base for agro-processors and agri-business (FAO, 2005).

- (ii) Farmers' organizations and professional associations:** The most important roles for farmers' organizations in the implementation of the ASDP include: provide services such as inputs, credit and procurement of produce; lobbying and advocacy on behalf of their members; collect and disseminate agriculture information to members; conduct membership education; provide training on technical and organizational issues; and participate to ASDP managing and advisory bodies as appropriate (ASDP I, 2005).

- (iii) Processors and agribusiness community:** Growth does not come from increased production alone, but from a chain of profitable transactions involving private sector operators. This group includes importers and exporters, wholesale distributors, retail suppliers, stockists, farm produce buyers, transporters and processors of agricultural produce. The agri-business community will play a key role in engendering growth through the importation and distribution of agricultural inputs, the procurement and processing, as well as the exporting and marketing of agriculture produce (MAFS, 2008).

- (iv) Financial institutions:** The financial institutions that are important for the agricultural sector include formal and informal money lenders namely, commercial banks, micro finance institutions such as Savings and Credit Associations (SACAs), Savings and Credit Cooperatives Societies (SACCOS) and non-bank financial institutions, e.g. national social security fund. In the course of the implementation of ASDP the financial institutions are expected to provide financing for various types of agricultural investment (FAO, 2005).

- (v) Civil society organizations:** This is a diverse group of actors, comprising both local and international organisations. Community-based organizations are also emerging as important players, especially with the present emphasis on participatory approaches. The most critical roles of non governmental organisations and community-based organizations in the course of ASDP implementation include: providing extension and credit services; lobbying and advocacy for policy changes and development; funding community-based interventions; and providing public services on a contract basis (MAFS, 2008).
- (vi) The media:** The media is crucial for information dissemination and public education. Lead ministries will appoint media liaison persons to ensure that agriculture sector issues are adequately covered in the media (Shepherd, 1997).
- (vii) Legal services providers:** Legal services providers play an important role in litigation including drawing up and overseeing the enforcement of contracts. As commercial agriculture develops, the demand for such services will grow and it will be important to expand their provision to the rural areas where they are currently not available (MAFS, 2008).
- (viii) Development partners:** During the implementation of the ASDP the development partners provide: technical support in the implementation of agreed programmes; collaborate with other financing agencies and stakeholders in the formulation and financing of planned activities; make available technical and financial resources; institute and regularly review ASDP mechanisms for planning, management, monitoring and funding (TASDSP, 2002).

CHAPTER THREE

3.0 METHODOLOGY

3.1 Location

This study was conducted at PASS organisation in Morogoro region (Morogoro municipality). Morogoro region is one of the 21 regions in Tanzania mainland. According to URT (2005), the region lies between latitude 5° 58" and 10° 0" to the South of the Equator and longitude 35° 25" and 38° 30" to the East of Greenwich. It is bordered by seven other regions. Arusha and Tanga regions to the North, the Coast Region to the East, Dodoma and Iringa to the West, and Ruvuma and Lindi to the South.

3.2 Data collection methods

The study relies on secondary data sources only. The data were collected from various official reports of PASS Limited and CRDB Bank Limited, sector programme support documents, internet searches and research reports.

3.3 Methods of data analysis

Collected data from this study were subjected to simple descriptive analysis. A complete list of all PASS clients from 2002 to 2007 was reviewed and used to categorise the PASS clients based on outreach regions, sub sector analysis, types of enterprise and financial services where by percentages were employed to assess the financial services, sub sector presentations in the regions and type of enterprises promoted by PASS. A SWOT Analysis was also employed to identify PASS's strengths, weaknesses, opportunities and threats.

CHAPTER FOUR

4.0 RESULTS AND DISCUSSION

4.1 The kind of corporate-level strategy pursued by PASS

The vision of PASS is to become the leading commercial institution for supporting agricultural producers and agri-businesses to develop their enterprises by offering them quality business development services. The mission of PASS is to offer convenient Business Development Services (BDSs) in a customer oriented approach, confidential manner and demand driven environment. The goal of PASS is to stimulate investments and growth of private commercial farming and agri-businesses. More directly, PASS's goal is to increase its turnover of Tsh 6 billion in 2006 and an estimated 2007 turnover of not less than Tsh 10 billion to Tsh 28 billion in 2013. Turnover in this case means approved business plans and related loan request. At the same time maintaining a default rate not exceeding 3%. The final goal is that PASS will cover all operational costs from its income in 2007/2008 and gradually increase its coverage of capital operation costs and be a fully fledged stand alone Trust in 2013.

This study revealed that, the corporate strategy that PASS is pursuing for promoting commercial farming is to operate in just two core businesses (business development services and financial services) with related diversification. To pursue its corporate strategy, PASS changed its form over time, it changed from being as project in 2000 to a limited company by guarantee in 2005 and finally into an autonomous legal Trust in 2007. The claimed rationale for these changes is to move away from being a development activity managed by the Tanzanian and Danish governments into an independent Trust that will cover its own basic operational costs from fees and commissions. However, this study revealed that, only financial services divisions contribute more (95%) to PASS

competitive advantage than BDSs (5%) and the level of fees and commission is very low to make PASS financially self-sustainable. Thus the average revenue per annum from fees and commission is about Tshs. 350 millions, while PASS annual budget is about Tshs 468 millions excluding the Credit Guarantee Fund (CGF).

4.2 The role of PASS on commercial farming

PASS has developed a professional business culture and has gained considerable experience in supporting commercial agriculture. The client base has been both small scale farmers-primary out-growers of commercial crops like sugarcane, cotton and tea and medium and large scale individual farmers producing anything from conventional crops to cut flowers purely for export. The larger segments of clients have given valuable business experience to PASS and have provided some volume needed for reaching the targets.

In the first years of operation, PASS has experienced significant demand for its services from agri-businesses and has provided business advice and assistance to several worthwhile existing and new enterprises. In general, it has adopted the approach of favouring businesses that are vertically integrated, within a crop or commodity sector, and which add value through processing, services or marketing along the supply chain from the farmers. However, according to ASPS II (2002), the prevailing view of the component staff is that the private sector promotional activities are so severely circumscribed by the adverse policy settings that policy improvements would be required to make support for the private sector succeed.

PASS has been able to facilitate financial support to a wide range of clients from pastoralists, small and medium farmers and enterprises to larger agri-businesses within processing and value adding of agricultural goods. Many commercial farmers (including

smallholders) and agro-industries have thanks to the support of PASS accessed loans and improved and increased their production. Without the credit guarantee, they would not have been able to access a loan from banks. Though PASS is physically situated in Morogoro, its services are available to clients in 10 mainland regions of Tanzania and there are plans to cover all of mainland Tanzania.

Since its inception in 2000, as a project/programme component under the auspices of the ASPs, PASS has recorded significant achievements in the development and provision of BDSs and facilitation of credit to primary agriculture and agribusiness through its CGF. PASS has also recorded success in organizing farmers into viable business associations. These include sugarcane out growers, paprika, cotton and tea farmers and beef producers.

PASS (2007) shows that, through the CG scheme, PASS has seen an increase of its activities during its life; growing from 75 investments worth Tsh 1.732 billions supported in 2002 to 163 investments valued at Tsh 9.9 billions in 2006. The number of farmer groups supported by PASS so far is over 500. The present situation of PASS (2007) is that, all available credit guarantee fund is tied up in banks backing up loans for draw down in case of default. Thus PASS needs new additional injection of CGF for further expansion and development. ASPs III (2007) indicated that, with its services, PASS had by the end of 2006 prepared 676 business plans with a credit portfolio of Tshs. 27 billions of which 458 resulted in loans and credit facilities to PASS clients representing a loan amount of Tshs 17 billions.

Generally, PASS embarks on promoting private commercial farming by providing financial and business development services. Detailed explanations are presented in sections 4.2.1; 4.2.2; and 4.2.3 below:

4.2.1 Business development services

- (i) Feasibility studies:** PASS visits its clients in their farms (business areas) to evaluate the viability of their businesses to see the potential for profitability and scope of growth of their businesses and then advice them accordingly;
- (ii) Development of business plans:** PASS prepare business plans of international standards for it's clients' enterprises that will show them the potential for profitability and scope of growth of their businesses;
- (iii) Capacity building:** This is done via deepening and expanding advisory services in the technical and the legal aspects of organizational issues, special studies and supportive advocacy, as well as lobbying to facilitate better services to members;
- (iv) Organization of farmer's groups:** PASS avails its services to help farmers form themselves into groups. Such groups are formed along the lines of contract farming and produce marketing. Contracts are generally signed at planting time and specify how much produce the company will buy and at what price. In the process PASS enables farmers to access credit, inputs, farm machinery, produce price negotiations, technical support and other advisory services; and
- (v) Product marketing and market linkage:** PASS has assisted clients to identify lucrative markets for their produce and linking them to those markets. PASS also provides them with current market information, marketing advises and detailed technical and operational information on how to establish successful businesses for the available markets.

4.2.2 Financial services

PASS financial services are available to clients with proven workable business plans developed or assessed by PASS. The services include:

- (i) Financial linkage without credit guarantee:** PASS links the clients to financial institutions by preparing good business plans for their enterprises to submit to the banks for loans qualifications;
- (ii) Financial linkage to participating banks with credit guarantees:** PASS assists the clients by guaranteeing 60% or more of requested loans. The CGF is placed in the accounts of participating financial institutions (CRDB Bank Ltd) for draw down in case of default;
- (iii) Hire purchase for agricultural equipments:** PASS has contracted with Tanga Tractor Ltd to supply agricultural equipments to its clients. All the clients have to do is to contribute 20% of the requested loan for that particular equipment and PASS will backup the remaining 80% from its CGF.

These services are currently available to clients in 10 regions in mainland Tanzania. Besides direct contacts by clients at PASS in Morogoro, the services are also accessed through the branches of CRDB Bank, EXIM Bank, African Banking Corporation and the FBME Bank who act as PASS windows. PASS aims at expanding the range of services beyond the above and covering all regions on mainland Tanzania. From experience gained under phase II, future PASS will as much as possible assist subsistence agricultural producers to turn into commercial farmers. However, this study revealed that, as a stand alone corporate entity, PASS is still in its formative stage, a situation that calls for continued support from its founders, namely: The Government of Tanzania and DANIDA. Following the phasing out of ASPS, and the fact that PASS has exhibited commendable successes as a business development service and financial service project, the aim is

therefore to continue the support and consolidate the formation of a stronger stand alone autonomous Trust that will speed up the process of agricultural commercialisation.

4.2.3 Cost of services from PASS

The cost of PASS's business development services is shared between the applicant and PASS as shown in Table 1 below:

Table 1: Cost of service from PASS

| PASS's services | Client's share of cost | Where to and time of payment |
|--|-------------------------------|--|
| (i) Financial services | | |
| Commitment fee (Tshs) | 30,000 | To be paid to PASS together with application |
| Feasibility study and/or Business plan fee (%) | 2 of requested loan | To be paid to PASS at signing of the Contract |
| (ii) Business development services | | |
| Commitment fee (Tshs) | 30,000 | To be paid to PASS together with application |
| Business Counselling (%) | 10 of actual cost | To be paid to PASS After pre-appraisal of investment |
| Management Support (%) | 10 of actual cost | To be paid to PASS After pre-appraisal of investment |
| Capacity building (%) | 10 of actual cost | To be paid to PASS After pre-appraisal of investment |
| Formation of Farmers Groups (%) | 10 of actual cost | To be paid to PASS After pre-appraisal of investment |
| Supporting Organisations/ Association (%) | 10 of actual cost | To be paid to PASS After pre-appraisal of investment |

Source: PASS Ltd (2007).

Table 1 above indicates that, PASS offers many services. The study revealed that, the PASS's generic competitive strategy is to offer a low-cost services range and a line of differentiated services. However, the study further revealed that, only financial services are recognized and/or subscribed by most of PASS clients. Analysis of a complete list of all PASS clients from 2002-2007 revealed that, 95% of PASS revenue comes from

financial services and only 5% comes from BDSs. For PASS to increase its income from all the services it offers, information dissemination regarding PASS activities needs to be enhanced in order to increase awareness of the services and products.

4.3 PASS's structure and control systems

The current (2007) PASS management structure is still that of a project, (The Managing Director (MD) is assisted by a Senior Technical Advisor (TA) from Denmark, one Junior Professional Officer (JPO) from Denmark, two senior business development specialists, six junior business development specialists, an accountant, an administrator, a secretary, a receptionist and two drivers) it is also flat and lean and therefore falls short of an organization that would conveniently and effectively penetrate to the hinterlands of Tanzania. There will therefore, under the support, be a need to undertake a thorough review of PASS governance, management and institutional structure as a strategy to turning PASS into a more responsive and business like corporate entity with a deeper reach into the rural up-country agricultural economy.

Thereafter, considering its strategic role in supporting private agriculture sector, it is imperative that PASS continues to receive technical support and advice specifically in the area of developing new products, services and in expanding outreach. PASS as a business organization stands to benefit most if this support was available through aligning the attachment of expatriates with specific strategic posts of senior executives in PASS. An ideal example would be tailoring TA to different levels of the organization. At the top managerial level PASS will benefit by teaming-up a Tanzanian chief executive supported by a deputy having international experience preferably from Denmark. At the operational level, TA would be in terms of establishing in-house, hands-on capacity building by placing experts with international experience to work with local business development

officers. Junior professionals from Denmark have also proved very instrumental in the past and these would be engaged in special tasks such as development of new products including research to identify the same. Their inputs will be required more in up-country offices where innovation and design of new products is needed.

Figure 1 and 2 below show the diagrammatic presentation of PASS's current and the suggested organisation structures respectively.

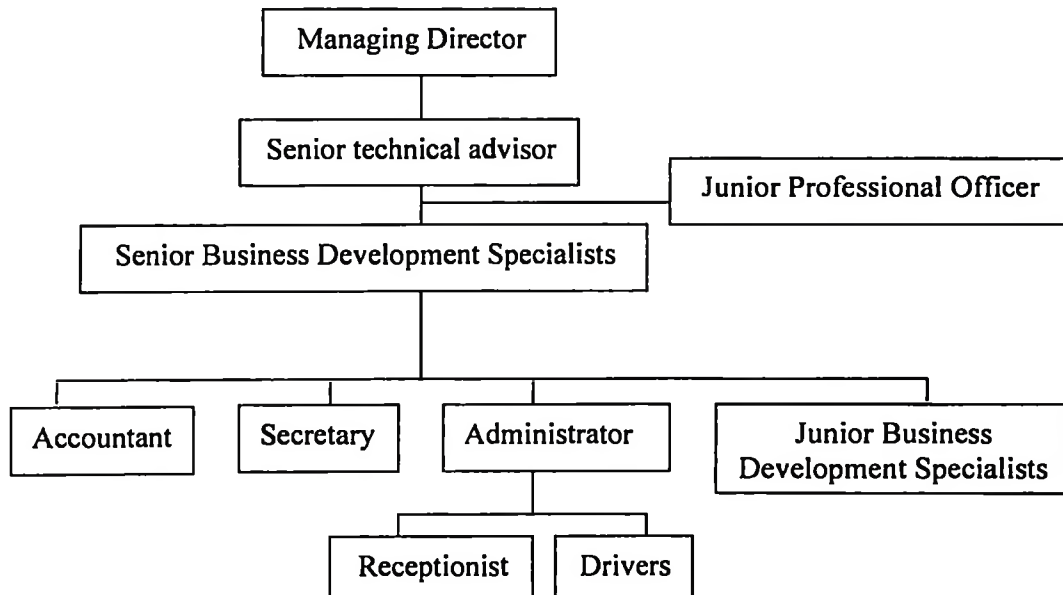


Figure 1: The current PASS's organisation structure

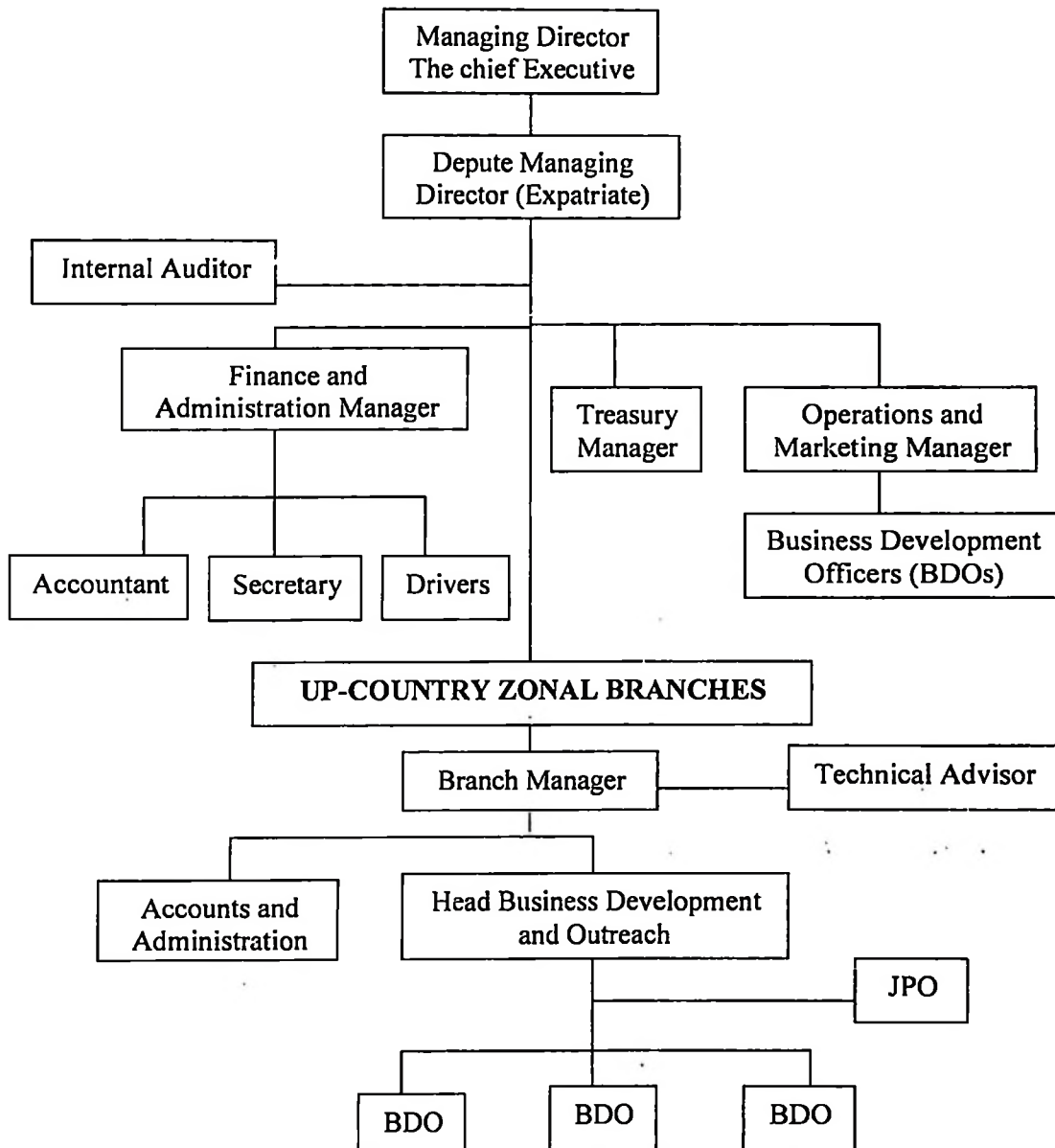


Figure 2: Suggested PASS's organisation structure

This organization structure is designed to enable PASS to conveniently and effectively penetrate to the hinterlands of Tanzania. The zonal branches will help the organization to tap business that won't have been easily tapped using the centralized system, broaden the range of commodities to be covered and reach those clients that otherwise won't be easily reached.

4.4 Categorisation of pass clients

4.4.1 Categorisation of PASS clients by region

Table 2 below presents the classification of sub sectors by region in order to explore which region is more diverse and in which sub sectors in the agricultural sector the services of PASS are more directed to create more commercialisation, poverty reduction, turnover, increased production (food & cash crops) and thereby increased government revenue.

Table 2: Classification of client's loans and sub sectors by region from 2002-2007

| Region | Loan size (Tshs) and their percentages (%) | Number of clients & (%) | Sub sector | Description |
|---------------|--|-------------------------|---------------------|---|
| Arusha | 2 658 689 600 (8) | 44 (6) | Livestock | Cattle |
| DSM and Coast | 4 023 419 193 (12) | 33 (5) | Cereal crops | Maize |
| | | | Livestock | Piggery |
| | | | Cashew nuts | Cashew nuts |
| | | | Agro processing | Soya |
| | | | Floriculture | Flowers |
| Dodoma | 1 354 263 587 (4) | 16 (2) | Agro processing | Animal feeds Flour mills |
| | | | Agribusiness | Maize trading Sesame trading Cattle trading |
| | | | | Seed processing |
| Iringa | 360 299 460 (1) | 25 (4) | Agro processing | Paprika |
| | | | Horticulture | Onion |
| Kagera | 1 639 586 800 (5) | 6 (1) | Farm input supplies | Input supplies |
| Kilimanjaro | 3 225 062 400 (10) | 14 (2) | Tea | Farming/trading |
| | | | Coffee | Farming/trading |
| Mbeya | 4 257 803 540 (13) | 65 (9) | Coffee | Farming/trading |
| | | | Agro processing | Oil processing |
| Morogoro | 11 852 064 270 (37) | 436 (63) | Sugarcane growing | Sugarcane |
| | | | Agro processing | Animal feeds |
| | | | Cereal crops | Maize/paddy |
| | | | Livestock | Piggery/poultry |
| | | | Farm input supplies | Input supplies |
| Ruvuma | 163 000 000 (1) | 4 (1) | Coffee | Farming/trading |
| Singida | 1 300 122 484 (4) | 9 (1) | Agro processing | Oil processing |
| | | | Agribusiness | Trading |
| | | | Sunflower | Growing |
| Tanga | 1 357 005 894 (4) | 32 (5) | Tea growing | Farming/trading |
| | | | Livestock | Dairy/poultry |
| | | | Sisal production | Farming |
| Lindi | 261 796 000 (1) | 3 (0) | Cereal crops | Maize/paddy trading |
| Total | 32 453 113 228 (100) | 687 (100) | | |

NB: Numbers outside the bracket are actual figures of loan sizes and number of clients, while those in brackets are their percentages.

The outreach activities of PASS indicated that, many clients reside in rural areas of the outreach regions with the exception of few clients from Dar es Salaam. The majority manage small, medium and large-scale agro based enterprises and creates employment for the very needy. PASS embarks in promoting commercial farming in various sub sectors as shown in Table 2 above. The Table indicates that, almost all the PASS outreach regions have diverse activities with the exception of Arusha, Ruvuma, Lindi and Mbeya. Morogoro is the most diverse region in terms of sub sector representation and with high concentration of small-scale farmers in the form of groups/associations and co-operatives/SACCOS. Morogoro has higher coverage and the majority activities supported by PASS in this region include sugarcane out growers/associations in Kilombero and Mtibwa. Also, some regions, though few, diversify the business including Dar es Salaam where one finds producers, traders and agro processors, which is commendable for reducing risks taking for any unforeseen contingencies. However, the study revealed that, there is a tendency of concentrating on a particular business, fore example, cattle fattening in Monduli-Arusha, coffee in Mbeya and Ruvuma and Paprika in Iringa. This is very risky due to competition and the possible outbreak of diseases. This implies poor information regarding to PASS products and services.

The study further revealed that, there is an unequal distribution of financial resources where some regions received more attention than others, for example, Morogoro, Mbeya, DSM/Coast, Kilimanjaro and Arusha regions received more financial services than others accounting for 37%, 13%, 12%, 10% and 8% of the total approved loan respectively. The majority (63%) of PASS clients are found in Morogoro region, this is because PASS is physically situated in Morogoro hence making it easy for most clients who are located in Morogoro to access the services than those located in other regions. The Table also indicates that, the size of the loans do not depend on the number of clients in most regions,

for example, Kilimanjaro has bigger loan size than Iringa irrespective of its small number of clients, this is due to differences between clients in terms of size and type of their enterprises and size of loan requested. Information dissemination regarding PASS activities needs to be enhanced in order to increase awareness of the services and products all over the country.

4.4.2 Categorisation of PASS clients by sub sector

Based on available information from PASS (2007), the sub sectors in which PASS contribute more effectively in promoting commercial farming in Tanzania are distributed in twelve areas as presented in Table 3 below.

Table 3: Percentage of sub sector representation to PASS activities

| S/N | Sub Sector | Percentage (%) | Description |
|-----|-----------------|----------------|--|
| 1 | Livestock | 7.3 | Cattle fattening, dairy, poultry and piggery |
| 2 | Cereal Crops | 5.7 | Maize, paddy |
| 3 | Cashew nuts | 1.0 | Processing |
| 4 | Agro processing | 7.2 | Flour mills, Soya, sunflower, oilseeds |
| 5 | Agribusiness | 9.0 | Maize, sesame, cattle |
| 6 | Horticultural | 1.5 | Paprika, onion |
| 7 | Tea | 19.6 | Growing and processing |
| 8 | Coffee | 15.8 | Growing and processing |
| 9 | Sisal | 1.3 | Sisal growing |
| 10 | Sugarcane | 30.5 | Growing |
| 11 | Floriculture | 0.4 | Growing |
| 12 | Sunflower | 0.7 | Growing and production |
| | Total | 100 | |

Table 3 above shows the percentage share of sub sectors in commercialisation and development of agriculture sector. Most of PASS clients (30.5%) are in sugarcane sub sector in both Kilombero and Mtibwa in Morogoro region, 19.6% are in the tea sub sector,

15.8% are in coffee sub sector in Kagera, Mbeya and Kilimanjaro regions, 9% are in agribusiness sub sector, 7.3% are in livestock sub sector, 7.2% are in agro processing sub sector, 5.7% cereal crops sub sector, 1.5% horticultural sub sector particularly paprika, 1% are in cashew nuts sub sector, 0.7% sunflower sub sector and 0.4% are in floriculture sub sector.

4.4.3 Categorisation of PASS clients by types (forms) of enterprises

Table 4 below presents the classification of PASS clients by types (forms) of their enterprises in order to explore in which forms of enterprises are the services of PASS more directed to promote private commercial farming.

Table 4: Percentage presentation of types of enterprises and gender ownership

| Type of enterprise | Gender category | | Total (%) |
|------------------------------|-----------------|------------|------------|
| | Male (%) | Female (%) | |
| Sole proprietors | 38 | 3 | 41 |
| Farmers group | 16 | 16 | 32 |
| Business firm (Companies) | 24 | 0 | 24 |
| Co-operatives (SACCOS/SACAs) | 2 | 1 | 3 |
| TOTAL | 80 | 20 | 100 |

The study revealed that, most of PASS's client's enterprises are owned by individuals as sole proprietors (41%) being 38% male and 3% female followed by farmers group (32%) which have gender balances of 16% men and 16% women, this is commended. This means that PASS supported enterprises are skewed towards smallholder private sector promotion hence meeting the role of PASS in promoting private commercial farming. This also concurs with the MDGs philosophy of creating more employments. Business firm (companies) 24%, all of them being owned by men. This is not commended and against to the MDGs philosophy of gender equity and development. Co-operatives in the form of SACCOS/SACAs (3%) receive less attention by PASS but this is an area where poverty reduction can be visually noticed. The study further revealed that, the role of PASS in

promoting commercial farming is evidenced through commercialisation of labour. Thus farmers have shifted from traditional ways of accessing labour, to recruiting hired farm labour. However, many enterprises have few permanent employees. This implies that, enterprises have a low capacity to accommodate many workers hence low multiplier effect in terms of employment creation. Most of the enterprises comprised of a large number of casual labourers. PASS (2007) indicated that, 69.2% of employees are casual. This implies that, most employees do not have job security and social security benefits. Employment creation of enterprises supported by PASS is therefore insignificant.

4.4.4 Categorisation of PASS clients by years and financial services

The status of PASS financial services to its clients since its inception in 2002 to 2007 were classified as shown in Table 5 below.

Table 5: Classification of clients applied for loan and their loan sizes by years

| Year | Financed (%) | Loan size (Tshs) | In pipeline (%) | Loan size (Tshs) | Rejected (%) | Loan size (Tshs) |
|-------|--------------|------------------|-----------------|------------------|--------------|------------------|
| 2002 | 60 (67) | 1 233 332 194 | 15 (17) | 213 432 323 | 14 (16) | 367 632 256 |
| 2003 | 99 (66) | 3 333 101 456 | 34 (22) | 586 430 423 | 18 (12) | 643 765 000 |
| 2004 | 165 (72) | 4 424 252 289 | 62 (27) | 899 443 683 | 2 (1) | 3 345 344 000 |
| 2005 | 96 (72) | 4 836 147 912 | 14 (10) | 620 410 440 | 24 (18) | 100 706 894 |
| 2006 | 84 (52) | 5 342 295 539 | 54 (34) | 3 503 828 093 | 23 (14) | 74 862 900 |
| 2007 | 183 (62) | 13 283 983 838 | 110 (38) | 7 660 273 498 | - | - |
| TOTAL | 687 (65) | 32 453 113 228 | 289 (27) | 13 483 818 460 | 81 (8) | 3 888 546 050 |

NB: Numbers outside the bracket are actual figures of loan sizes and number of clients, while those in brackets are their percentages.

Table 5 above indicates that, PASS had by the end of 2007 received a total of 1057 clients for commercial farming promotion. Out of 1057 clients representing a credit portfolio of about Tshs 50 billion, 65% resulted in loans and credit facilities to PASS clients representing a loan amount of Tshs 32 billion. About 27% of all clients were in the

pipeline representing a loan amount of about Tshs 13.5 billion and about 8% of all clients were rejected due to lack of collaterals and non-viability of their enterprises. These represent a loan amount of about Tshs. 4 billion. The Table further indicates that, the loan size approved for the clients kept on increasing from year to year, due to the availability of CGF and the increased number of clients demanding for financial services as a result of increasing awareness of clients about PASS services. However, the Table shows that, large loan size do not necessarily mean large number of clients financed, but rather depends on the amount of loan applied by each client in that particular year.

4.4.5 Repayment performance

Table 6 below shows the amount of the CGF lost as a result of the number of PASS clients defaulted since 2002-2007.

Table 6: Losses of the CGF as a result of defaulters

| Year | No. of defaulters | Approved amount (Tshs) | Outstanding balance | PASS Guarantee (%) | Guarantee committed |
|-----------|-------------------|------------------------|---------------------|--------------------|---------------------|
| 2002-2005 | 10 | 75 533 304 | 70 392 902 | 92 | 64 761 470 |
| 2005-2007 | 10 | 518 107 000 | 474 192 119 | 65 | 308 224 877 |
| TOTAL | 20 | 593 640 304 | 544 585 021 | - | 372 986 347 |

Table 5 above indicates that, the risk of PASS in financing agriculture for commercial farming is very minimal. Out of 687 client's investments financed from 2002-2007, only 3% (20 clients) defaulted, representing a total loses of Tshs. 372 986 347, which is commendable according to PASS's goal of maintaining default rate not exceeding 3%. Hence this suggests that, there should be no reason for financial institutions to consider lending for farming and agribusiness as having high risk and transaction costs. However the loses are expected to rise up to 10% due to increasing doubtful loans (poor performing investments).

Factors that contributed to non-repayment emanated from both PASS and the borrowers. On the part of PASS, the main factors included poor supervision and follow-up due to inadequate funds and lack of adequate staff, i.e. only one staff is assigned to make follow-up. On the farmers' side, the main causes were poor yields realized, and low producer prices. To address problems of non-repayment, PASS and its CGF participating institutions should design more effective follow-up methods, incentives and penalties that would influence borrowers to repay their loans promptly. Proper identification, selection and screening of potential borrowers are also important. Objective and realistic evaluation of the activities to be undertaken by borrowers is necessary prior to loan approval. Together with the above, there is a need to have enough and competent staff for an effective monitoring of credit use through regular visits to farmers during production and harvesting periods.

4.5 PASS's Strength, Weaknesses, Opportunities and Threats (SWOT analysis)

4.5.1 Strengths

- (i) The competitive environment for PASS:** At present, PASS has a competitive edge as it has started to build strong capacity in a key aspect of preparation of feasibility studies – financial analysis. According to ASPs II (2002), PASS has an added advantage in that it has access to a fund, which provides subsidies to investors for preparation of feasibility studies. Thus there is in principle access to the CGF in participating financial institutions (CRDB Bank Ltd)
- (ii) Future organisational form of PASS:** Transformation of PASS Ltd into an autonomous legal Trust will enable it to facilitate financial support to a wide range and/or large number of clients from small and medium farmers and enterprises to larger agri-businesses within processing and value adding of

agricultural goods. According to ASPS III (2007), with the transformation into a Trust, PASS will have own fund to facilitate financial support to a wide range of clients, including potential farmers/ business that won't have been easily financed by other financial institutions due to lack of collaterals.

- (iii) **Building of own capacity in PASS versus out-sourcing:** The initial approach by PASS had been to outsource the preparation of feasibility studies to consultants, which covered the technical analysis, market assessment and financial analysis. According to PASS (2007), PASS has now built up internal financial analytical capacity by training its professional staff in financial analysis, financial engineering and other relevant financial methodologies.
- (iv) **Attracting and retaining highly qualified managerial, technical and support staff:** PASS is able to attract and retain highly qualified managerial, technical and support staff. According to PASS (2007), PASS has an attractive staff retention regime such as attractive salaries, human resource policy, performance assessment, reward systems and succession procedures.

4.5.2 Weaknesses

- (i) **Financial sustainability:** PASS is not financially self-sustainable. The 2 % of requested loan fee paid by clients is too low to make PASS financially sustainable. According to ASPS III (2007), due to the inadequacies of own fund to finance its operations, PASS will still be dependent of donor/government financing. Sustainability of PASS must be addressed on the basis of its ability to continue extending benefits to beneficiaries. The benefits should flow even when donor support to PASS is not available. However PASS

will still have to be supported using grants to up-scale the CGF. It is important that the corporate governance to be developed by PASS Trust has to be sustainable and efficient to enable PASS to discharge its new business mandate by fully meeting its operational costs. According to PASS (2007), the main sources of PASS income include the CG fee that accredited banks share with PASS, BDS charges and commitment fees. In the longer term, PASS should have to strategize beyond the CG as a prime source of income and therefore the main determinant of its financial sustainability. Possible sources of additional income for PASS (as a development and business entity) could include the following: (a) savings through tax exemptions on purchases of capital equipment (government matching grant), (b) corporate social responsibility from prominent private companies with an interest in promoting commercial agriculture and addressing rural poverty, (c) income generated from equity investment in well performing companies on Dar es Salaam stock exchange, (d) income from interest earned from reserve funds, and (e) income earned from interest earned on principle of an endowment fund established purposely for support to PASS.

- (ii) Poor linkage services between producers, processors and agri-business:** Currently, there is relatively little coordination between different parts of the production system. According to FAO (2005), access to land and natural resources, credit and direct financial support to production, improved technology, market infrastructure and a favourable policy environment are fundamental requirements for improved agricultural production. For smallholders, access to these can be greatly facilitated by linkages to between producers, agro-processors and agri-business.

- (iii) **Poor information regarding PASS products and services:** As indicated in Table 2 above, there is a tendency of some PASS clients in some regions to concentrate on the same particular business, for example, cattle fattening in Monduli-Arusha and Paprika in Iringa. This is very risky due to competition and the possible outbreak of diseases. Information dissemination regarding PASS activities needs to be enhanced in order to increase awareness of the services and products to its clients.
- (iv) **Less countrywide coverage and an unequal distribution of financial resources:** Many regions have not received PASS services and others poorly attended. This is because PASS services provision is centralized at the head quarter in Morogoro and a branch office in Mbeya, hence making it difficult for most clients who are located far away from Morogoro to access the services. Claessens (2005) found that, high transaction costs, small volume and the high cost of expanding outreach make it unprofitable to serve the rural poor. To overcome this situation, physical expansion of PASS through zonal branches should be done countrywide. This expansion and staffing of zonal offices should however be done on a gradual and in a phased manner to ensure the establishments of the stand-alone profit centres with some degree of autonomy from the headquarters.
- (v) **Eligibility problems:** The criteria that, the client should have a collateral security and the minimum loan size applied should be Tshs 7.5 millions, poses a serious bottleneck to the majority farmers especially the small subsistence farmers who are really the target in the PRSP. Another problem is lack of term financing. ASPS II (2002) noted that, some larger investment projects have not

been financed during the first phase of the PASS component because they would have taken up a too large share of the CGF and as management support would have been required for succeeding. PASS should address these problems by assisting the farmers to secure title deeds and/or legal ownership documents of their properties to be used as collaterals for loans in financial institutions. Alternatively, smallholders who have no direct access to bank finance because loan amounts are too small may be “transferred” to the business sector support programme component for support for microfinance which supports the financial and institutional capacity development of SACCOS where smallholders may access loan finance. At the other end of the scale, PASS may transfer large investments, where the investor seeks a foreign partner, to the private sector programme. PASS as a Trust should establish a venture capital fund by providing a higher capitalisation of the CGF in the second phase of the PASS component, spread the CGF among more institutions and provide a matching grant fund to support management in investor companies.

- (vi) **Defaulters’ problems:** According to ASPS II (2002), with the type of clients that PASS serves, losses of at least 10 % may be expected which would endanger the sustainability of PASS and require new infusions of capital to the CGF. At present the CGF is placed in the accounts of participating financial institutions (CRDB Bank Ltd) for draw down in case of default. PASS carries the major part of the risk by guaranteeing 60% or more of the applied loan. An alternative to this problem might be to share the risk by transferring the full responsibility for loan repayment to the participating financial institution, to do keen feasibility studies and evaluation of the promoter’s investments to check viability and do effective loan repayment monitoring.

- (vii) **Partial ownership of CGF:** At present the CGF is owned by PASS (=DANIDA), but placed in an account of participating financial institution (CRDB Bank Ltd) for draw down in case of default. Furthermore, the interest income obtained from depositing the CGF with CRDB Bank Ltd. is at the moment considered as the property of DANIDA and therefore returned to DANIDA. Thus, to maintain its value it is likely that the CGF will need to be replenished from time to time. The solutions for this problem might be to allow full ownership of the CGF by PASS, that the interest income on the CGF is returned to CGF for consolidating the fund and the 2 % fee paid by clients to PASS could be regarded as a guarantee commission to be paid by clients on a PASS owned credit guarantee fund to cover losses of the CGF.

4.5.3 Opportunities

- (i) **Opportunities and demand of commercial farming and agri-business:** Viable investment projects within commercial farming and agri-business exist. According to ASPS II (2002), a significant potential for increased commercial farming and agri-business have been found during the first phase of PASS, and business advice and assistance has been provided to several worthwhile existing and new enterprises.
- (ii) **Ability and willingness of investors:** Promoters of investments are able and willing to provide sufficient and acceptable own contribution to projects. According to PASS (2007), promoters of investments are willing to cost-share preparation of feasibility studies at a decreasing subsidy level. Also investors are willing to cost-share management and marketing support.

- (iii) Increasing geographical demand coverage of PASS services:** Demand for PASS services is expected to be country-wide. According to PASS (2007), the first phase of PASS operation covered only the four regions of Morogoro, Dodoma, Iringa and Mbeya. In 2005 outreach activities increased to cover the 12 regions of Arusha, Coast, Dar es Salaam, Dodoma, Iringa, Manyara, Mbeya, Morogoro, Kilimanjaro, Ruvuma, Singida and Tanga (Annual Report, 2005). From 2006-2007, the demand increased to cover other new regions of Lindi, Kagera, Mara, Mwanza, Shinyanga, Tabora and Rukwa.
- (iv) Demand for new BDSs exists:** Establishment of new, profitable BDSs (like management training, technical training, advertising and marketing, facilitating linkages to potential buyers in other countries, financial engineering, organisational development and restructuring) have a potential to be supplied profitably to the market.
- (v) More institutions to compete for CGF:** Relevant institutions are interested in opening PASS windows or supporting PASS in other ways to become country wide in coverage in a cost-effective way. According to PASS (2007), an agreement has been made between PASS and CRDB Bank, EXIM Bank, African Banking Corporation and the FBME Bank who act as PASS windows on implementation of the CGF.
- (vi) Availability of development funds:** There is an availability of CGF institution (DANIDA) in the credit guarantee scheme to finance PASS. According to ASPs (2007), DANIDA will provide a total of about \$ 38.25 million for PASS budget including the CGF in ASPs III (2008- 2013).

- (vii) **Availability of qualified service providers in Tanzania:** Qualified service providers of relevant financial training and qualified service providers of relevant managerial and marketing support are available or can be made available through capacity building support.

4.5.4 Threats

- (i) **Low levels of productivity and investment in agriculture:** The Low levels of productivity and investment in agriculture as cited by MAFS (2008), can be addressed through PASS in collaboration with other private and public sectors by increasing their roles in providing a wide range of demand-driven support services to smallholder farmers. The public sector should gradually, but increasingly, limit its role to financing the provision of collective goods and services that the private sector is unwilling to provide and the targeted financing of goods and services to promote commercial farming and overcome rural poverty. The government should also focus on technical services and an enabling policy environment as cited by FAO (2005).
- (ii) **Low technology deployed in farming and livestock keeping:** Low technology deployed in farming and livestock keeping as cited by PASS (2007) due to low purchasing power of the agriculture producers, can be addressed through provision of subsidies which in turn might result to high use of modern inputs and agriculture technology. According to FAO (2005), the removal of subsidies by the government has resulted to low use of modern inputs and agriculture technology.

- (iii) **Lack of market, which in a way is a result of low quality and quantity:** PASS would address this problem by supporting provision of agricultural services to improve the market orientation of small scale producers, increase their capacity to engage in agro-processing, reduce post harvest losses, and access market information. This would be accomplished by providing the requisite training, development of farmer organizations and advising on quality standards and marketing. Where possible, farmers' organizations would be facilitated to form sustainable SACAs and SACCOS.
- (iv) **Low level of the agriculture related processing industry:** The low level of the agriculture related processing industry due to lack of more improved equipment and technology as cited by PASS (2007), can be addressed by an effective linkage services between producers, processors and agri-business. PASS should strengthen the capacity of rural farmers "as micro-entrepreneurs" by linking them to processing firms and exploit existing potential to develop agro-food industries. Partnership between processors, traders and primary producers is essential to ensuring access to markets, inputs, and technology for primary producers and in providing a sustainable raw material base for the processors. Access to land and natural resources; credit and direct financial support to production, improved technology and post-harvest storage methods, market infrastructure and a favourable policy environment for private investors to invest in commercial farming and agribusiness, are cited by FAO (2005) to be the fundamental requirements for improved agricultural production.

- (v) **Lack of capital to undertake reasonable agricultural investments:** The availability of financial resources from relevant institutions is a serious bottleneck in private sector development. Mkwawa (2006) stated that, credit facilities that could empower agricultural enterprises are not easily accessible and are associated with substantial bureaucratic procedures. Often agricultural related loans are given a short duration to recover the loan and the rates applied often discourage investments in commercial farming and agribusiness because agricultural projects require a longer time to realize benefits and are highly dependent on various factors (biotic and abiotic) for success. A supportive mechanism is the establishment of guarantee facilities which, when implemented, could facilitate a general access to funding, long and short, to smaller and medium-sized borrowers, also in agriculture. PASS should involve more CGF institutions (syndication of finance) in financing larger and small viable investment projects. World Bank (2003) stated that, integrating financial services into poverty reduction strategies is a general access to funding agricultural investments.
- (vi) **Unfavourable policy environment:** FAO (2005) noted that, the policy environment, which includes complex tax regimes, land legislation, rate applied and bureaucratic procedures may create high transactions costs for businesses and discourage private investment. Although investment laws are in place, the mind-set and attitude of the public administration towards the private sector is often an obstacle, leading to time consuming practices and non-transparent fees and licenses. PASS should address this by actively participating in a dialogue with the Government to create an optimal private sector environment in terms of an appropriate regulatory environment.

Ensuring that, there is a favourable environment for private investors so that individuals and companies would wish to invest in commercial farming and agribusiness.

- (vii) Inadequate strategies of several public sector support agencies:** The inadequate strategies of several public sector support agencies including the MAFS as cited by WB/IFPRI (2000), can be addressed by providing the agricultural services through public and private agricultural service providers with an emphasis on encouraging greater private sector participation in providing services. In addition to responding to specific requests for services in crop and livestock production, processing and marketing, service providers would also target specific thematic areas where there is potential to expand or significantly improve commercial production.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The process of commercialisation of smallholder production is now part of the process of globalisation that is not likely to stop. Unless there is greater guidance of the process by the government, the vision towards achieving higher agricultural productivity, higher income and reduction of poverty are not likely to be realized. Low levels of productivity and investment in agriculture, low technology deployed in farming and livestock keeping, lack of markets, low level of the agriculture related processing industry, lack of capital to undertake a reasonable agriculture and agro-business investments and unfavourable policy environment are the serious bottleneck in agricultural commercialisation and private sector development.

PASS alone cannot by itself address these constraints due to frequent difficulties with mobilizing funds on a large scale and pooling risks over large numbers. There is an unequal distribution of financial resources among PASS clients where some regions receive more attention than others. The majority (63%) of PASS clients are in Morogoro region receiving more financial services (37%) than other regions. This is due to limited physical expansion of PASS operations and management from the one office in Morogoro, flat and lean management structure and hence shallow outreach activities and poor information regarding PASS services. Due to poor information regarding to PASS products and services, there is a tendency of PASS clients in some regions to concentrate on same particular business, which is very risky due to competition and the possible outbreak of diseases. However, PASS is in an overall strong competitive position and it can continue to pursue its current business- or corporate-level strategy profitably. The

corporate strategy that PASS is pursuing is to operate in just two core businesses (business development services and financial services) with related diversification. Financial services are found to contribute more (95%) to PASS competitive advantage than BDSs (5%).

A case is therefore made to the Government to consider addressing the issues raised in this research paper with a view to creating an enabling environment for a vibrant commercial farming to happen in Tanzania. In the same vein, PASS is specifically called upon to avail its services closer to beneficiaries up-country by expanding its outreach, visibility and deepening the access of its services and products in upcountry rural Tanzania by establishing zonal branches. More importantly, PASS should increase partnership with all financial institutions in offering project appraisal and credit guarantee in financing commercial farming (larger and small viable investment projects). PASS should maintain links with other entities fostering private sector development, and actively participate in a dialogue with the government to create an optimal private sector environment in terms of an appropriate regulatory environment.

Lastly, PASS's true impact in commercialisation of agriculture, enhancing economic growth and reducing poverty would depend on its ability to assist enterprises through the credit guarantee fund for both long and short term lending. Support to PASS to further build the CGF will therefore be necessary in order to fill the gaps in operational expenses, capital expenses and cost of technical assistance particularly in view of the expansion of coverage to all regions and broadening the range of products and services.

5.2 Recommendations

5.2.1 To PASS

For PASS to succeed, its services must be demanded which in turn requires that there is a favourable climate for private investors so that individuals and companies would wish to invest in commercial farming and agribusiness. During the initial two years of PASS, a number of factors in the policy, legal and bureaucratic environment have been identified as being major constraints to investors. Yet, the demand for the services of PASS has been encouraging, and implementation of the measures defined in the ASDS and rural development strategy for promotion of private business would further strengthen this demand.

Secondly, if PASS shall manage to become a self-financing private entity independent of donor/government financing, clients must be willing and able to pay for the services of PASS, and PASS must succeed in a competitive market for business development services and financial facilitation. This requires that PASS is able to employ or contract high-quality human resources which assumes that such resources are available and that PASS is not restricted from accessing quality resources due DANIDA or government regulations on salary and fee scales. Thus, PASS should have the following in place: Improved corporate governance, better organizational structure, better human resource and development in place. These will include: Better policies, strategies and internal technical monitoring systems; better prudent financial management systems; improved risk management; better operational procedures and manuals; and better systems including sound information technology for services and products provided by PASS.

Thirdly, the facilitation of lending to PASS clients assumes that there are financial institutions, which are willing to enter this market segment. Generally, financial

institutions consider lending for farming and agribusiness as having high risk and transaction costs. Improvements in the environment, such as amendments of the Land and Village Land Acts, will, if implemented, stimulate the interest of financial institutions. PASS should involve more CGF institutions (syndication of finance) in financing larger and small viable investment projects. Because a major hurdle for banks financing primary and secondary agriculture is the strict Tanzanian rules in security for loans, PASS should work very close with all banks set up modalities even on a case to case basis where PASS's huge data base and credit guarantee facility can be utilized to get first time projects and expansion off the ground and turned into profitable and increased productivity of agricultural enterprises as well as farms and farmer groups (small holders). A number of old idle laying agricultural projects can be turned into productive projects mainly sisal, cotton, cassava, cashew, coffee, tea, and fruits processing.

Fourthly, the development objectives of PASS and the ASPS as a whole, can be achieved through (i) increasing the involvement of formal and informal sections of small to medium scale private sector entities in agricultural development, (ii) initiating and facilitating commercially viable productive activities and services of relevance for the agricultural sector, (iii) encouraging and facilitating the formation of primary producer organisations with the objective of establishing entrepreneurial attitudes and bargaining at this level, and (iv) maintaining links with other entities fostering private sector development, and actively participate in a dialogue with the government to create an optimal private sector environment in terms of an appropriate regulatory environment.

Lastly, PASS should avail its services closer to beneficiaries up-country and deepen its services and products to include those targeting on input supply, agro-processing and other processes up the value chain. PASS should do some improvement in corporate

governance, institutional organization, human resource management and business operation systems, including technology, which will have to be up-graded. Other areas will entail broadening PASS's outreach and more importantly to deepen its reach. This can be achieved by gradually rolling out branches to several agro-ecological zones of Tanzania. Each zonal branch would be opened after undertaking a feasibility study and developing a business profile to ensure viability of the branch. Each branch has to prove that it would help the organization to tap business that won't have been easily tapped using the centralized system, broaden the range of commodities to be covered and reach those clients that otherwise won't be easily reached.

5.2.2 To the government

It is the argument of this study that, the government needs to have a fresh look at its strategies if it is to revamp agriculture. The following though not exhaustive, is a starting point:

- (i) Comprehensive agriculture policy and regulatory framework:** The transformation of the agricultural sector from a largely subsistence farming to large-scale commercial farming will be enhanced by a comprehensive agriculture policy and regulatory framework. The comprehensive policy and regulatory framework should provide the basis for a conducive environment for the sector transformation process. The issues for consideration in the development of a policy and regulatory framework could include the following: a broadly defined agriculture; sustainability; increasing investment in agriculture; issues of land, labour, capital and entrepreneurship; private sector involvement; empowering producer organizations; processing and value adding; issues of quality and standards; regional comparative advantages; and others.

- (ii) Sound sector strategy plan:** The achievement of the sector goals and objectives and the transformation of the sector depend on a sound sector strategy plan. This plan spells out in practical terms the ways and means of realizing the agricultural sector policy and regulatory framework and the way forward for the agricultural transformation process. The strategy plan development process like that of the policy and regulatory framework should be conducted at both national and grassroots levels. Advances made in improved road network, rural electricity, telecommunications, and improved seaport and airport provide facilities for the development and successful implementation of a comprehensive sector strategic plan.
- (iii) Agricultural technology assessment and promotion:** The agricultural technology assessment should identify those technologies that are really appropriate and for what purpose and under what production system they have a comparative advantage. These results would be used as guide for potential investors interested in investing in large scale commercial agriculture in regions of Tanzania that have the comparative advantage for the commodities to be produced. The agricultural technology assessment should include the minimum inputs required for realization of profit by applying the technology and how its potential risks are to be avoided or reduced.
- (iv) Agricultural financing:** The need for some form of agricultural financing separate from the normal commercial banking system should be considered in the agricultural transformation process. Two approaches to agricultural financing should be considered: support to large-scale commercial agricultural; and support to small scale cottage industries that feed into the larger

commercial system. The small-scale cottage industries that process agricultural produce can be supported by short term investments already being offered by financial institutions. However, for medium and long term investments in agriculture, there is need to establish an agricultural development bank that is amenable to the type of sustainable investment needed for the transformation of the agricultural sector. This bank should only fund clearly defined agricultural investments that will significantly contribute towards transforming the agricultural sector and nothing else. Initial capital for the agricultural development bank should come from a joint venture between government and the non-state actors with the later allowed to manage the joint venture. Government involvement should be gradually phased out as the bank gets established. The government should also introduce specific credit guarantee schemes for agriculture.

- (v) **Agribusiness promotion:** Agribusiness promotion within the agricultural sector transformation process is to increase agri-business knowledge, skills and attitude of mainly small scale and medium to large-scale agricultural entrepreneurs to optimise their investment dividends. The government should promote commodities boards, agri-business and/or commercial organizations dealing in various aspects of agriculture such as input supply, production, marketing, processing and value adding. The access to agri-business technical information and the optimisation of financial services will require some support to agricultural entrepreneurs/beneficiaries of such facilities. This support can be in the form of capacity building, advocacy, crop insurance promotion and special incentives such as favourable power tariff to support industries that add value to agriculture (e.g. packaging, transport, canning etc.).

The vigorous emphasis should be put on the advocacy aspects using both the print and broadcast media to improve the knowledge, skills and attitude of producer organizations in agri-business. The idea is to make significant break through in changing the current small-scale subsistence agriculture to large-scale commercial agriculture.

- (vi) **Reliable agricultural information and communication:** The change from subsistence agriculture to large-scale commercial system of agriculture is enhanced by access to valid and reliable agricultural information. The agricultural information should be derived from basic agricultural science and agricultural economics relevant to Tanzania. The regional farming systems based on scientific agricultural information such as geography, demography, land/soils, rainfall pattern, crops and livestock production etc should be made accessible. Agribusiness information on financing, crops, livestock, marketing and inputs supply, etc should be available through the print and broadcast media to potential investors interested in agriculture. Such information could be obtained through compilation of already existing data and information and putting together such information in reader friendly publications for investors.
- (vii) **Empowering producer organizations:** This is important in the transformation of the agricultural sector. The empowering process should ensure that producer organizations have national, regional, district and village representation and that they are properly managed and understand their rights, roles and responsibilities in the agricultural transformation process.

- (viii) Increasing investment in agriculture:** The transformation of the agricultural sector from a largely subsistence system of agricultural production to a large scale commercialisation system of agriculture that lays emphasis on a comprehensive sustainable production system calls for an increase in investment in the sector. The combination of a good agricultural sector policy, a sound strategy, appropriate agricultural technologies to choose from, suitable financing facility, and agribusiness skills development, a food industry to transform agricultural produce, all packaged in a reader friendly and do-it-yourself information, will contribute significantly to enhancing investment in the sector.

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