

Evaluation of the Private Agricultural Sector Support (PASS), Tanzania

Summary and management response

This note summarises the main findings and lessons learned from an evaluation of the Private Agricultural Sector Support (PASS) in Tanzania, covering the period 2000 – 2018. The note includes the management response and follow up proposals drafted by the Embassy of Denmark in Dar es Salaam. The Independent Evaluation Department of the Ministry of Foreign Affairs commissioned and managed the evaluation, which was carried out by Carnegie Consult and KIT Royal Tropical Institute.

Summary of evaluation

Introduction

In 2000 the Private Agriculture Sector Support (PASS) was established by the Government of Tanzania and Government of Denmark as a pilot project facility under the Agriculture Sector Programme Support (ASPS I) funded by Danida. PASS became operational in 2001 and in 2003 continued as a facility under Agriculture Sector Programme Support II (ASPS II). In 2007, PASS was registered as an autonomous legal Trust and became a component of the Business Sector Programme Support III (BSPS III) and since 2013 the Business Sector Programme Support IV (BSPS IV).

The vision of PASS is to reduce poverty levels for agribusiness entrepreneurs in Tanzania. The PASS Theory of Change is based on the logic that agribusiness entrepreneurs who access, and use, financial and business development services, will increase the level of productive investments. With an increased level of productive investment, the agribusiness entrepreneurs will become more productive and scale up activities. They will increase income and create employment (full time, seasonal, part time and casual labour) in the agricultural sector and ultimately contribute to reduced poverty levels. More specifically, PASS facilitates the provision of financial services and business development services to small and medium size commercial farmers, groups and agribusinesses. PASS offers a range of business development services to its clients, including feasibility studies, business plan development, capacity building and organizing marketing and market linkages. PASS's main focus is on the development of business plans that enable clients to get a loan. The financial services offered by PASS include the appraisal of loan write-ups in line with collaborating financial institutions' terms and conditions and providing partial credit guarantees to cover for inadequate collateral. In addition, PASS has set up the Agricultural Innovation Centre (AIC) that provides business support to SMEs to expand its client businesses through innovation, market access support, financial management and operational advice.

PASS is a non-profit organisation but operates on commercial terms charging commercial rates for its services. PASS is operationally sustainable and is re-investing any surplus to further increase PASS outreach.

Findings

Since its incorporation, PASS has been and remains both relevant and additional. PASS operations contribute to the goals of the Tanzania Government in economic development as well as those of the Danish Government. Overall, we assess the organisation as being efficient, effective, and achieving impact. At the same time, the evaluators propose attention being given to a number of issues that would improve efficiency for future growth, increasing effectiveness, and reducing risk.

At present, PASS is relevant to about 166.000 end-clients (farmers). PASS is supporting most of these end-clients directly by providing a guarantee to their bank. Other end-clients are supported more indirectly when guarantees are being provided to SMEs who sell to or buy from farmers, or to MFIs who in their turn support their clients. Considering the average household size of between 5 and 6 members, about 940.000 household members are benefitting directly or indirectly.

The banks as commercial financial institutions have not yet taken up the role that PASS plays. They slowly need to step up and take a larger share of the risk for PASS to fulfil its ultimate development goal: to no longer be needed as a service provider. Until that time, PASS' goals include a continuous support of end-clients in need of guaranteed loans providing these clients with the means to invest and grow their business, while at the same time stimulating end-clients who have succeeded to up-scale their business to graduate and become 'corporate clients' with commercial banks.

For the near future, further growth is expected and necessary in view of demand in the market and is possible at limited additional staff time through expansion of portfolio guarantees and institutional guarantees. Growth in individual and group loan guarantees implies a growing burden on presently available staff.

In the meantime, further growth can be fuelled by attracting additional capital, increasing agreed leverage with partner banks and lowering the guarantee percentage for recurring PASS clients (to maximum 30%). The leverage ratio is the result of negotiation and is based on trust: financial institutions can base their guarantee not only on the capital base of PASS but recently also on that of SIDA. This marks as a significant achievement of PASS in developing its potential guarantee reach and has resulted in a leverage ratio (ratio of loans provided to guaranteed amount) evolving from 0.9x to 2.2x over time.

PASS has likewise provided valuable services to banks and clients by assisting clients to develop business plans on the basis of which loans and guarantees can be provided. This should be continued as it improves viability of the businesses and reduces risks to both parties. With further growth of the PASS organisation, further digitization is needed to improve effectiveness, as with this strong growth, the effectiveness of the internal organisational processes runs the risk of lagging behind. Risks loom in process bottlenecks and the consequences of centralized decision making processes. Digitalisation can increase operational efficiency and leverage going forward.

At the same time, the dual goals of financial as well as development impact suggest that M&E of financial and social impact as well as data analysis for day to day operations and strategic policy making (including green growth and gender) can only be successful in the future if further digitization of operations takes place.

Operational efficiency of PASS has come far but can benefit from further improvements. Expansion of the organisation to improve coverage of the presently most important agricultural production areas and value chains through existing branch offices is wise. Further intensifying the network of branch offices is not necessary. FinTech solutions would increase efficiency at the client-PASS interface, in data entry and management in the PASS system, in communications with the banks, and in monitoring and evaluation of progress and social impact.

The level of financial sustainability of the organisation is relatively high compared to most other guarantee schemes, though should continue to be a concern given its commercial business take. Monitoring of financial risks (non-performing loans, exchange rate risks, concentration risks at the level of banks and clients) is key to the success of the organisation with respect to financial sustainability. In

particular, the sharp increases in the overall volume of non-performing loans and defaults are a cause for concern and it is recommended that monitoring on doubtful loans should be scrutinised by PASS.

Recently established and newly proposed activities of PASS such as the AIC and lease business are diverse in nature and it should be considered whether these should be part of the PASS organisation itself. An alternative governance model of a holding is suggested, with all three organisations featuring under one holding company.

PASS has had a clear social impact with participating farmers and businesses, as it was intended to do. In terms of changes in productivity and production, our data suggest that improvements of around 25-35% have been achieved in key crops such as rice (with average yields of almost 2 MT/ acre, compared to around 1.5 MT for non-PASS farmers), and this is the level of improvement at or above the level of achievement generally found in similar micro-finance and loan guarantee programmes. Similar growth figures in income related to the studied crops were noted. Again, this is at or above expectation and compares with other similar programmes.

In terms of employment, the results show that investments made possible by the guaranteed loans, especially in SMEs, generally lead to higher labour productivity and does not always lead to higher labour input per unit product within the SME. In this process within SMEs, manual labourers are generally replaced by fewer, but more qualified personnel. However, the increase in volume of production and the related increase in procurement from farmers by agricultural processors and traders indirectly has a positive employment effect at the level of the farm due to expansion of production, assuming expansion is still an option in view of the land area available in Tanzania. The employment effect also includes indirect employment creation of a higher level of quality in the economy at large, such as in services related to maintenance, transport, construction, operation of machinery, administration, and catering and hospitality, though this could not be studied quantitatively.

The impact of PASS could also be found at the level of input cost for financial services. Loans obtained by PASS-related farmers are generally double the amount obtained by other farmers from local (informal) loan providers, against a significantly lower interest rate (by 5%). The process from business plan development to guarantee certification to loan provision should be shorter according to clients, and more timely in view of the agricultural season starting dates. PASS could contribute to this, next to the banks/ MFIs.

Recommendations

Recommendation 1

The evaluation team proposes that crop-related specific financial and non-financial services are taken into consideration, taking the particularities of the various value chains, their dynamics and resultant demand for PASS resources. Rice and cashew for instance have very different characteristics and requirements, and possible product innovations in the value chains to be developed with financial partner institutions should take this into account. PASS can learn from AMDT and FSDT in this respect.

Recommendation 2

The evaluation team recommends that a coherent and comprehensive strategy on gender and green growth transformative approaches be formulated.

Recommendation 3

The evaluation team recommends that further agronomical technological development is pursued and more agronomic knowledge provided to farmers in tandem with financial services either directly or preferably through financial institutions or third party extension services providers.

Recommendation 4

The evaluation team recommends that PASS takes into account the limited employment effects, related to crops and type of mechanisation at the farm level, and the possible positive effect on employment in SME investment and in stages higher up the value chain. Specific labour enhancing policies may be considered, such as a focus on value chains where increased employment (hired external labour) is an important effect of investment. A view on off-farm, indirect effects, and a policy focus on stimulating investments in off-farm employment, could be considered.

Recommendation 5

The evaluation team recommends that input systems and marketing systems around the various value chains are studied and taken as a point of departure to further develop these value chains and allowing farmers to further improve sales and income. Information on prices could be provided through various mobile applications, as is being contemplated by PASS. In this, PASS could cooperate with other DEPs in the BSPS IV programme that focus on these issues, such as AMDT and FSDT.

Recommendation 6

The evaluation team recommends to increase ownership within financial institutions through providing additional training, reduce the credit guarantee percentage on loans to decrease financial reliance on PASS and further promote the portfolio guarantee instrument.

Recommendation 7

Asked specifically to advice on this, the evaluation team recommends implementing a holding model for the various initiatives currently under PASS, including AIC and the lease business, under which all three organisations would fall.

Recommendation 8

The evaluation team recommends PASS to prepare a human resource strategy, consider increased discretionary power of branches and improve digitalisation of various processes within its operations.

Recommendation 9

The evaluation team recommends improving the M&E system of PASS through expanding the data input and analytical use of the Navision system.

Recommendation 10

The valuation team recommends PASS to impose increased quality controls on financial institutions' processes for loan assessment, processing and monitoring, further scrutinising processes for following-up on non-performing loans, periodically re-assess the contribution margin of the various branch offices and offset and setting a policy for managing foreign exchange fluctuations.

Management response

General comments

The Danish Embassy appreciates the work of Carnegie Consult and KIT Royal Tropical Institute in evaluating the Private Agricultural Sector Support (PASS) to assess its contribution to the transformation of the Tanzanian agricultural sector and the objectives of providing jobs and increasing income for farmers and micro, small and medium enterprises, focusing on the sustainability and future potential of these results.

Overall, the Embassy is happy with most of the findings and recommendations being provided by the consultant in the evaluation report. In general, the consultant has done justice to the Terms of Reference by answering the evaluation questions on job creation and income generation.

However, we feel that less has been reported on the social impact at the level of poverty reduction, to both direct and indirect PASS beneficiaries. According to PASS' Theory of Change and Result framework, '*Increase in employment among agribusinesses*' and '*Increase in household assets generated among beneficiary farmers*,' were set as indicators to measure reduction of poverty. Even though this has not been strongly brought out in the evaluation, information on job creation, income generation, household assets, better housing, buying a motorcycle, car, tractor testifies some of the poverty reduction measures achieved in the lives of PASS beneficiaries.

The Embassy appreciates the evaluation findings that '***at present, PASS is relevant to about 166.000 end-clients (farmers) whom have benefited from PASS business plan services and loan guarantees to their banks. With the multiplication effects based on household size of between 5 and 6 members, about 940.000 household members are benefitting directly or indirectly.***

Likewise, the Embassy notes with appreciation that, since its incorporation, PASS has been and remains both relevant and additional. PASS operations contribute to the goals of the Government of Tanzania in terms of economic development as well as those of the Government of Denmark. In addition, it is good to learn that the organisation is being efficient, effective and achieving impacts.

Recommending further digitization to improve effectiveness to go along with the growth of PASS is well noted and appreciated by the Embassy. The matter is well known by PASS and the Embassy, where initial discussion on how to support digitalization have already commenced. Funds have been set aside by the Embassy to support PASS in this regard in 2019 and 2020. Embassy support will enhance PASS's ICT platform to support technology and innovation that will improve PASS's operational efficiency with regard to the monitoring and evaluation of financial and social impacts, data analysis, communication and reporting.

The response to specific recommendations of the evaluation is provided as follows:

Recommendation 1

The evaluation team proposes that crop-related specific financial and non-financial services are taken into consideration, taking the particularities of the various value chains into account, their dynamics and resultant demand for PASS resources. Rice and cashew, for instance, have very different characteristics and requirements, and possible product innovations in the value chains to be developed with financial partner institutions should take this into account. PASS can learn from AMDT and FSDT in this respect.

The Business Sector Programme Support (BSPS IV) is designed in such a way that projects of different partners are complementing/feed into each other with the aim of achieving the goals of the programme. The Embassy, through platforms like the Programme Coordination Committee meetings (PCC) and Development Engagement Partners Team leaders' meetings, encourages collaborations and partnerships among the partners. The Embassy encourages PASS to reach out to the Agricultural Markets Development Trust (AMDT) to develop sub-sector analysis for various crops value chains, and the Financial Sector Deepening Trust (FSDT) to support PASS partner financial institutions in product innovation to suit specific crops financing needs and encourage collaborations and partnerships among the partners.

Recommendation 2

The evaluation team recommends that a coherent and comprehensive strategy on gender and green growth transformative approaches be formulated.

The Embassy takes note of this recommendation. The Embassy is aware that gender issues are incorporated in the new PASS 2018-2022 strategy. PASS has appointed a gender focal point person and has a Gender Action Plan, which will support comprehensive Gender Policy Guidance. The Embassy is aware that with support from the Swedish International Development Cooperation Agency (SIDA), PASS has hired a Bilateral Associate Expert mainly helping PASS-supported projects to comply with green growth principles. To this, PASS staff have attended Danida Fellowship training in Denmark and Kenya on Green Growth. Lastly, the Embassy has provided PASS with additional 15mio DKK for year 2019 and 2020 to address women and youth demands in agribusiness.

Recommendation 3

The evaluation team recommends that further agronomical technological development is pursued and more agronomic knowledge provided to farmers in tandem with financial services, either directly or preferably through financial institutions or third party extension services providers.

The Embassy takes note of this recommendation whilst emphasising that the responsibility of providing agronomical knowledge or training to farmers is not a primary function of PASS. The Embassy encourages PASS to collaborate with financial institutions and other relevant partners, i.e. the Agriculture Council of Tanzania (ACT), to provide agronomical knowledge to farmers. Other options could also be for PASS to collaborate with other partners under the BSPS IV, especially FSDT and AMDT, since they have platforms for sharing agronomical information to farmers. AMDT is also working to strengthen its knowledge hub which may add value to the entire thematic programme.

Recommendation 4

The evaluation team recommends that PASS takes into account the limited employment effects, related to crops and type of mechanisation at the farm level, and the possible positive effect on employment in SME investment and in stages higher up the value chain. Specific labour enhancing policies may be considered, such as a focus on value chains where increased employment (hired external labour) is an important effect of investment. A view on off-farm, indirect effects, and a policy focus on stimulating investments in off-farm employment, could be considered.

Despite the fact that technological advancement in agricultural mechanization have less effect on the number of jobs created, the Embassy strongly believes that such mechanisations contribute to an increase in income generation and profit. It may also translate into the utilization of skilled labourers in the sector.

Recommendation 5

The evaluation team recommends that input systems and marketing systems around the various value chains are studied and taken as a point of departure to further develop these value chains and allow farmers to further improve sales and income. Information on prices could be provided through various mobile applications, as is being contemplated by PASS. In this, PASS could cooperate with other partners in the BSPS IV programme who focus on these issues, such as AMDT and FSDT.

The Embassy believes that PASS can positively benefit from FSDT and AMDT. The two organizations work on developing market systems, that benefit underserved individuals, households and enterprises, offering those capacities and opportunities to improve their lives and create better functioning rural market eco-systems and strengthen the knowledge hub, that can be used as a source of information to farmers. PASS can also benefit from Sahara Ventures which is currently running an agri-tech project called e-Kilimo (e-agriculture). The e-Kilimo start-up acceleration programme funded by the Danish Ministry of Foreign Affairs through TechVvelopment is looking to leverage the power of digital economy and technology advancement to accelerate growth and efficiency in Tanzania's agricultural sector.

Recommendation 6

The evaluation team recommends to increase ownership within financial institutions through providing additional training, reduce the credit guarantee percentage on loans to decrease financial reliance on PASS and further promote the portfolio guarantee instrument.

The Embassy has noted this recommendation, but is of the view that additional training to financial institutions personnel is the responsibility of the institutions themselves. However, through discussion, PASS may advise financial institutions to train bank personnel as part of improving the provision of loan services to farmers. The Embassy believes that the graduation of clients from the guarantee program is not only achieved by reducing guarantee cover, but by helping the client to build a strong asset base to meet regulatory collateral requirements.

Recommendation 7

Asked specifically to advice on this, the evaluation team recommends implementing a holding model for the various initiatives currently under PASS, including AIC and the lease business, under which all three organisations would fall.

The Embassy takes note on the suggestion and is aware that the holding model has already been adapted as a model for the leasing business.

Recommendation 8

The evaluation team recommends PASS to prepare a human resource strategy, consider increased discretionary power of branches and improve digitalisation of various processes within its operations.

The Embassy is aware of the need of digitalization in PASS to manage the workload and at the same time increase efficiency in the organization. In response to this need, the Embassy is planning to support PASS specifically on innovation and technology in 2019 and 2020. The Embassy also take note and encourages PASS to strength its Human Resource function, however, we feel that increased discretionary powers to branches needs strong control mechanisms within branches like those of banks, which would significantly increase operational costs to PASS.

Recommendation 9

The evaluation team recommends improving PASS's M&E system through expanding the data input and analytical use of the Navision system.

The Embassy is in agreement with this recommendation and encourages PASS to improve its M&E system.

Recommendation 10

The evaluation team recommends for PASS to impose increased quality controls on financial institutions' processes for loan assessment, processing and monitoring, further scrutinising processes for following-up on non-performing loans, periodically re-assess the contribution margin of the various branch offices and offset and setting a policy for managing foreign exchange fluctuations.

The Embassy has taken note and will encourage PASS to strengthen quality controls in the entire process of facilitating credit guarantee within their mandate. This could be done through quarterly discussions between PASS and Banks on Non-Performing Loans and how challenges may be handled. Where necessary, PASS can also recommend to the Government through the Bank of Tanzania (BOT) for possible reforms in the sector.