# Challenges Facing Accessibility of Agriculture Financing in Tanzania: A Case Study of TIB Development Bank Limited and CRDB Bank PLC.

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## ABSTRACT

This research was conducted to study the main challenges that farmers in forms of SMEs, Cooperates, Microfinance Institutions, and individuals face in accessing Agricultural finance in Tanzania with the case studies of TIB Development Bank Limited and CRDB Bank PLC clients. emphasis was put to examine the effect of collateral requirement; to investigate the effects of interest rates as offered by lenders to clients and to assess the effect of a condition of initial capital investment/equity in agricultural project financing to clients and stakeholders dealing with agricultural activities for both TIB Development Bank Limited and CRDB Bank PLC. The research adopted the use of case study design research in generating the required primary data and secondary data. The primary data were collected using two methods: questionnaires and interviews; considering the total prospective clients of 365 from TIB and 175 clients who approached CRDB bank for agricultural finances, the researcher sampled 10% of these prospective clients and that being the case, 50 questionnaires were distributed among the selected prospective clients for both CRDB and TIB and only 35 questionnaires were returned; a response rate of 70% was considered reasonable. Interview method was also used to 30 sampled respondents from the population of staff dealing with agricultural loans, TIB had a total of 50 working staff dealing directly with agricultural financing and CRDB had 45 staff and a 10% of these working population was sampled for interview on challenges that most prospective clients/borrowers face in accessing agricultural loans; whereas the interview was conducted either through face-to-face interview or phone call interviews. The research found that the issue of collateral requirement is the main challenge limiting accessibility of agricultural financing for many borrowers in Tanzania when they need agricultural loans to finance agricultural projects. It was also found out that high interest rate is a limiting factor in the accessibility of agricultural loans compared to low interest rates, and that clients are attracted to banks which offers low interest rates than those offering high interest rates. Further it was found out that the requirement for equity contribution is a limiting factor for accessibility of agricultural loans especially for start-up agricultural projects. The study therefore concludes that collateral requirement, high interest rates and equity contribution among others are the factors limiting accessibility of agricultural loans in Tanzania. It is recommended that more agricultural subsidies and credit guarantee schemes be established by the government to reduce the challenges of collateral requirement and high interest rates.

**Keywords:** Agricultural Financing, Collateral, Interest rates Financing Equity

## INTRODUCTION

Agriculture dominates the economies of developing countries, contributing significantly to income generation, employment, and gross domestic product (GDP). For example, in Tanzania, agriculture accounts for about 29.1% of the country's GDP, contributing to about 40% of export earnings, and employs 75% of the country's workforce (NBS, 2013).

Agricultural Financing has been defined as an "economic study of borrowing fund by farmers, the organization and operation of the farm lending agencies and of societies' interest in credit for agriculture" (Murray 1953). Agriculture financing deals with different sources of raising funds for agriculture; it is concerned with the lending procedures, rules, regulations, monitoring and controlling of different agricultural credit institutions.

Agriculture finance is the provision of financial services to promote activities across the agricultural value chain including research, input provision, aggregation, agro-processing, distribution, retail and marketing. Agricultural financing can be provided to individuals (Farmers, traders) as well as small and medium-sized enterprises (SMEs). It encompasses a range of financing instruments, including debt, equity and grants.

Agricultural finance is significant to farmers and SMES/ Corporations dealing with agro-processing and agriculture in general, the following are some of the key significances of agricultural financing to farmers, SMEs, Limited Companies, Community banks for on-lending, SACCOS, and Microfinance Institutions (MFIs);

Therefore, there is a heavy demand for investment capital and sustainable financial services for rural areas and agricultural activities necessary for global growth and food security. In particular, smallholder households and enterprises in developing countries lack the required investment capital and access to financial services, thereby resulting in low agricultural productivity (FAO, 2015).

As agriculture is subject to high systemic risks, engaging with the sector has traditionally been challenging for financial institutions, which are often unable to adequately conceptualize and assess risk and therefore are unable, or reluctant, to develop sustainable financial products for actors in the agricultural value chain. Consequently, agricultural clients, notably smallholders, lack access to adequate financial services and therefore face severe growth constraints. Despite the importance of the agricultural sector in the development of the national economy, financing of agricultural projects has been a long-standing problem. Most financial institutions avoid agriculture due to, among other reasons, its nature of risks including unreliable climatic conditions, products perish ability, unfavorable markets, incidence of pests, and long payback periods.

Experience demonstrates that most of the funds injected into the agricultural sector in Tanzania came by way of donations and grants from overseas. One example of local funds included a government facility through the Bank of Tanzania (BOT) that was channeled through commercial banks. In turn, these banks lent out the money to agricultural cooperatives. However, most of the cooperatives failed to pay back the loans. It is on record that between 1985/1986 and 1989/1990, CRDB Bank (then Cooperative and Rural Development Bank) recovered only 29% of the loans given out to cooperatives. As a result, banks' appetite for agriculture financing risk diminished, and thus less credit was made available to the agricultural sector.

The Government recognizes the critical role of the agricultural sector to accelerate both economic growth and poverty reduction. Various agricultural sector policies, strategies and programs have been instituted to boost agricultural development. Some of the policies, strategies and programs, among others include Agricultural Marketing Policy 2008; National Food Security Policy 2005; The National Irrigation Policy 2009; Cooperative Development Policy 2002; The Rural Development Policy of 2001; The National Livestock Policy of 2006; The Land Policy 1995and the Agricultural Sector Development Strategy 2001 as well as Agricultural Inputs Trust Fund (AGITF) among others.

Therefore from the available sources that is through literature and researcher's personal experience it is apparent that there are challenges in accessing agricultural financing to farmers in Tanzania; in most cases the following are among the factors for accessibility of agricultural credits, lack of collaterals, high interest rates and the issue of equity contribution which most of the start-up companies fails to afford hence these financing schemes are thought to be expensive and inaccessible.

Hence this study was intended to study the Challenges Facing Accessibility of Agriculture Financing a Case Study of TIB Development Bank Limited and CRDB Bank PLC both headquartered in Dar es Salaam. With the objectives of studying the Challenges Facing Accessibility of Agriculture Financing in Tanzania by examining the effect of collateral requirement as a hindering factor to agricultural financing among SME's dealing with agribusiness, investigating the effects of interest rates as offered by lenders to SME's and how they affect agricultural financing for both CRDB Bank PLC and TIB Development Bank Limited and assessing the effect of a condition of initial investment capital and equity in agricultural financing by stakeholders and clients dealing with commercial farming for both CRDB Bank PLC and TIB Development Bank Limited.

**Statement of the Problem**

According to AfDB (2016) financing of agriculture sector in Africa and Tanzania is constrained by among others limited access to capital through long-term and short-term agricultural financing. According to World Bank Group (2013), agriculture financing is perceived as a high risk, and lack of good collateral for most of famers to secure the loans, makes the agricultural sector a rather poor client for lending, from the perspective of financial institutions in Africa and Tanzania Inclusive. Kumar et al (2020), stated that inadequate and weak access to institutional credit among farmers is a major barrier to the development of Agriculture sector in India. He also asserts that the reason for high interest rates which are being charged for farmers in India is due to lower collaterals pledged hence financiers use interest rates as a security for their loan. Yadav, P & Sharma, A (2015) pointed out that lack of agricultural credits to farmers has led them to resort to informal micro-credits institutions which in most cases charges them high interest rates, this was even the case for Tanzanian farmers who were exposed to high interest rates from commercial banks and Microfinance institution due to inaccessibility of cheap funds from development financing bank. Low agricultural productivity is commonly attributed to the use of inefficient equipment as a result of limited access to agricultural credit. Furthermore, it is believed that the lack of credit has discouraged many young people from entering the agricultural sector, leaving the majority of them jobless due to a lack of investment resources and incentives (FAO, 2015)

Therefore from the available sources that is through literature and researcher's personal experience it is apparent that there are challenges in accessing agricultural financing to farmers in Tanzania; in most cases the following are among the factors for accessibility of agricultural credits, lack of collaterals, high interest rates and the issue of equity contribution which most of the start-up companies fails to afford hence these financing schemes are thought to be expensive and inaccessible. Lack of these agricultural finances have posed several consequences to both individuals, the agriculture sector and Tanzanian economy as whole; according to B.A. Awotide, T. Abdoulaye, A. Alene, and V.M. Manyongas (2015), they pointed out that empirical literature found that in rural areas of developing countries, credit constraints have significant adverse effects on farm output, farm investment, and farm profit. Also, due to lack of agricultural credit there is low productivity which largely affect the livelihood of the individual farmers, hampers development of the agricultural sector as there will be no machineries and technological improvements, loss of income to the economy due to lack of exports among others. Agricultural credit is an essential input along with modern technology for increased farm productivity also timely access and availability of credit are critical to farmers for acquiring the required inputs and machinery necessary to carry out farm operations (Saqib, E. S. et al, 2018).

The main objective of this research therefore, was to study the main challenges that farmers in forms of SMEs, Cooperates, Microfinance Institutions, and individuals face in accessing Agricultural finance in Tanzania with the case studies of TIB Development Bank Limited and CRDB Bank PLC clients; with specific objectives on examining the effect of collateral requirement as a hindering factor to agricultural financing among farmers dealing with agribusiness, investigating the effects of interest rates as offered by lenders to farmers and how they affect agricultural financing and assessing the effect of a condition of initial investment capital and equity in agricultural financing by stakeholders and clients dealing with commercial farming.

## LITERATURE REVIEW

The review of theories is considered paramount to cementing the study objectives and variables. This study on challenges facing accessibility of agricultural financing in Tanzania is basically propounded by theories which embrace agricultural importance to economic growth to elaborate the need for enhancing flow of finances to agricultural sector o economy. Two theories therefore, which are factor endowment theories on agriculture and moral hazard model in lending behavior, guide this area of study.

### Factor Endowment Theory

The theory of factor endowment assumes that a country has a competitive advantage in the production of the commodity which uses more intensively the relative abundant factors of production. The theory was propounded by the Swedish economists Heckscher and Ohlin between 1920s and 1930s' and highlights the role of resource endowments in production of the commodity.

The application of this theory in the study originates from the fact that Tanzania is believed to have a comparative advantage in the agricultural sector given the abundant fertile land and large population to offer labour force. About 80% of the country's population relies on agriculture as a source of employment (NBS, 2013). The ultimate focus of this study is on agricultural production and financing, as expounded in the problem statement that there is limited access to agricultural credits (finance) due to various factors. Despite the need to develop agricultural production, emphasis is to be made to financial investment of which its accessibility is limited due to conditions set by financial institutions for clients wishing or in need of agricultural finances.

### Moral Hazard Theory Related to Lending Behavior

The theory of moral hazard postulates that a party will tend to take risks because the costs that could occur will not be felt by the party taking the risk. According to the theory, a moral hazard may occur where actions of one party may change to the detriment of another after a transaction has taken place. *Thakor et al*, 1994, recognizes moral hazard as a key problem to loan contracting and explained that where lenders are not sure of the borrowers' behavior, they tend to avoid extending credit facilities and emphasize on providing secured loans.

The application of this theory in this study is seen as significant when comparing the lenders decision making behavior when appraising the loan applications of their clients and especially when they are assessing the risks before approving or rejecting the loan applications. In this case lenders tend to introduce risk mitigation tools to cover themselves against agricultural risks and reduce the Non-Performing Loans rates (NPL) from agricultural loans. Lenders are only willing to extend agricultural credits if they are sure that the risks have been mitigated and that in case of any loss they will be covered; these risks are mitigated through the introduction of interest rates, requirement for collaterals and equity requirement for sharing of risks and capital in the financed project.

Generally, the theory emphasizes that lenders will always avoid extending credits to situations perceived to have risks and that if lenders are sure that the risks have been reduced they will then extend agricultural credits. This study aimed at assessing, examining, and investigating how these risk minimization factors (collaterals, high interest rates and equity among others) affects the accessibility of agricultural financing.

The use of collateral is prevalent in external debt contracts to mitigate informational asymmetry which may result in credit rationing or denial of credit. Typically, small businesses pledge assets owned by the firm (inside collateral) but sometimes they use assets owned outside the firm (outside collateral) (Leitner, Y, 2006). Inside collateral would include firm assets such as inventories, receivables, or plant and equipment. Outside collateral would include the personal assets of the firm owner, i.e. his house or personal securities.

Most theoretical research suggests that inside collateral helps reduce adverse selection and prevent credit rationing. Asset structure is an important predictor for raising intermediate debt, as firms with more tangible assets are more likely to use them as inside collateral, therefore reducing the informational asymmetry between lenders and owners. Thus, we would expect firms with higher levels of tangible assets to rely more heavily on debt.

Most of the models of outside collateral show that safer borrowers/firms use outside collateral more often as the owners/managers of these firms know that they are less likely to lose it (reducing the adverse selection problem) and because they invest in less risky projects (reducing the moral hazard problem). Outside collateral consists primarily of personal assets and wealth. Depending on the organizational form of the business, personal assets and wealth can be subject to business risks and therefore, there is little separation between personal and business risks. This lack of separation between personal and business assets has a significant impact on small business owners' borrowing patterns and access to credit markets. One prediction from the theoretical models of outside collateral is that wealthy owners are more likely to raise intermediated debt, because they have the capacity to use personal assets to secure or guarantee loans (Coleman, S., Cotei, C. & Farhat, J, 2016).

A number of visited studies look at the requirement of collateral and how they affect accessibility of fund, the study on Influence of Collateral Requirements on Sacco's Credit Accessibility in Imenti North Sub-County, Kenya studied entirely on the collateral requirements under Saccos, and the area of study goes beyond Saccos and this study was assessing generally collateral requirement on all loan.

Smallholder farmers in Zambia require access to financing to improve their productivity and subsequently provide food security financiers, however, are generally reluctant to extend agricultural credit to smallholder farmers as they are deemed not to be creditworthy. The reasons are, among others, that their loan repayment capacity is low and that they lack traditional collateral in the form of agricultural land title (13. Patil, S., Jha, A.K. and Sinha, A., 2016 & Sitko, N. J and Chamberlin, J.,2016).

According to Sanka & Nkilijiwa, 2021, most of farmers seeking for agricultural finance in Tanzania and especially Shinganya were found to among others fail to get access to credit due to lack of collaterals to secure their loans.

Agricultural financial service providers have few instruments at their disposal to manage these various risks; they therefore tend to protect themselves through excessive credit-rationing and by relying heavily on traditional land collateral. However, agricultural borrowers' assets are less suitable as collateral than, for example, urban real-estate. In fact, farmers and their producer associations frequently lack the collateral traditionally required by banks for larger and longer-term loans. Due to legal and administrative impediments as well as cultural factors, rural assets are often not registered and consequently may be more difficult to foreclose and sell. Even where these constraints are less binding, collateral is a poor protection against massive defaults due to covariant risks. The result is that required collateral ratios are much higher than they would be otherwise (IFC, 2012).

Madafu, 2015; in his research he pointed out that lack of collateral has been one of the limiting factors for accessibility of credit to smallholder farmers in Tanzania, he based his study at Mvomero District.

According to Saqib et al, 2018, Lack of collateral is the main reason for farmers' inability to benefit from loan schemes in Pakistan. Access to formal credit is challenging for the small-scale farmers due to collateral issues, so they resort to informal sources due to their timely delivery, no need for collateral, and flexibility in loan transactions. Most of the small-scale farmers cannot borrow from banks or other financial institutions due to a lack of collateral security (Rahman et al., 2014). In most instances, small-scale farmers can only apply for small amounts of credit to purchase seeds, fertilizers, and pesticides, but cannot apply for loans to purchase tractors, tube wells, and farm machinery, due to insufficient collateral.

According to Kibuga, 2013, the challenge of collateral was addressed in which it was found out that some lenders are unwilling to extend agricultural credits to some clients who have few collaterals to cover the loans they apply for, and that collateral requirement is among the risk mitigation tool which is used by a number of lenders in the market when lending to agricultural projects.

Interest rate can be defined as the amount paid by a borrower to a lender in exchange for the use of the lender's money for a certain period. Interest is paid on loans or on debt securities, such as bonds, either at regular intervals or as part of a lump sum payment when the loan matures. According to Nkilijiwa, & Sanka (2021), smallholder farmers tend to be attracted to borrow from cooperatives unions as there are lower interest rates which are being charged compared to microfinance institutions and other commercial banks. He also asserts that high interest rates for agriculture credits have been a bottleneck to the accessibility of agricultural credits by farmers in Shinyanga region. Madafu, 2015, in his research he also pointed out that high interest rates for farmers at Mvomero from the commercial banks and microfinance institution is among the limiting factor for accessibility of agricultural credits for farmers in Mvomero District. He also asserts that banks and many other lenders tend to charge high interest rates due to the risks associated with agribusiness, hence, to avoid risk, high interest rates and collateral requirements are termed as a mitigating factor.

Kaleem, & Ahmad, in their article the proposed for an interest free loan when financing agricultural projects using Bai Salam Law on agricultural financing which in most cases it influences the use of trade financing other that charging interest rates in Agricultural financing. The article explored possibilities of agriculture financing under the concept of Bai Salam (forward sale contract) in Pakistan. Bai Salam is a trading contract rather than an interest-based loan. In Tanzania the same can be applied by Islamic banks but unfortunately the same is not in operation hence the issue of high interest rate in agriculture loan persists.

The study by Matuja, 2012, on the challenges of agricultural micro-financing with the focus on TIB Development Bank Limited, highlighted that lack of equity among others was a challenge in the accessibility of agricultural credits to some of the micro-finance institutions in Tanzania. The study concluded that agricultural financing is very low in rural areas as the policies in place do not support agricultural financing. The Study by Kibuga, 2013, highlighted that lenders create several risk mitigation instruments with the purpose of reducing risk before the decide to cash in money in the project, among the risk mitigating factor is the issue of contributing equity where the risk is distributed between the bank and the shareholders.

Kibuga (2013) on the risk management practices in agricultural Financing with the case of selected (commercial) banks. In her study she studied on the risks of agricultural financing in Tanzania and how the same affect lending practices in Tanzania even though she discussed on collateral issue but mainly as a risk mitigating factor and not as a limiting factor to loan accessibility. Her work also used the sample of selected clients from these selected commercial banks (CRDB and NMB) and TIB Development Bank limited with the main objective of examining tools available for risk management in agricultural financing. While this study's main objective is to study the challenges facing accessibility of agricultural Financing in Tanzania with the case studies of CRDB PLC and TIB Development Bank Limited.

Madafu, 2015 on the access to bank credits by smallholder farmers in Tanzania: Challenges, Opportunities and Prospects a case study of Mvomero, where among other the researcher studied the challenges facing accessibility of bank credits to smallholder farmers at Mvomero districts. This study differs with Madafu'sstudy in a number of ways, first the objective of his study was to investigate the challenges, opportunities and prospects regarding smallholder farmers accessibility of bank credit in Tanzania with the case study of Mvomero district, while the current study is based on studying the challenges facing accessibility of agricultural Financing in Tanzania with the case studies of CRDB PLC and TIB

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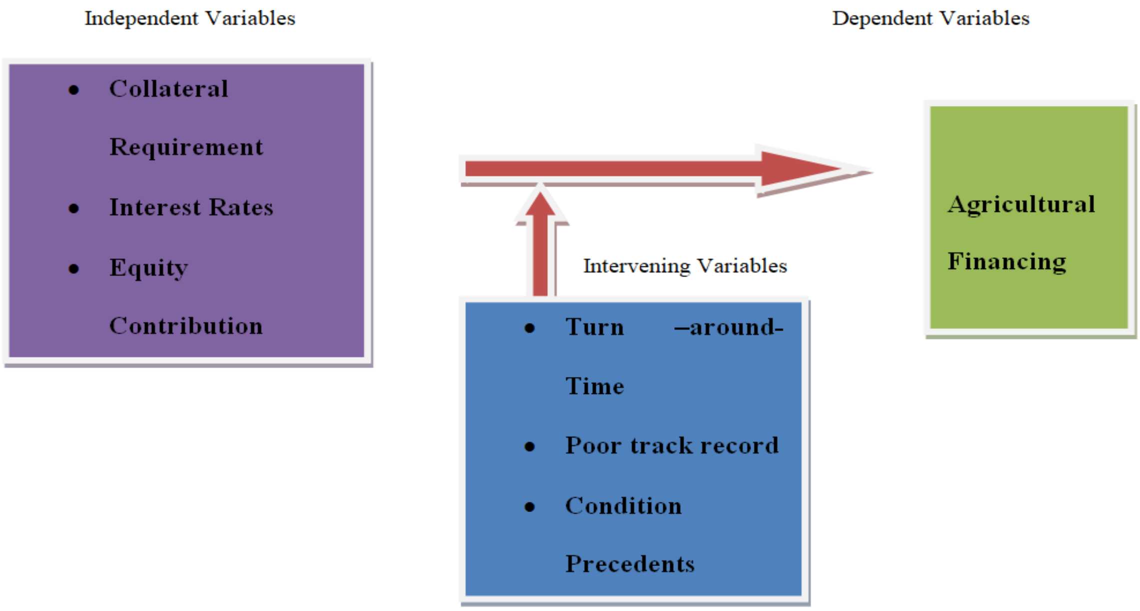
Development Bank Limited. Also, Madafu used the sample of 192 smallholder farmers all located at Mvomero district in Morogoro together with other respondents from commercial banks located at Mvomero district, this work, has used the sample of applications received for both CRDB Plc and TIB DFI who ranges from SMEs, Corporates, MFIs and Community Banks.

Sanka & Nkilijiwa (2021) on the access of bank credit to smallholder farmers based in Shinyanga, Tanzania but their case studies are for smallholder famer's access to credit from Shinyanga, hence the results were only those reflecting the marginalized group of farmers in Shinyanga rural while addressing challenges limiting accessibility of agricultural credit, while this study was based on the commercial bank (CRDB) development Bank (TIB Development Bank Limited) with the objective of the challenges facing accessibility of agricultural Financing in Tanzania.

This reviewed literature indicates that several studies have investigated the issue of agriculture financing under various perspective. However, little has been studied under the agricultural financing in the context of Tanzania, especially on issues specifically of interest rate, collateral requirement, equity injection requirements and how they affect the accessibility and bankability of SMEs, Individuals and Corporate clients engaging in Agriculture in Tanzania, hence this study aims at addressing that research gap.

Conceptual framework explains the relationship among interlinked concepts (Kibuga, 2013). In this study the conceptual framework is derived from the three independent variables i.e collateral requirement, interest rates and equity contribution, there were other intervening variables of turn-around-time, policies, poor track record and condition precedents and one dependent variable access to agricultural financing. The relationship is described under figure 1.1 below.

From the conceptual framework below, it may be observed that for farmers to have access to financing of agriculture in financial institution the same should depend on the availability of collaterals to secure the loans, equity contribution and it will depend with the prevailing interest rate charged to such loans (independent variables); however, this also may be affected by the presence of turn-around-time (TAT) which is the time spend between logging the loan application for agricultural finance and the time for approval and disbursement, the longer the TAT may lead to cancellation of application by the client; also client's poor financial and banking track record and existing condition precedents (intervening variables) will tend to affect the availability of agricultural financing (dependent variables) to farmers, therefore, the accessibility of agricultural financing will depend on both the listed independent variables and intervening variables, however, for the purpose of this study, only the independent variables were studied at length.



## RESEARCH METHODOLOGY

This study employed case study design which according to Amaratunga et al.(2002) is an appropriate approach when generating an in-depth multifaceted understanding of a complex phenomenon in the real life context. The researcher has to assess various complex but significant factors which limit the accessibility of agricultural financing loans. Therefore, two financial institutions were chosen by the researcher to represent other financial institutions i.e one commercial bank (CRDB Bank PLC) was chosen to represent other commercial banks, the main reason of choosing CRDB is justified by the bank's recent drive to agriculture financing, where they introduced agribusiness portfolio with the aim of catering for the gap in agriculture financing, the drive led to the massive reduction of interest rate to a single digit interest rate of 9% and TIB Development Bank Limited was chosen to represent other Development Financing Institutions which operate in Tanzania, even though TIB is not specialized bank mandated for agriculture financing like TADB, still the bank has a portfolio of about 67 Billion of Agriculture which was established in 2010 and the bank has a vast experience in managing and administering agricultural financing funds, hence it was ideal choice considering the bank's experience in agricultural financing.

The study employed interpretivism research, the main reason of using this approach is based on the fact that, the research involved qualitative and quantitative whereas qualitative data were collected by way of interviews. The interpretivism approach enables the researcher to gain further depth through seeking experiences and perceptions of a particular context. Hence, this approach provide in-depth understanding of certain contexts such as cross-cultural studies, factors influencing certain development through collection and interpretation of qualitative data leading to deep insight and conclusions (Myers, 2008, Sounders et al, 2012, & Alharahsheh & Pius, 2020), the approach also helped the researcher to explore further depths of acquired experiences, interest and commitment in the area under study through interviews as also this research adopted interview method as a primary data collection method.

The study was based in the localities of Dar Es Salaam city as it is where the institutions which are under study i.e TIB Development Bank Limited and CRDB Bank PLC are headquartered. However, even though most of the farming activities are not undertaken directly in Dar es Salaam; but most of the SMEs, individuals, corporate clients, and financial institutions are based in Dar es Salaam. Therefore, it was genuine to conduct the research and base the topic under study in Dar es Salaam for there was easy access and mobility of respondents for the purpose of the study and even literature review.

The research population was estimated at 1,187 which is made up of clients under the portfolio of the two banks under study, staff working for the bank who are directly involved in Agricultural Financing schemes and clients who submitted their applications and are under appraisal. The primary data were collected using two methods: questionnaires and interviews; considering the total clients of 365 from TIB and 175 clients who approached CRDB bank for agricultural finances, the researcher sampled 10% of these prospective clients and that being the case, 50 questionnaires were distributed among the selected clients for both CRDB and TIB and only 35 questionnaires were returned; a response rate of 70% was considered reasonable. Interview method was also used to 30 sampled respondents from the population of staff dealing with agricultural loans, TIB had a total of 50 working staff dealing directly with agricultural financing and CRDB had 45 staff and a 10% of these working population was sampled for interview on challenges that most prospective clients/borrowers face in accessing agricultural loans; whereas the interview was conducted either through face-to-face interview or phone call interviews.

The researcher sampled 26 received applications from TIB either in the TIB's off balance and on balance sheet portfolio together with the prospective clients who showed appetite (prospective) for agricultural loans which is 12.4% of all applications received between 2015 to June 2022. The researcher also sampled 50 loan applications from CRDB whose loans were submitted and appraised out of 525 clients who were either in the portfolio for agribusiness, prospective clients and clients who are still under appraisal from 2020 to July 2022.

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The study employed convenient sampling techniques in which the sample was drowned from the clustered sampling frame. The researcher selected the representative on the bases of the easiness to contact and availability. Convenient sampling used to select respondents from the cluster of key staffs dealing with agribusiness loans at TIB and CRDB, list of visiting and prospective clients for agricultural loans who approached these financial institutions among others. The option of this sampling techniques stems from researcher's assumption that there is a very little variation in the population in such a way that the sample to be selected is a true representation.

The researcher employed questionnaire as a data collection tool with the purpose of obtaining views and insights from the targeted respondents. The questionnaires were structured to include questions which were relevant to the topic under study. It included questions related to interest rate issues, collateral issues, and equity contribution together with seeking respondent's opinions regarding the raised research questions. These questionnaires were distributed to the respondents physically and some were emailed to the potential respondents. Therefore, a total of 50 questionnaires were distributed and 35 out of which were returned which is equal to 70% of all distributed questionnaires.

Also, data were collected by means of in-depth interview, the researcher was guided a set of interview guide of which questions related to this study were designed and shared with the respondents from both TIB and CRDB. Further, phone call interviews were used to some of the agricultural financing loans who approached these banks for agricultural loans, where various questions under the study were asked and responded accordingly. Face to face interviews were used to 10 banks staffs from TIB and CRDB PLC who were dealing with business development, appraisal, and disbursements while 20 clients from CRDB and TIB were engaged in phone call interview as phone call interviews were deemed convenient following their mobility. Therefore, a total of 30 respondents were engaged in interviews which is 3% of the research population.

In the data analysis process the factors that were analyzed in depth related to Collateral factors, equity contribution factor, and interest rate factors on how they affect accessibility of agricultural financing for the banks under study; other factors will be policies and turnaround time as intervening variables.

Data were analyzed using statistical methods of percentages through use of excels and presented through tables and graphs to enable interpret the data easily. The data were therefore, summarized and presented through tabulation and classification techniques, as well as percentages description of the variables, then presented through description, interpretation, and explanation.

The study was limited only on identifying the challenges that farmers in forms of SMEs, Cooperates, Microfinance Institutions, and individuals face in accessing Agricultural finance in Tanzania with the case study of CRDB Bank PLC and TIB development Bank Limited, and more emphasis was put on the issues of interest rates, equity injection and collateral requirements, the geographical scope was limited to Dar es Salaam, Tanzania.

## STUDY RESULTS AND DISCUSSION

### Findings from the Study Objectives

During the data collection process, the researcher examined a total of 26 applications received by TIB from their pipeline between 2018 to the first Quarter of the year 2022, these applications were 19 from SME and Corporate, 2 from MFIs, 1 from Saccos and 4 from Community Banks.

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A sampled list of clients who approached CRDB bank for agricultural loans was requested from CRDB and a list of 50 sampled clients was provided, with the following categories: 20 SMEs and Corporate, 12 Saccos and AMCOS, individuals 10 and 8 MFIs there were Nil Community Banks.

The status of these clients from both TIB and CRDB indicated clearly that several applying clients were unable to access agricultural financing due to lack of securities to pledge as collaterals. The researcher was further informed that some of the clients were having securities to pledge as securities, but they were still unable to access funds as their securities were not covering the loans, they were applied for by the ratio set of 125:1 which is the regulatory framework set by BOT.

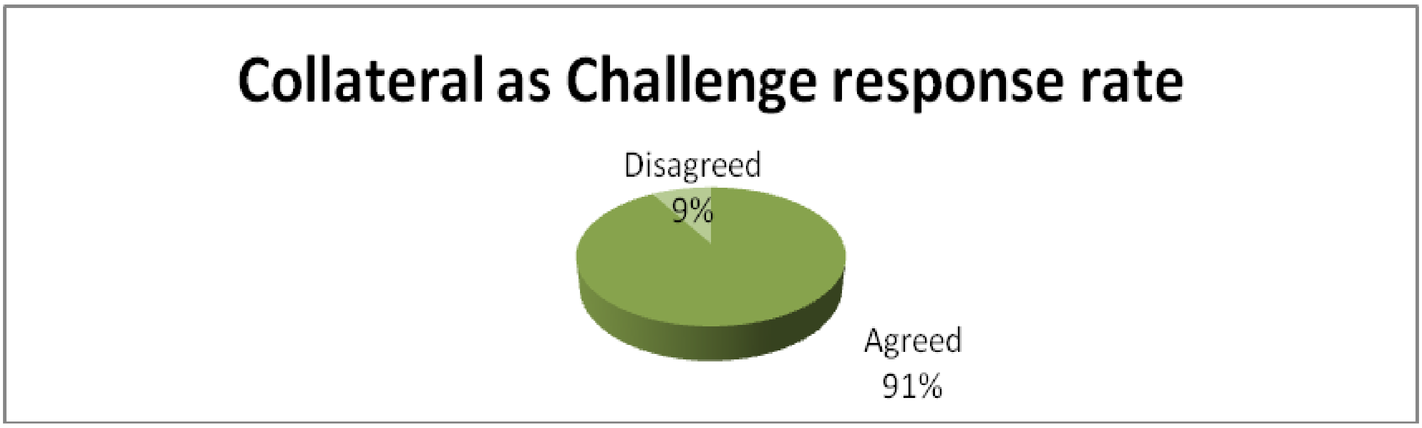
When interviewed by the researcher, one respondent from TIB who is dealing with loan appraisal including agricultural loans had the following comment and I quote;

"*It is not true that all the clients who visit the bank for agricultural loans, lack securities to pledge as collateral, some of them have securities but they are not sufficient to cover the loan amounts they apply for by 125% as required, other securities are not registered and some bring with them customary titles which are not acceptable as they are difficulty to recover in case the client default.*"

When interviewed about the collateral challenges one client who visited TIB for agricultural loan he had the following comment on collateral challenge

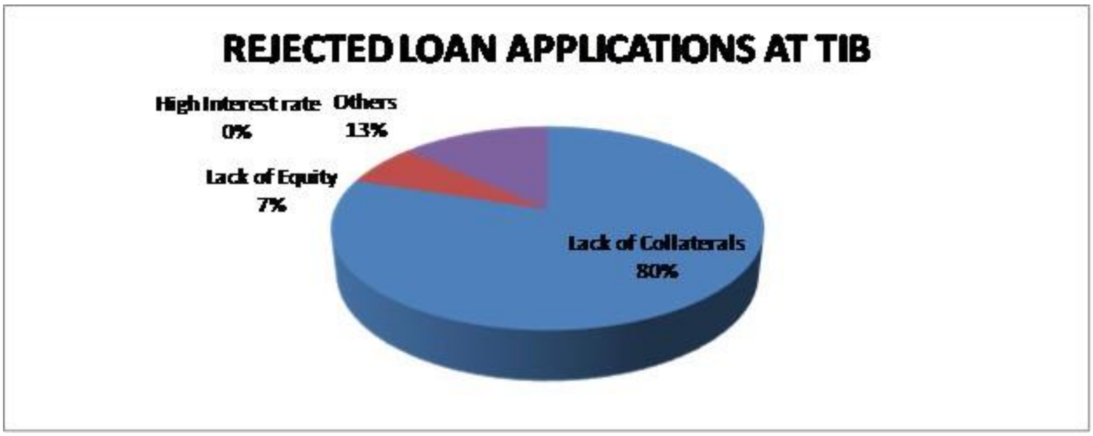
"*I once visited the bank back in 2020 for agricultural financing. By then I was a new entrant in agriculture and, I had no tangible securities no farms to pledge as security, according to TIB policy, the farm where investment will be done has to be the primary security, little acceptance is put on leasing farm… hence I was advised by the bank officer to find securities in form of land for my project (primary security) and other supporting securities which will include cash cover securities… so in 2020 I failed to access the loan. In 2022 I visited the bank again for agricultural loan with some securities and my application is still in appraisal….so for our company, collateral was an issue from the start…*"

From the distributed questionnaires, 32 questionnaires out of 35 questionnaires which were returned which is equal to 91.4% mentioned the issue of lack of collateral as among the factors limiting most of the clients in accessing agricultural loans in financial institutions, while a total of 3 questionnaires out of 35 received questionnaires which is equal to 8.6% responded in negative on the issue of collateral requirement as a limiting factor in accessibility of agricultural financing in financial institutions. The figure below shows the responses from the questionnaires as received;




A review of applications received by both TIB and CRDB indicated that several clients are unable to access loan financing due to lack of collateral or insufficient collateral to cover the loan amount they apply for.

The examination of applications received by TIB and appraised by the bank, shows the following results on applications which were either rejected or withdrawn due to collateral challenge, lack of equity, long loan processing time (TAT) and other factors. The below figure shows the status of the rejected applications at TIB and their reasons.




From the data above, 80% of all rejected loans applications at TIB were due to lack of collateral, this therefore confirms that, lack of collateral is among the reasons for inaccessibility of agricultural loans.

From the data, it shows that 75% of all rejected clients due to lack of collateral to cover sufficiently their loan applications were falling under the SMEs and Corporate category, MFIs category were contributing 17% and Saccos loans contributed 8% of all rejected clients due to lack of sufficient collateral. The examination showed that none of the applicants under Commercial bank category had security challenge. When asked about the reason, the appraisal officer at TIB had this to respond to;

*"We did not experience collateral challenges from the Community Banks loan category due to the facts that most of these community banks have sufficient security ranging from FDR, Treasury Bills and Bonds to pledge together with other immovable assets like landed properties as well as cash covers."*

Further examination on collateral as a limiting factor for agricultural financing was made to the 50applications received by CRDB. The examination of the data from CRDB shows that there are some clients at CRDB who were unable to access agricultural loans due to lack of or insufficient collaterals to cover the loan amounts they applied for. The examination indicated further that out of 30 applications which were either rejected or withdrawn at CRDB, 13 applications were because of lack of or insufficient security to cover the loan amounts applied for agricultural project financing, this makes up for 43.33% of all rejected loans at CRDB.

The researcher, among other things investigated the effects of interest rates as offered by lenders to clients who approach financial institutions for agricultural financing loans and how these interest rates affect agricultural financing accessibility for both CRDB Bank PLC and TIB Development Bank Limited. During the investigation process of the rates offered by two financial institutions, CRDB Bank PLC and TIB Development Limited, the researcher noted varying rates which were being charged by these financial institutions. According to the information given by TIB officer during interview, the bank charges interest rates in two tranches ranging from 4% to 5% annually for agricultural Financing window Loans.

When asked on the varying interest rates for agricultural window loans at TIB, the reason provided was that, those clients who approach the bank for agricultural financing loan for the purpose of on-lending services to other clients that is MFS, SACCOS and Community Banks are offered the lowest

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interest rate of 4% annually and on-lend to clients at the interest rate not exceeding 8% annually, the aim was to stimulate these clients to offer agricultural financing loans to farmers at lower interest rates other than commercial interest rate. However, according to the responding officer there were noted some challenges for these clients under category 2 in the table above, that some are on-lending with interest rates exceeding the contractual rate of 8%. He also commented that the issue of high interest rate in agricultural financing loan at TIB is not relevant as the interest rate charged is attracting clients as is below the interest rate charged from other financial institutions for Agricultural loans.

The interview with the officer from CRDB Bank showed that the interest rates charged by the bank has been varying from time to time, and that before 2021 most of the interest charged by the bank were mostly commercial rates ranging from 18% to 24% annually, as they had no specific financing package for agriculture. However, according to him, the situation has changed recent to attract farmers to apply for agricultural finances and the push behind was the government policies through BOT to incentivize the banks during the COVID -19 period where commercial banks were encouraged to on-lend at low interest rates; therefore, the bank started to lend agricultural loans at the minimum interest rates of 9-10% annually.

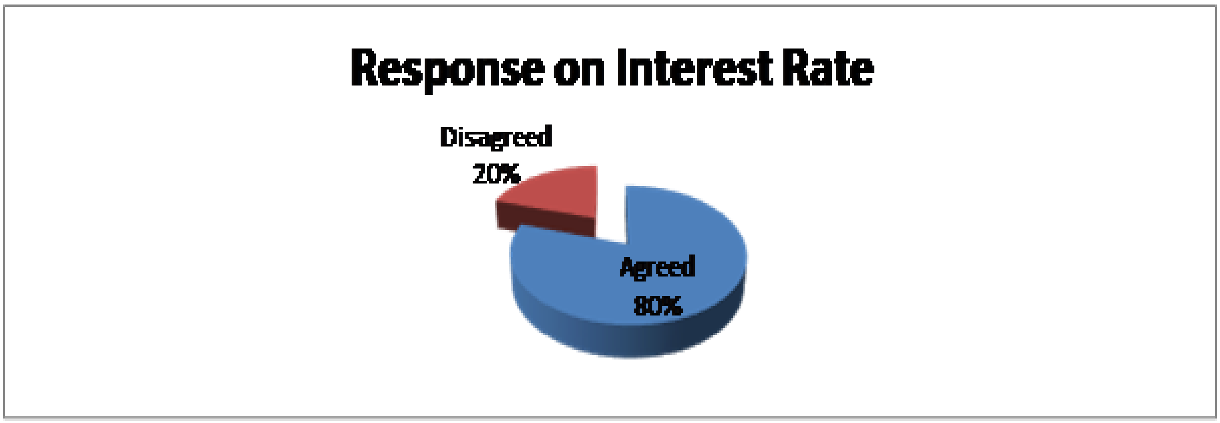
The researcher had a brief phone call interview with one client who approached both TIB and CRDB for agricultural loans and he had this comment on interest rate; I quote

*"TIB has good interest rates in the market for agricultural financing, however they have a long list of requirements and conditions which makes the loans inaccessible by a number of clients. In 2022 I visited CRDB for agricultural loans after their recent involvement and advertisement for low and reduced interest rates on agriculture financing, however it seems the bank has minimal interest in agriculture financing considering it is a risk venture to take for a commercial bank that being the case I decided to withdraw my application at CRDB."*

Another interviewed client who deals with avocado farming had this comment regarding the interest rate issue, and I quote,

*"I have been approached by CRDB for agricultural inputs loan for farm expansion, however, I was reluctant due to high interest rate which is offered in commercial rates, and I am afraid I will end up defaulting due to increased loan amount as a result of interest rates accruals and penal charges."*

A review of the submitted questionnaires showed that 28 out of 35 which is equivalent to 80% of all the returned questionnaires agreed that the high interest rates in financial institution had impacts on loan accessibility and 7 out of 35 which is equivalent to 20% of all returned questionnaires indicated that high interest rates are not limiting factor for accessibility of agricultural loans, the chart below shows the response rate on interest rates as limit factors.



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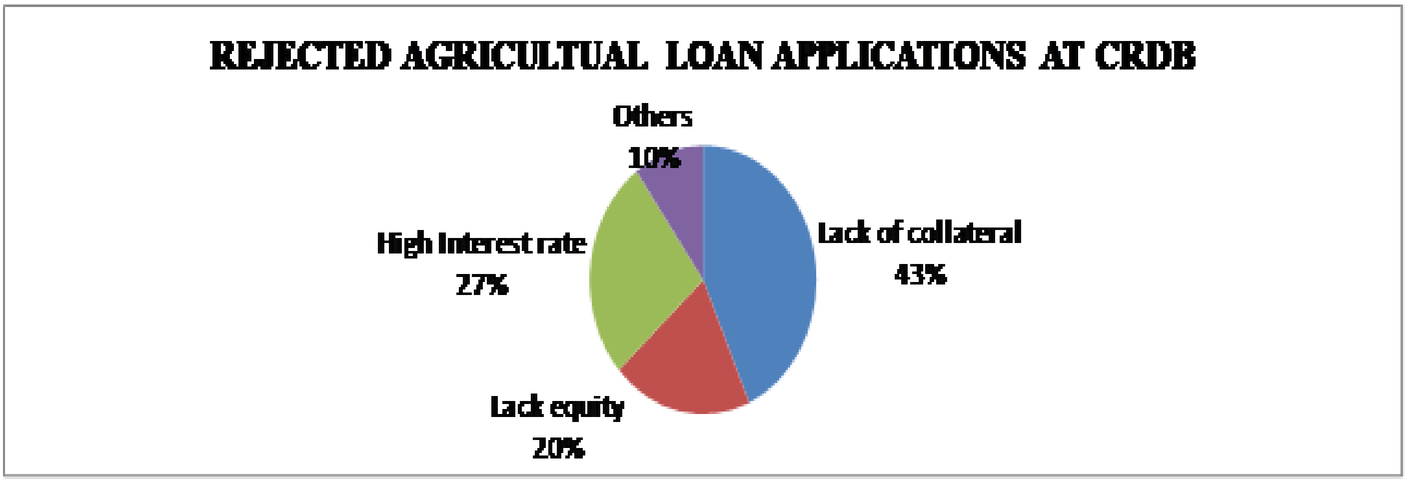
A quick review of loans applications which were received at TIB shows zero clients were rejected to interest rate factor but a total of 14 sampled clients who were rejected at TIB were due to other factors not related to interest rate, this therefore, affirm the statement by the TIB officer when she said,

*"At TIB we offer the lowest interest rate in the market, and this has been the pull factor for many clients who will rather be interested with TIB's lower interest rate of 4-5 % margin annually other than the interest rate which is offered by commercial bank."*

A quick review of 50 application for agribusiness as received by TIB, it shows that eight (8) out of thirty (30) rejected or applicants who withdrawn their applications which is equal to 27% of all rejected or withdrawn applications were due to high interest rates as these clients decided to shift to TADB where interest rate of 12% were issued instead of 18-24% by the time the applications were withdrawn.




Therefore, interest rate has been seen as both push and pull factor to clients applying for agricultural financing loans, at TIB clients are interested to apply for the loans due to lower interest rates, however, at CRDB the study has shown that clients tended to withdraw their applications due to high interest rates which were being offered by the bank.

On clients withdrawing their applications due to high interest rate, one CRDB official had this to say,

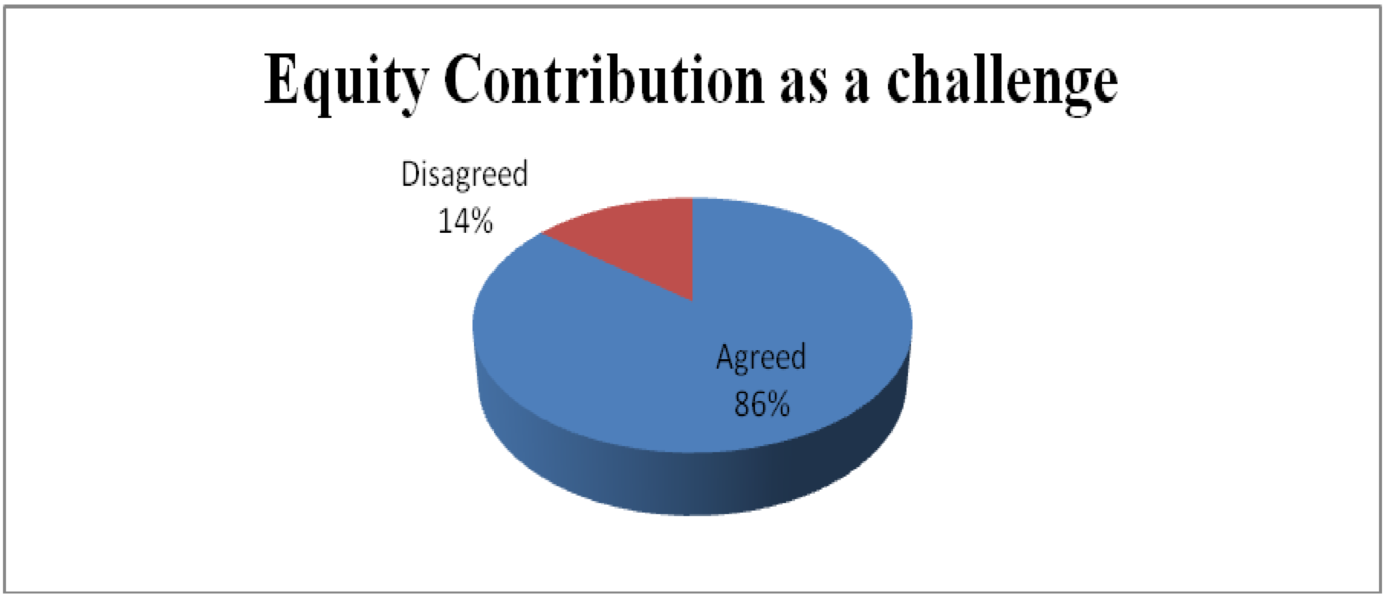
*"Currently, the bank has reduced the interest rate from 18-24% which were being offered before 2021 to 9% even though this is not the lowest in the market, but it has reduced the withdrawals from the clients due to high interest rate."*

The researcher was engaged to assess the requirement of initial capital investment or project cost contribution which is commonly required by several lenders as a means of distributing risk when giving out financial credits. The following are the responses from the interviewed respondents and the distributed.

Out of the 35 returned questionnaires, 30 questionnaires which is equivalent to 85.7% of all returned questionnaires, responded in agreement that the requirement of equity contribution in agricultural project financing loans is a critical challenge that hinders accessibility of agricultural loans.

A total of 5 respondents out of 35 respondents who attended the questionnaires which is equal to14.3% of all submitted questionnaires were of the view that, equity contribution has not been a challenge limiting the accessibility of agricultural financing loans.

The figure below shows the responses from the respondents who attended to the supplied questionnaires;




An interview with the CRDB personnel regarding the equity contribution, confirmed that the bank has a condition regarding equity contribution, and he was quoted saying,

*"Yes, we have the equity contribution for clients approaching the bank for agricultural financing and other loans, for agribusiness loans the equity contribution ratio is 75:25 in the sense that if the cost for tractor purchase is TZS 100,000,000 the client will be requested to submit evidence of initial payment of TZS 25,000,000 and the bank will finance the remaining TZS 75,000,000/=."*

According to him every client who approach the bank for agribusiness loan is being informed prior of the 25% equity contribution and that the loan processing and appraisal will commence only upon evidence that the client will be able to contribute the 25% of equity of the project cost. He also was positive on the possibility that some clients may even stop or refrain from applying the loans if they find out they will not be in a position to pay the 25% equity contribution. And this challenge according to him is more prevalent to startup businesses and he highlighted that there are some exceptions which the bank put forward so to ensure new businesses or clients under agribusiness are capable accessing these funds despite the set condition precedent.

According to the CRDB personnel he added that it is quite difficult to assess or determine which client may have refrained from applying the loan due to lack of funds to contribute to the project financing as they always do not record the data.

When interviewed, regarding this condition of equity contribution, the bank officer from TIB highlighted in agreement that the bank also do have a condition on equity contribution but only that the equity is not necessarily in cash basis, but it put in consideration development made on the project as a whole. The respondent had this to say,

"*We do have in our bank's policy the clause that, for the project to be financed, the project promoter must have evidence of equity contribution not exceeding 30% for agricultural window projects, this equity contribution is not necessarily in cash the whole sum, but 10% of the equity shall be deposited in cash and* *disbursed together with the loan proceed, the remaining amount may involve developments made on the project if valued by the bank's valuers and exceed the 20% of all the project cost, then the bank will proceed to finance other items in the project; the bank also is flexible to allow the client to contribute the remaining 10% of the project cost during the project life circle or project implementation and monitoring period. The bank's target is to reduce the defaulting rate as it was observed that some clients were applying loans at higher interest rates from other financial institutions so as to meet the condition precedent, hence they always fail to repay their loans by either diverting the funds to liquidate the loans from other lenders hence fail to implement the project as per plan hence most of the projects were failing and eventually falling under Non-performing loans.*"

Further assessment was made to the 5-startup client who visited CRDB for agricultural financing to fund their agricultural projects, through phone call conversation all of them cited difficulties to meet the equity contribution challenge as mostly were young graduate with interest in agriculture, but they lacked initial funds to enable them to contribute for the costs of the loans they applied for.

One of client when interviewed via phone call he had this to say regarding equity contribution,

*"I visited CRDB for a loan to finance purchase of power tiller and a tractor to be used in our farm at Lujewa, however we were unable to get the loan as were supposed to contribute a total of TZS 15,000,000 of the tractor and power tiller purchase costs, hence we continue to use the hired tractor and power tillers for our farming activities."*

The researcher made a phone call interview tone sampled client who was successful in acquiring agricultural financing at TIB, when asked as to whether his company had any challenge in contributing the remaining amount had this to say,

*"When I was applying for loan at TIB to establish a poultry farm I was just leaving my employer, hence I had some cash available to start up my poultry farm, I started some construction works at the project site which were later considered by the bank as my equity contribution, therefore to me equity contribution was not a challenge at all."*

The assessment went further to look on the agricultural Window Lending framework used by TIB to see what it has specified on equity contribution, the result found out that apart from set out the equity contribution of 30% of the project cost, the limit is not fixed as for startup businesses the framework state the equity contribution of 50% which actually was seen as a limiting or push factor to many of startup businesses.

Regarding the 50% equity contribution by startup business, the interviewed officer from TIB stressed that currently the bank is in the process of reviewing the framework so to fit the current market trend and the government's efforts in financing agricultural ventures in the country. He further pointed out that despite the presence of such condition no startup business has been charged the 50% equity contribution rather than the common 30% equity contribution. He was quoted saying,

*"The bank cannot apply the 50% equity contribution as stated in the agriculture Financing Window Lending Framework, because it is even higher than that of the bank which is 40% in all other windows for every client, hence the common 30% equity where 10% of it is in cash basis and 20% from the developments made to the project site are being considered as shareholders' equity."*

A quick review of applications received and processed by TIB on the rejected applications it shows 1 client out of 15 rejected clients which makes up 7% of all rejected clients, were due to lack of equity contribution.

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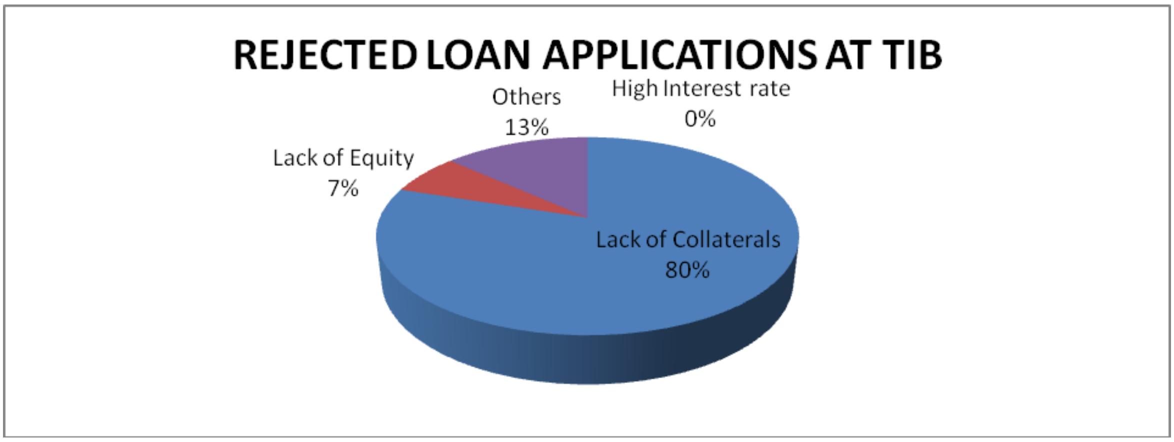
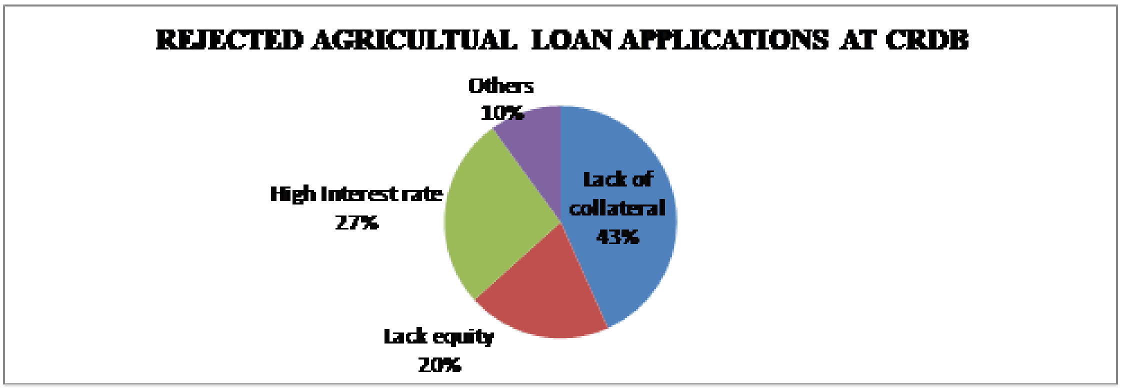



A quick review from the loan applications received by CRDB and the reasons for the rejected it shows that six (6) clients out of thirty (30) rejected clients which is equivalent to 20% of all rejected clients shows that they were rejected due to lack of equity to contribute to the 25% of the project cost, this can be seen from the graph below;




Therefore, when observed in general, that the issue of equity contribution which is being set forward by some lenders in the market and especially TIB and CRDB significantly limits the accessibility of agricultural financing loans to some clients.

**Other Factors Limiting agricultural financing Loans**

The research has shown that apart from collateral, equity contribution and the issue of high interest rates, there are other factors which limit the accessibility of agricultural financing to clients when approaching these financial institutions. These include but not limited to long loan processing time (TAT), failure to meet condition precedents, poor track records and submission of non-bankable projects. A review of applications submitted to TIB showed that 13% of all rejected applications were due to other factors not directly related to issues of interest rates, equity contribution and collateral but rather long project turn-around-time and failure to meet condition precedents. Further review from applications rejected at CRDB indicated that 10% of loan applications were rejected due to other factors which were poor track records and failure to meet condition precedents as set aside by CRDB.

From the data presented above it shows that, at least 91 of all clients who attended questionnaires agreed that the issue of collateral requirements and collateral discounting factors as applied by financial institutions have a limiting impact in the accessibility of agricultural financing by most of the clients who approach financial institutions for agricultural loans. It is also observed further that 80% and 43% of clients whose loans applications were rejected at TIB and CRDB respectively were due to lack of collaterals to cover the loan amount. This makes the average of 33% of the clients who visited both TIB and CRDB for agricultural loans were rejected due to lack of or insufficient collaterals to cover the loan amount they applied to. The findings give the assumptions that at least one-third of all loan applicants are rejected due to lack of collaterals or insufficient collateral after being discounted by several collateral discounting factors which have been put in place by a number of lenders in the market.

The presented shows that the market has a range of interest rates which are being charged by financial institutions, which ranges from 4% to 24% annually coupled with other penal interest rates which range from 2% to 5% of the amount in default.

The study also if observed well shows that the interest for agricultural loans were not charged differently from that of commercial loans this was observed to CRDB which gives an interpretation that commercial banks charges commercial interest rates to agricultural loans. This was not the case with TIB where it was found there were different rates charged to agricultural loans which were below 5% annually while for other commercial loans the interest rates where ranging from 12-18% annually.

The data showed that at least 80% of the returned questionnaires agreed that high interest rates are the challenge in the accessibility of agricultural loans to the financial institutions. Even though not all the respondents were directly affected by high interest rates in agriculture financing loans it gives the impression that high interest rates are the challenges in accessibility of financial credits including agricultural loans.

From the 76 received applications for both TIB and CRDB Bank PLC it showed that only 8 clients out of them which is equivalent to 10.5% of all loan applications, withdrawn their application due to high interest rates offered by the financial institution, and decided to move to another institution with lower interest rate on agricultural loans. These 8 clients were all from CRDB were the interest rates of 18-24% were being charged at the time. The 8 clients make a total of 27% of all rejected or withdrawn applications at CRDB.

It has to be noted that, there were zero (0) clients which is equivalent to 0% of clients who moved away from TIB due to high interest rates, this is believed to be the result of lower interest rates offered by TIB which ranges from 4-5% annually which was seen to be lower in the market for agricultural loans.

The data gives the assumption that clients tend to prefer institutions with lower interest rates in agricultural loans other than those with high interest rates in the market. And that the high interest rates are seen as push factors to clients while lower interest rates are seen as pull factors.

86% of clients who responded through the questionnaires agreed that equity contribution to the project financing of agricultural project financing is a limiting factor towards the accessibility of agricultural loans.

A total of seven (7) out of 76 clients who submitted their loan applications at either TIB or CRDB which is equivalent to 9% of all applications and 15% of all clients whose applications were rejected was due to lack of failure to contribute to the project cost of the financed agricultural project. Even though the data show the minimal contribution rate, but the same agree with the wording of one staff from CRDB who said,

*"It is difficult to have an exact list of clients who fail to access financing due to equity contribution, as here at CRDB before the client lodges his application the first condition is to fund his account with 25% of equity or submit the invoice for procurement of machine which 75% of the cost only and the rest will be borne by the client. So, the client who fails to have the 25% will automatically not submit the application. These six (6) clients whose loans were rejected could have funded their accounts when they were applying and later debited their accounts."*

The data shows that at least one client out of 10 approaching financial institutions for agricultural loans fails to access loan financing due to equity contribution factor, which therefore confirm the facts that equity contribution to agricultural financing have a negative impact to the accessibility of agricultural loans.

**Collateral requirement challenge**

The study has shown that some of the clients fail to access loan to finance agricultural projects due to lack of tangible securities to cover the loan amount they apply for. This is mainly contributed by the ratio of 125:1 for collateral against the loan applied together with the discounting factors set by the financial institutions. This finding is in agreement with Sanka & Nkilijiwa, 2021, who found that smallholders in Shinyanga fail to access financing from commercial banks due to among others, lack of collaterals. The findings are also in agreement with the findings by Madafu, 2015, whose findings were to the effects that farmers in Mvomero, Morogoro; fails to access agricultural finances in financial institutions due to lack of collateral and the researcher concluded that collateral requirement limits the accessibility of agricultural loans to several startup agricultural businesses.

**High interest rates as a limiting factor to accessibility of agricultural finance**

The research results have shown that, interest rates have been both a pull and push factors to clients visiting these financial institutions for the purpose of accessing loans to finance their agricultural projects. The research has shown further that, high interest rates discourage clients to visit financial institution for agricultural financing and they would rather approach cooperatives or any other financing institution offering low interest rates for the purposes of funding their agricultural projects. The moving trend of eight (8) clients sampled from CRDB who moved to other lenders with low interest rates shows that low interest rates usually attract clients and high interest rate chase away clients. TIB was seen to have zero rate of clients moving away from it due to high interest rates as TIB was seen having an affordable interest rate. These findings are in line with Sanka & Nkilijiwa, 2021, who pointed out that, high interest rates which were being charged by commercial banks and Microfinance Institutions in Shinyanga, and lower interest rates charged by cooperative Unions for agricultural credits, made clients move away from financial institutions such as commercial banks and Microfinance due to high interest rates, to cooperative unions where low interest rates were being charged. This study is also in agreement with the research work by Madafu, 2015, where he asserted that high interest rates offered by either commercial banks or microfinance institutions discourage smallholder farmers to approach these institutions to access financing to fund their agricultural ventures.

**Equity Contribution requirement as a limiting factor to accessibility of agricultural loans**

86% of all the respondents who attended to the questionnaire agreed that the requirement for equity contribution has a negative impact on the accessibility of agricultural loans from the financial institutions. The observed Seven (7) clients who were rejected at both CRDB and TIB due to lack of equity to contribute to the agricultural loan indicates clearly that the requirement for equity contribution has a negative impact to the accessibility of agricultural loans.

## CONCLUSIONS AND RECOMMENDATIONS

The examination made to the minimum collateral requirement ratios and other discounting factors at TIB and CRDB showed that they affect and limits the accessibility of agricultural financing loans, as they are too high let and some of the clients cannot afford them especially when coupled with internally discounting factors which are being applied by these financial institutions. A review from the questionnaire results, results from the rejected applications from 76 sampled clients from TIB and CRDB together with interviews made, are in agreement with the assertion that collateral requirements affect the accessibility of agricultural financing loans. The study revealed that some of the existing collateral discounting factors other than the existing rations which are employed by both commercial and Development Banks, limits the accessibility of agricultural loans. The research revealed that the majority of clients whose loans were rejected were due to lack of collateral hence confirming that lack of collateral actually limits the accessibility of agricultural financing loans.

The research result has shown that high interest rates charged by financial institutions are the limiting factors for the accessibility of agricultural financing loans. The result from the 50 sampled clients from CRDB indicated that about eight clients withdrawn their applications and instead opted for lower interest rates from other financial institutions. Further the result has shown that low interest rate attracts clients to approach financial institutions for agricultural financing loans. This was seen from the sampled 26 clients from TIB were none of them withdrawn their applications due to interest rates, as lower interest rate ranging from 4-5% for agricultural loans is being offered. Therefore, high interest rate has been seen as a pushing factor while low interest rate has been seen as pulling factor for clients to approach financial institutions for agricultural loans.

The study has shown that initial capital injection or equity contribution to loan financing in agricultural loans, though it aims at distributing risk, the same has negative impacts on agricultural loans accessibility, this is because when they are rated too high, it discourages startup businesses to access the loans as they will fail to meet up the minimum amount set as project equity contribution. The study has shown that the equity contribution requirement as applied by some lenders in the market negatively affects the accessibility of agricultural financing loans, this is because those who fail to fulfill the requirement will find themselves unable to access the agricultural loans. The study results have shown that, apart from form high interest rates, high collateral ratios coupled with numerous discounting factors together with the presence of equity contributions in agricultural loans projects, there are other factors which directly or indirectly affects the accessibility of agricultural loans. These challenges were identified to be long project turn-around-time, none-fulfillment of a long list of checklists set and unachievable conditions precedents among others.

The study recommended for collateral discounting factors which may range up to 50% of the collateral value of the submitted security, be reduced at a reasonable rate not exceeding 25% of the value of the collateral, this will help a great deal in providing more room for clients to have access to agricultural loans; that, in order to increase the agricultural financing loan accessibility, the securities acceptable by financial institutions should be widened to traditional titles which are not acceptable by a number of financial institutions for they are difficulty to be exposed due to the existing legal framework and policy; to have various review on the legal framework and land policies on the treatment and registration of traditional pledged securities owned by village lands, as it was observed that, these securities are harder to be disposed due to the conditions and existing regulations which governs the village land. Also,it is recommended on the harmonization of legal framework for the securities offered to secure loans in Tanzania Mainland where the security is based in Tanzania Islands, this is because, during the study, it was observed that one client from Zanzibar were denied loan due to complications of handling the mortgage rights on disposition of asset based in Zanzibar once the client defaults loan repayments. The study recommends further that, the interest rates for agricultural loans should not be charged at the normal commercial rates like other commercial loans but rather there should be a maximum cap of interest for agricultural loans so to stimulate the accessibility of agricultural loans at low interest rates. Penal charges on defaulting and past dues amounts should be reduced to the margin of 0.5% per annum instead of the current rate which ranges from 2-5% in some of the financial institutions. The removal or reduction of these penal charges will attract more clients to access agricultural loans through financial institutions as well as reducing the loan exposures of the clients which are seen to be increasing due to penal charges and interest accruals. Also, as currently, some of the commercial banks commencing the year 2022, begun to implement the 'single digit' interest rate due to incentives and a credit line established by BOT aiming at promoting commercial banks to issue agricultural loans; the study recommends that for this scheme to be continuous, and to increase the appetite of commercial banks to offer agricultural loans, more guarantees should be offered in order to reduce the burden to the banks and cover defaulting clients and reduce the risk of non-performing loans. The study recommends further that, the equity contribution ratio for agricultural loans be reduced to a reasonable scale, and that equity contribution should take into account the developments made by the shareholder(s) in the initiation of the agricultural project without merging the equity with the present loan application. Lastly, it is further recommended that the loan appraisal and processing time should be reduced at a reasonable scale, at it was observed that there is a growing trend in loan withdrawals due to high loan processing time, during the research process it was observed that to some institutions agricultural loan processing may take up to two years before the loan is approved.

## SUGGESTED AREAS FOR FURTHER STUDIES

The research paper proposes the following as areas potential for further studies especially in areas where this research did not touch, these areas are as follow;

The research proposes further studies in the effectiveness of government guarantees as alternative securities for agricultural loans and the accessibility of agricultural financing in Tanzania, studies on the impact of PASS Guarantee schemes in alleviating the collateral challenges to clients approaching commercial banks for agricultural loans, further studies on the interest rates charged by other commercial banks and community banks which were not part of this study especially on agricultural loans, and how these interest rates affect the accessibility of agricultural loans and future studies are recommended on the internal regulations, frameworks and policies of the lending financial institutions and how they may limit the accessibility of agricultural loans, last but not least, it is suggested to research on the assessment of the impact of agricultural credits on agricultural productivity of the farmers who accessed loans from the banks under study.

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## FOOT NOTES

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