ASSET FINANCE FOR WOMEN IN TANZANIA

Strengthening Small Business Value Chains Learning Series

MEDA

Canada

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Abstract

This learning paper provides an update to the case study, "Developing Asset-Financing Products for Women Smallholders with a Community Bank in Tanzania," included in the *Experiences in Gender-Sensitive Solutions to Collateral Constraints*[1] learning paper published as part of the MEDA INNOVATE Learning Series in January 2020. In this paper, the potential for asset financing and non-conventional collateral to address the financial exclusion of people living in rural areas, smallholder farmers, and women in Tanzania is explored. For the purposes of this paper, asset financing refers to asset-backed lending where the asset being financed acts as partial collateral for the loan. Assets are essential to building wealth and resilience and asset financing has proved to be a valuable tool for low-income households to grow their businesses and incomes to access further economic opportunities. Research has shown that the majority of available financial products currently provided by financial service providers in the country do not meet the needs of consumers. Collateral requirements are a barrier for many low-income households and women in particular. Asset financing where the asset purchased can be pledged as at least part of the collateral guarantee addresses these collateral constraints.

One of the findings from various gender analyses that were conducted as part of MEDA's Strengthening Small Business Value Chains (SSBVC) project, was a lack of access to appropriate and useful financial products for clients, particularly women. In order to address this issue, the project worked with Mwanga Hakika Microfinance Bank Limited (MHB) to develop an asset financing product to address this critical issue. Key findings from the pilot product include the following:

- There is great potential for the scale and impact of asset financing since assets are critical for business upgrading and accumulation of wealth. The pilot indicated a high level of interest among consumers for this type of product.
- The product was successful in improving access to productive resources (in this case, equipment and technology used for their business) for women in savings and loans groups (SLGs) who lacked conventional collateral (immovable assets, such as land or building titles).
- Financial business training was essential capacity strengthening for SLG members, contributing to 100% on-time payments so far in the pilot.
- MHB is partnering with a local farmer's organization which facilitated additional financial and entrepreneurship training for bank clients. This created important

[1] Nafziger, Allison 2020, *Experiences in Gender-Sensitive Solutions to Collateral Constraints.* MEDA accessed 11 May 2021, https://www.meda.org/innovate/innovate-resources/944-experiences-in-gender-sensitive-solutions-to-collateral-constraints-meda-innovate-learning-series-paper/fil

networks for both the clients and the farmer's organization, as well as expanding the outreach of the Bank to promote their services to the organization's members.

- Though the Bank's asset financing product is still in the pilot stage, it has succeeded in meeting the needs of many community members as well as facilitating the Bank's access to new market segments, namely, women in SLGs.

Financial service providers and policymakers, key stakeholders in financial inclusion, should consider asset financing as an essential tool for closing the financing gap for women, keeping in mind a number of factors to ensure success: transparency around total costs of finance so that clients are able to repay, financial education for consumers, the acceptance of non-conventional collaterals, and appropriate regulatory frameworks to govern the affordability and usability of such products.


Photo: Riccardo Niels Mayer, Adobe Stock

SSBVC Project Overview

Around the world, MEDA combines innovative private sector solutions with a commitment to advance systemically marginalized communities, including women and youth. MEDA's expertise includes market systems development, environment and climate change, inclusive and green finance, impact investing, and gender equality and social inclusion. In Tanzania, MEDA's Strengthening Small Business Value Chains (SSBVC) project aims to contribute to Tanzania's economic growth and increase job creation by sustainably improving the business performance of Lead Firms (LFs) and the Small and Growing Businesses (SGBs) and women and men Small Entrepreneurs (SEs) in their value chains. The project develops industry and private sector partnerships, linking LFs to SGBs and SEs as well as the end market by taking promising businesses to the next level with smart subsidies (including eVoucher), matching grants and access to financial services. Through the project, MEDA works with local partners to provide business development services and support market development in the

extractives, agri-food, logistics, construction, and manufacturing sectors. The project operates in 14 regions (Pwani, Mtwara, Lindi, Morogoro, Iringa, Njombe, Songwe, Mbeya, Tanga, Kilimanjaro, Arusha, Manyara, Singida, and Dodoma).

SSBVC integrates gender equality (GE) into project activities with an emphasis on women's economic empowerment. The project works with various actors involved in the selected value chains to build their awareness and capacity in GE. The project works with SEs, SGBs and LFs to improve GE outcomes for women and men within the value chains in which they participate. For LFs, this includes annual training on GE for all staff, the creation of GE policies to guide their operations, and GE Action Plans to help them implement practical activities to improve GE within their company (and in some cases, among their linked SEs) over the course of MEDA's contract with them. In addition, MEDA's GE Officer supports LFs to create a post-contract GE plan to carry on the work once the project has ended. The project also works with Business Development Service Providers (BDSPs) to share GE awareness training with men and women SEs and to specifically build women business owners' capacity. In addition, targets have been set for women's participation, including 10% women-owned/led LFs and 40% women SEs reached.

The SSBVC Learning Series

The SSBVC Project aligns with MEDA's organizational theory of change. The goal of the project is aligned with MEDA's mission to facilitate inclusive market systems where MEDA, with its partners, helps to provide farmers and small businesses with access to finance, business skills, and productive resources. Specifically, the SSBVC project supports lead firms to provide decent work for small entrepreneurs in their supply chains and adopt environmentally sustainable technologies and improved business practices while promoting human rights in the value chain.

The SSBVC Learning Series is an initiative to share lessons learned with project stakeholders and the wider global development sector. Topics include

private sector engagement in Tanzania, client experiences with business performance and drivers of success, effective strategies for sustainable enterprise development and advancing and measuring women's economic empowerment.

Context

Despite women accounting for 51% of the population in Tanzania, 53% of the total agricultural and informal business workforce, and 54% of all micro, small, and medium enterprise (MSME) owners, they generally have less access to financial education, business information, and collateral assets.[2] All of these factors are heavily influenced by patriarchal social norms which characterize women primarily as caregivers who are economically dependent, as opposed to active participants in growing the national economy.

According to the 2020 Global Gender Gap Report, there are several gaps in access to finance between women and men.[3] On a scale from zero to one, with one being the worst, gaps exist in all key indicators including:

- Women's right to hold a bank account and get credit (.25)
- Inheritance rights for daughters (1)
- Women's access to land use, control, and ownership (.25)
- Women's access to non-land assets use, control, and ownership (.5)

The National Financial Inclusion Framework (NFIF), first initiated in 2013, is a public-private stakeholder initiative in Tanzania. The establishment of this framework demonstrates a desire for change among a variety of actors to promote financial inclusion in the country. The Framework's vision for improving the financial sector in Tanzania explores both the demand needs (emphasizing households and micro, small, and medium enterprises, particularly women) and the supply needs (innovative and affordable financial solutions responsive to the needs of diverse consumers). Importantly, the NFIF notes that the "level of financial exclusion in Tanzania is high, with the majority of those excluded being people living in rural areas, smallholder farmers, youth and women. It has also been observed that there is a large gap in the demand and supply of financial services in the market, whereby the majority of the products offered by Financial Service Providers (FSPs) do not meet users' needs."[4]

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[2] National Bureau of Statistics, Ministry of Finance, Dar es Salaam, 2013, 2012 Population and Housing Census, accessed 11 May 2021, http://www.tzdpg.or.tz/fileadmin/documents/dpg_internal/dpg_working_groups_clusters/cluster_2/water/WSDP/Background_information/2012_Census_General_Report.pdf

[3] World Economic Forum 2020, *Global Gender Gap Report*, accessed 11 May 2021, http://www3.weforum.org/docs/WEF_GGGR_2020.pdf

[4] National Financial Inclusion Council 2017, *National Financial Inclusion Framework 2018-2022*, accessed 11 May 2021, https://www.afi-global.org/wp-content/uploads/publications/2017-12/NFIF%202018-2022.pdf

The NFIF outlines the following key national goals to improve access to finance:

- More accessible financial access points
- Ensuring all adults have active bank accounts
- Appropriate, affordable, and convenient financial products and services
- An adult population that is confident in dealing with FSPs
- All adults save, borrow, transact, and mitigate financial risks
- Financial products and services that meet consumers' expectations

Asset financing is a useful tool for accomplishing the last goal of "financial products and services that meet consumers expectations" and their needs. Yet, collateral requirements remain a key barrier for businesses, especially women owned businesses, to achieve financial inclusion. Many FSPs view small businesses, particularly those working in agriculture, as high risk and require collateral in the form of immovable assets such as land or building titles and often request proof of financial stability through bank statements. Women, who face unequal access to land and property, and are unbanked at higher rates than men, are more likely to be unable to meet collateral requirements and less likely to be able to provide bank statements for affordable loan products. Accepting movable collateral and asset financing are important opportunities to increase financial inclusion for rural communities and women.

Improving Access to Finance for Women Entrepreneurs

Asset Financing

Assets are essential to building wealth and resilience and asset financing has proved to be a valuable tool for low-income households to grow their businesses and incomes to access further economic opportunities. Assets for economic development of women, small farmers, and small agriculture businesses can come in various forms, including technology, such as mobile phones; agricultural equipment; livestock; crops or inventory; contracts and warehouse receipts. Assets such as technology and equipment are especially important for building wealth through storing value and generating income by increasing efficiency and building production capacity. These capacities are key to accessing higher value markets and business expansion.

Photo: Junichi, Adobe Stock

CGAP has developed a theory of change (see figure 1) showing ways that asset ownership improves well-being for people living in poverty by: providing financial resources (enterprise growth, income stability and growth, manage household expenses); improving human capabilities (access to information, knowledge, education and training, social networks, self-efficacy and positive self-perception, and emotional well-being, positive expectations of the future); and improving physical capabilities (physical access to markets, access to basic

services, safety, shelter and nutrition).[5] These outcomes depend on the type of asset accessed but can all lead to improvements in resilience and expanded economic opportunities. For the purposes of this learning paper, we will look particularly at equipment asset financing, which is a mutually beneficial tool since risk is mitigated for FSPs while small businesses are provided with the financial resources they need to thrive.

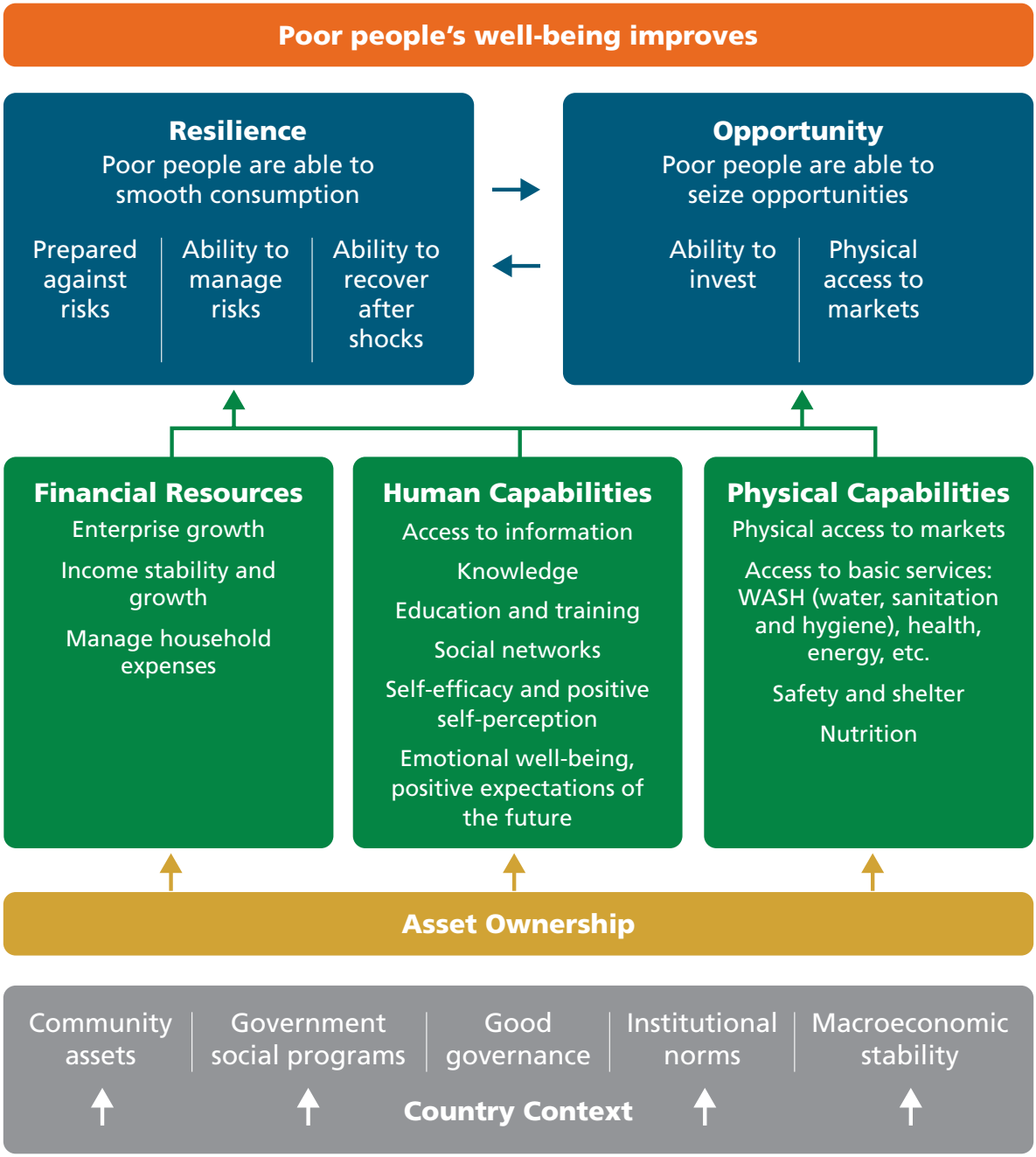


Figure 1 Source: CGAP (Kumaraswamy et. al. 2020)

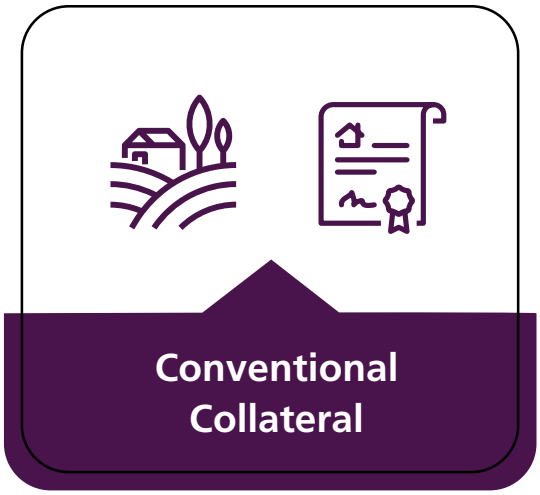
[5] Mattern, Max 2020, *Innovations in Asset Finance*, CGAP, accessed 11 May 2021, https://www.cgap.org/sites/default/files/publications/slidedeck/2020_05_Slidedeck_Innovations_Asset_Finance_0.pdf

The Product

To improve access to finance for SSBVC clients, with a focus on women, the project partnered with Mwanga Hakika Microfinance Bank Limited (MHB) to design and pilot an asset financing product in Kilimanjaro and Dar es Salaam. For the purposes of this paper, asset financing refers to asset backed lending where the asset being financed acts as partial collateral for the loan. MHB's asset financing product is a cost sharing product where the client contributes 20% of the value of the asset while the bank covers the remaining 80%. The product was designed for people in SLGs, particularly women, where the group acts as the guarantor in addition to the collateral provided by the asset itself. In the event of non-repayment, the asset would be repossessed, and the SLG would be responsible for any outstanding costs.

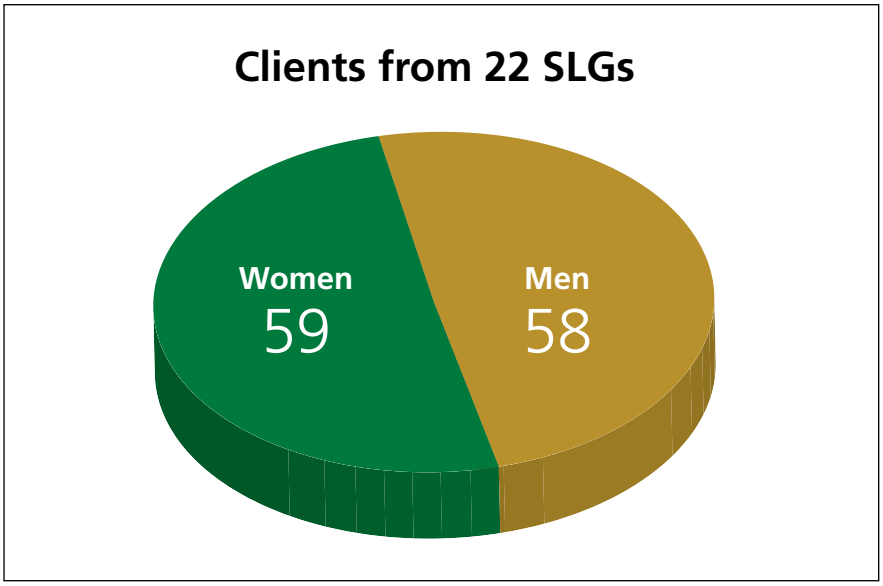
> *Asset financing refers to asset backed lending where the asset being financed acts as partial collateral for the loan.*

The group member purchases the asset using their savings to pay the remaining 20%. This is considered non-conventional collateral (NCC), as opposed to standard collateral such as a land or building title. Common forms of NCC are peer groups (such as SLGs) and movable assets. Because it is still uncommon in Tanzania to provide asset financing guaranteed only by the asset itself, a second guarantee (in the form of the SLG) was needed.



Assets provided as part of this product included various irrigation equipment, weeders, hatching equipment and motorbikes. The most popular productive asset provided through the pilot program was irrigation equipment, as the region is arid, and agriculture is the most common economic sector in the area with many smallholder farmers.

After the launch of the product, customers outside of SLGs were also interested in asset financing. In their case, the product was available only with immovable collateral in addition to the collateral provided through the asset itself. The total collateral coverage is set at 125%, the amount required by the Central Bank of Tanzania. SLGs accessing the product ranged from 15 to 30 members. A total of 22 SLGs, where 75% are women members, have benefited from the product, for a total of 117 clients, 59 of which were women. The total amount disbursed to date is equivalent to CAD $186,387. All clients were required to have accounts with the bank and to present a business plan. Loan Officers conducted a simple survey with local leaders and community members to assess creditworthiness.



While there were no limits on the loan amount, there have been no purchases of assets which cost over ten million Tanzanian Shillings (approximately CAD $5,300). The interest rate is set at 20% per annum, slightly higher than the base interest of 17% set by the Bank of Tanzania. Repayment terms are somewhat flexible and depend on the asset to be financed and the type of business. For example, the repayment schedule for agriculture assets is dependent on the production cycle and instalments may be made monthly, quarterly, or semi-annually. For those who purchase transportation for this type of business, asset payments are monthly. Since beginning the pilot last year, the bank has not received any past due payments.

An additional advantage of the asset financing product was that financial business training was provided to group members to ensure their understanding of interest rates and repayment. Groups are also able to request additional training if needed but these trainings are provided by a bank partner. Loan management of groups is a challenge for the bank as many groups are located far from the bank and multiple visits generate high costs, including staff time, transport, and other logistical expenses. For this reason, the bank has partnered with the farmers' organization MVIWATA (Swahili for National Networks of Farmers' Groups


Photo: Blue Ox Studio, Pexels

in Tanzania) to provide some of the trainings, while the bank itself does the monitoring. MVIWATA is a national farmers organization which engages in capacity strengthening, networking, lobbying and advocacy for and on behalf of their members.

The Impact

Though MHB's asset financing product is still in the pilot state, it has succeeded in meeting the needs of many community members as well as expanding the reach of the bank. One benefit for the bank was, unlike cash, asset financing gives the bank control over how their resources are being used and minimizes risk of default. The benefit for group members, especially women, is the opportunity to acquire resources even in the absence of immovable assets. Many times, the only available option for obtaining loans is from informal moneylenders who charge much higher interest rates. Another important benefit for clients was the additional training that was provided as part of the financing product. The bank also performs frequent follow-up visits with asset financing products, as this is a new offering for them.

The asset financing product has been so successful for the bank that they intend to expand it to other sectors, including construction. Construction is a growing sector in Tanzania with high potential for increased efficiency through the introduction of equipment and machinery. As construction clients are not in SLGs, a second immovable collateral will be required.

Another important opportunity for MHB is to further engage with the aforementioned partner MVIWATA, to promote the asset financing product with their farmer group members.

The potential for scale and impact of asset financing is enormous, as assets are key for business upgrading and accumulation of wealth. However, there are risks for both the bank and consumers. As mentioned, asset financing for groups located far from bank locations is more expensive to manage for the bank and requires effective outreach strategies to target those best positioned to benefit from the product. Asset financing also requires tailored repayment plans and good relationships with equipment suppliers. Certain types of equipment can also be difficult to acquire in more isolated areas and supply may be unreliable. These costs, compared to the relatively low value of the assets, can also be a disincentive for banks to offer this type of financing product. Because of the depreciation of assets and potential challenges related to their repossession and auction, in the event of default, the cost of asset financing can be high. Finally, if assets fail to generate the expected income for consumers due to limited business capacity and access to markets, the risk of default increases.

Risks for consumers are related to those faced by the bank. Due to the high cost of finance (interest rate and length of repayment schedule), consumers may end up paying two to three times the retail value of the asset. Without appropriate training and financial education, consumers may also not understand depreciation and the loss of equity in their asset if they fail to make payments on time. If equipment is faulty or breaks, consumers are still responsible for making payments on the asset and for low-income farmers, who are already

Photo: Samson Tarimo, Unsplash

vulnerable to various economic shocks, this can be detrimental to their livelihoods and even their health and wellbeing. So far, MHB has not encountered these situations, but the financial education piece and close follow-up with asset financing clients is designed to mitigate some of these issues.

Conclusions and Recommendations

Asset financing is a valuable tool to increase financial inclusion for women and low-income consumers who lack the collateral to secure other types of loans. This product can reduce the risk of financing for banks while providing essential resources for low-income households to grow their businesses and accumulate wealth. Challenges for FSPs as well as consumers are the high cost of financing due to the logistics associated with distance, capacity of low-income consumers, supply of equipment, and possible repossession and resale. The following recommendations are provided to two key stakeholder groups, FSPs and policymakers, to address these potential challenges and risks.

For Financial Service Providers

- Ensure transparency around the total cost of financing, terms, and potential challenges (asset breakdown and depreciation) to mitigate risks for both financial service providers and consumers.
- Increase consumers' access to financial education to build their capacity to use the asset to its highest potential. This will benefit their businesses as well as decrease the risk of default for FSPs. It can also provide an important networking opportunity to access markets through local organizations if they are the providers of this education.
- Promote the use of MHB's asset financing product. This product can serve as a model for the provision of financial training in addition to non-conventional collateral arrangements. It can further change the culture of financing in Tanzania to enable other similar products to help achieve the country's financial inclusion goals.
- Collect disaggregated data to demonstrate how gender may affect the use of NCC and NCC registries.

For Policymakers

- Ensure that Asset financing is accessible so that it can reach consumers with a range of financial capabilities. This can help to achieve the country's financial inclusion goals laid out in the National Framework for Financial Inclusion.
- Promote the use of asset financing among financial service providers. Policymakers can do this by educating FSPs on the benefits of asset financing.

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