AgFiMS Tanzania 2011
Supply Side Report

AGFIMS
AGRICULTURAL FINANCE
MARKETS SCOPING
TANZANIA

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Acronyms

AgITF	Agricultural Input Trust Fund
AMC	Agricultural Marketing Cooperatives
AKSCG	Association of Kilimanjaro Speciality Coffee Growers
BDS	Business Development Services
BoT	Bank of Tanzania
CBA	Community Bank Association
CIDA	Canadian International Development Agency
CDTF	Cotton Development Trust Fund
CRDB	CRDB Bank Ltd.
DFID	Department for International Development (UK)
FA	Farmer Associations
FO	Farmer Organisations
FSDT	Financial Sector Deepening Trust
GDP	Gross Domestic Product
GOT	Government of Tanzania
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
KFCB	Kagera Farmers Cooperative Bank
KNCU	Kilimanjaro Native Co-operative Union
NMB	National Microfinance Bank Ltd.
NGO	Non-governmental Organisation
MFC	Microfinance Companies
MFI	Microfinance Institution
MIS	Management Information System
MIV	Microfinance Investment Vehicles
MIVARF	Marketing Infrastructure, Value Addition and Rural Finance Support Program
MUCCOBS	Moshi University College of Cooperative and Business Studies

NMB	National Microfinance Bank Ltd.
PASS	Private Agricultural Support ServicePCB Participating Commercial Banks
PTF	Presidential Trust Fund
RFSP	Rural Financial Services Program
ROSCA	Rotating Savings and Credit Association
SACA	Savings and Credit Association
SACCOS	Savings and Credit Cooperative Society
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SCCULT	Savings and Credit Cooperative Union League of Tanzania
SEDA	Small Enterprise Development Agency
SELF	Small Enterprise Loan Facility
SIDA	Swedish International Development Agency
SIDO	Small Industries Development Organization
SMEs	Small and Micro Enterprises
TAMFI	Tanzania Association of Microfinance Institutions
TAP	Tanzania Agricultural Partnership
TBA	Tanzania Bankers Association
TCB	Tanzanian Cotton Board
TCGA	Tanganyika Coffee Growers Association
TFC	Tanzania Federation of Cooperatives
TIB	Tanzania Investment Bank
TOR	Terms of Reference
Tsh	Tanzanian Shillings
VICOBA	Village Community Bank
VSLA	Village Savings and Loan Association
WCGA	Western Cotton Growing Area
WR	Warehouse Receipts

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Executive Summary

Introduction

AYANI was appointed by the Financial Sector Deepening Trust (FSDT) to conduct field work on the supply of financial services to the agriculture sector in Tanzania.
The data used includes:

- **Qualitative assessments** of lending to the agricultural sector comprising interviews with formal and informal financial institutions, agricultural input providers/buyers, equity providers, donors, NGOs and companies in related fields such as telecommunications
- **Quantitative assessments** comprising surveys conducted with SACCOS and informal groups to complement interviews undertaken with members
- **Secondary data** including extrapolations from other surveys including FinScope and government surveys

AYANI also interacted with the service providers for the demand side component study and examined their findings as they became available.

QUANTIFYING SUPPLY OF FINANCE TO AGRICULTURE

The outstanding loan values held by end agriculture users in December 2010 can be summarised by category of supplier as follows:

Summary of Direct Lending, December 2010

	Banks	MFIs	SACCOS	Informal sector	Other, e.g. MIVs, Agro	TOTAL
Value (Tsh bn)	517	26	64	39	10	656
Client numbers ('000)	NA	117	294	400	NA	811

There is likely to be some overlap between the client numbers for MFIs and SACCOS as some may borrow from both types of institutions. It is not possible to eliminate this other than by making a broad assumption, but it is not likely to be large. Secondly, some MFI lenders classify a credit as "agriculture" based largely on the client's location and the primary enterprise activity identified by the client, without knowing the precise use of the loan. It is recognised, therefore, that a proportion of the above volumes may be for related or even non-agriculture activities undertaken by producers' households.
As for the outlook, the majority view of the parties surveyed and interviewed by AYANI in each category was that greater finance would be made available to the agriculture sector.

REMOVING BARRIERS TO ENTRY

The three key priority items for each avenue of supply are:

1. Banks and MFIs: Product Development

Banks and, to a large extent MFIs, have the financial capacity to make more funding available to agriculture. However, what they lack is a willingness to expand into the sector. There is also a need for insurance to afford lenders protection against the particular risks of agriculture. Pilot schemes are being undertaken in this area.
Secondly, products need to be better tailored to the demands of agriculture in areas such as the length of the loan, the repayment frequency and the collateral demanded. Marketing and access to clients is also crucial. Some MFIs already use information dissemination sessions to create awareness about their products, and pre-loan training to impart business knowledge to borrowers.

2. MFIs and SACCOS: Regulation

The regulatory regime for both deposit-taking institutions and SACCOS should be reviewed. The MFIs argue that their regulation is too close to that required of a bank, imposing higher financial costs than those required to be a deposit-taking institution. 62% of SACCOS surveyed indicated that regulation hampered their delivery of financial services because the law is unclear or poorly administered.

3. SACCOS and Informal Groups: Funding and Support

In the survey of SACCOS and SACAs conducted by AYANI, the most commonly mentioned improvements that would enhance their delivery of financial services fall broadly into the categories of funding (including warehouse voucher subsidies) and other support (with the Kilimo Kwanza program being mentioned in particular). The survey identifies other matters such as insurance, client assistance (including extension services) and the need for a cost effective form of MIS for loan monitoring.

In responding to SACCOS' and SACAs' stated need for more funding, the appropriate response may be either more funding by banks or a dedicated fund. The former will mean that the issues raised above from the banks' perspective need to be addressed: a bank may be just as unwilling to lend to a SACCOS financing agriculture as a bank is hesitant to lend direct to an agriculture client. However, if this unwillingness can be resolved, the expansion of financial services to smaller clients may be better served by a bank increasing wholesale lending, rather than convincing banks to make small loans.

A dedicated fund, sometimes called a Challenge Fund, may also be of assistance. Such funds have been established in other countries such as the DRC and Sierra Leone to provide loans and technical assistance to the financial sector. The lending is of a wholesale nature and normally on near commercial terms. Other instruments, such as guarantees, can also be offered to catalyse banks to lend to financial institutions.

WHICH INSTITUTIONS TO PRIORITISE?

SACCOS appear to AYANI to have the greatest potential to expand the supply of finance to agriculture. The 3,000 plus rural SACCOS have certain advantages:

- An extensive presence in rural areas, without the need to build expensive branches on which banks and MFIs rely
- A large volume of existing agriculture clients and therefore more familiarity with small rural credit than banks and MFIs
- A semi-formal governance structure, with a membership base that supports the focus on agriculture
- Greater current funding than SACAs and other informal groups, although more is needed to improve liquidity and enable SACCOS to expand their operations.
- Despite their perceived advantages, SACCOS are confronting many of the issues that have to be addressed by the entire financial sector. These include product development, as well as specific needs for access to appropriate technology and risk management instruments including MIS and insurance. Secondly, better training facilities would help build employee institutional capacity to support transformation of institutions, which could even make them attractive to private sector investors.

1 Introduction

1.1 Background to the Assessment

AYANI has been appointed by the Financial Sector Deepening Trust (FSDT) to conduct field work on the supply of financial services to the agriculture sector in Tanzania.
FSDT was incorporated in Tanzania on 1 July 2004. The FSDT's overall aim is to develop a deeper financial system that can provide greater access to finance of more Tanzanians.
Among its secondary objectives are:

- Providing funding to support the development of new financial products that address the needs of poor households and micro and small enterprises.
- Supporting improvements in the policy, legislative and regulatory framework affecting delivery of services.
- Supporting initiatives aimed at improving financial market integration and access to wholesale forms of finance by financial service providers addressing poor households and micro and small enterprises.
- Supporting initiatives aimed at enhancing the supply of appropriate business services to financial service providers in Tanzania.

As part of this exercise, FSDT has embarked on a new initiative, the Agriculture Finance Market Scoping (AgFiMS), which is a new agricultural financial markets diagnostic being piloted by FSDT, in collaboration with the Gatsby Charitable Foundation and the Rockefeller Foundation. The underlying premise behind AgFiMS is that the lack of good quality information about the nature of demand for agricultural finance contributes to a lack of investment in the sector. Better information would therefore help to increase the flow of finance to the agricultural sector which in many countries, such as Tanzania, operates far below its potential. The report will influence financial sector policy reforms to strengthen, broaden and deepen the system. Tanzania's economy depends heavily on agriculture, which accounts for about half of GDP, three-quarters of exports and employs 80% of the work force.[1] This has direct consequences for the livelihoods of many millions of people who depend on agriculture for their living.

1 *Tanzania Economy: http://www.tanzania.go.tz/agriculture.html*

1.2 Purpose of the Assessment

AgFiMS has a demand and a supply side component:

- The demand side component, modelled on the FinScope[2] surveys, comprises a survey of agricultural enterprises, from small farms managed on a commercially sustainable basis up to large processing or trading companies, across three broad categories – producers, processors and service providers.
- The supply side component seeks to quantify how much finance there is in agriculture, deployed through the various financing channels, including agribusinesses (for example, inputs providers).

This study has been prepared by AYANI to provide a detailed analysis of the supply side.

2 See www.finscope.co.za

2 Assessment Methodology

The methodology for the study is summarised below and set out in more detail in sections 3.2 to 3.5 of the document.

2.1 Research Approach

AYANI used both quantitative and qualitative research methods in undertaking this supply side survey. Data was collected from both primary and secondary sources.

AYANI conducted a review of available data and documents in order to gain an overall view of the Tanzanian market and to ensure that the detailed research is based on a strong, up-to-date factual foundation. It also provided the opportunity to grasp the recent changes that have taken place and understand how those changes affect the supply of finance. A key component of the secondary data was the 2009 FinScope study and AYANI has relied on this study for some of the base statistics.

Whilst the primary aim of the exercise was to quantify the current volume of finance in agriculture, AYANI has also put in place a robust and straightforward methodology for repeating the exercise at regular intervals in the future.

2.2 Fieldwork

The fieldwork conducted can be divided into preliminary fieldwork and actual visits to eight sampling areas to conduct face to face interviews with pre-arranged respondents. A number of parties in each of ten categories of institutions was agreed with FSDT, with the number for agri-enterprises later being increased and the category of Telecoms companies added.

The first stage of fieldwork involved assembling the AYANI team in Dar es Salaam for an initial meeting with the client and two weeks of meetings and interviews with leading providers of finance and others involved in the sector. By the end of August, interviews had been held with at least the minimum agreed number in each of the ten categories of institution.
For the second stage of field work, two AYANI team members conducted a three week field trip, comprising visits and interviews with all the parties, in one of the three or four regions within each of the seven zones, plus Zanzibar. The regions for each zone were chosen on the basis of

the regions emphasised in the sampling that was used in the demand side survey; population was an added consideration. As a result, the following regions (shown on the map on the next page) were regarded as the most representative:

- Lake Zone: Mwanza
- Northern Zone: Arusha
- Eastern Zone: Morogoro
- Southern Zone: Mtwara
- Southern Highlands Zone: Mbeya
- Central Zone: Dodoma
- Western Zone: Tabora

The first visit made by the team was to Morogoro, and coincided with the NANE NANE exhibitions which started on 1 August 2011. This was useful to collect information and documents that would not be found elsewhere. NANE NANE was also being conducted in Dodoma and one of the team members went there also.

This fieldwork, involving direct interviews with institutions was supplemented (for the smaller financial institutions), with aggregate data obtained in groups and/or from industry apexes from umbrella organisations such as the Registrar of Cooperatives and the Tanzania Association of Microfinance Institutions (TAMFI).

The above process enabled AYANI to obtain data from the breadth of the country. The fieldwork was supplemented by estimates based on extrapolations from surveys, as explained in following sections.

Figure 1: Regions of Tanzania

2.3 Surveys and Sampling Design

In addition to the field work, it was agreed that SACCOS and suppliers to the Informal Sector (primarily SACAs and VICOBAs) would be surveyed to obtain more detailed qualitative data from the supply side. Estimated at 5,000 and 1,000 respectively, there were too many to reach them all and still complete the exercise in the stipulated time. Therefore, AYANI sent out survey questionnaires to the respective SACCOS and SACAs via appropriate avenues.

The Department of Agriculture, Food Security and Cooperatives indicated that there are 3,005 rural SACCOS. The network SCCULT works with 1,200 SACCOS in total and is currently funding some 240 agricultural SACCOS. Dundaliza is the other group working with SACCOS. To collect data for the SACAs, AYANI had discussions with the NGOs and worked through them to reach the groups.
These entities indicated a willingness to provide AYANI with access to their SACCOS and SACAs. The networks also allowed for follow-up to ensure the maximum number of

questionnaires were answered and returned to the appointed person.

A survey was produced, with appropriate questions drawn from the longer questionnaire used for the fieldwork interviews. The survey was pilot tested in interviews with some of the representative stakeholders including networks such as Dunduliza.
The sampling size was set at 250 for the Informal Sector and 150 for SACCOS. The agreed numbers for interviews with the banks and MFIs were 5 or 6 banks plus 2 or 3 community banks, and 7 to 10 MFIs.

2.4 Results Achieved

In each region, approximately three SACCOS and three SACAs were interviewed. The field trip also incorporated the initiation of the survey process by meeting with the local representatives of the relevant NGOs and SACCOS networks.
Using the NGOs working with informal groups, such as CARE, PLAN, ORGUT-SEDT and Aga Khan, surveys were conducted in each of the above mentioned regions plus others, including Manyara, Sigida and Tanga.
For SACCOS, AYANI was more dependent on SCCULT. The organisation comprises around 1,200 mostly rural SACCOS, representing about 24% of the total number in the country. Other networks such as Dunduliza and USAWA Kilimanjaro Networks were also approached and they agreed to provide seven and twenty surveys, respectively. The response from the three networks has been less than we were promised, with only 75 completed SACCOS surveys at this time. Whilst this is unfortunate, it is does not greatly reduce the value of the total input AYANI received from the 270 informal groups and SACCOS.

2.5 Coordination With Demand Side Survey

AYANI interacted with FinMark Trust, the service providers for the demand side component, and examined their findings as they become available.
Certain areas of the demand surveys have been identified as particularly relevant, namely:

- Sources of finance
- Reasons for businesses not borrowing
- Preference for collateral provided to banks
- Use of a bank account for businesses
- How bank was selected
- Use of insurance
- View of financial institution
- Name recognition of certain financial institutions

A brochure containing the headline findings was prepared for the launch in early December.

2.6 Data Analysis

The data collected during this exercise was cleaned and reviewed by the AYANI team before final processing by a data analyst. This process removed human error and/or identified responses that did not correspond to other data provided in the questionnaire/survey.
In cases where the errors or variables far outweigh any corrections, data was removed from the final data analysis. The report shows responses from both SACCOS and informal groups combined, except for the question relating to regulation. (This was limited to SACCOS, as SACAs are not actually subject to regulation.)

AYANI originally suggested that due to the limited nature of the surveys, an analysis using Excel Sheets and tools would be adequate. However, AYANI decided to use the advanced tool SPSS, to come up with a more sophisticated, accurate and reliable analysis. Outputs are generally shown in terms of numbers, wherever more appropriate, such as when multiple answers from respondents were possible. Percentages are indicated for some survey questions.


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3 Overview Of Tanzania Finance Sector

The financial sector in Tanzania is composed of 42 banks, over 100 Microfinance Institutions (MFIs), 5,300 Savings and Credit Cooperatives Societies (SACCOS) and other informal providers. The latter include Savings and Credit Associations (SACAs), Rotating Savings and Credit Association (ROSCAs) Village Savings and Loans Associations (VSLA) and Village Community Banks (VICOBAs). AYANI analysed the providers as follows:

- By provider, i.e. banks, MFIs, SACCOS and other informal providers, eg SACAs, VICOBAs
- Other market participants, i.e. government programs, NGOs, agri-enterprise companies, insurance companies etc.
- By product, i.e. lending, savings, guarantees and insurance
- Commentary on the locations in which each party or program operates was included

Each element is dealt with in detail below. There is much that has been written already on the financial sector in Tanzania. AYANI will not therefore cover the whole sector here but highlight those key elements that relate to agriculture.

The full national picture for the supply of finance to the agriculture sector is drawn together in section 6, after considering the role of value chains (section 4), and products on offer (section 5).

3.1 Banks And Financial Institutions

As of 31 December 2010, there were a total of 42 banks, of which 29 were commercial banks, 8 regional unit banks and 5 financial institutions. Four of the institutions with the largest focus on agriculture finance are discussed below:

- CRDB: has a network of 71 branches, including mobile branches, operating in the Mainland and Zanzibar, as well as 162 automated teller machines (ATMs). Lending (net loans) increased by 18% from Tsh 950 billion in 2009 to Tsh 1,123 billion in 2010. The largest portion of lending went to agriculture (28% or Tsh 304 billion) up by 2% from 2009. CRDB also partners with MFIs and savings and credit cooperative societies (SACCOS), with the latter increasing by 47, bringing the total number to 472 by 31 December 2010. Lending to these partners totalled Tsh 93 billion by 31 December 2010, and 321 of them benefitted. Deposits received from these institutions totalled Tsh 14 billion by 31 December, 2010. In 2009 Tsh 70 billion of loans were provided to 222 institutions. Tsh 14 billion (through 25 partners) of the loans were used to purchase power tillers and tractors in support of farmers in modernised irrigation schemes for production of crops such as grapes and paddy. The partners also benefitted through the warehouse receipt systems which assisted in stabilisation of prices for cereals, cashew nuts, sugarcane and tea.[3]

- National Microfinance Bank Plc (NMB): was established under the National Microfinance Bank Limited Incorporation Act of 1997, and followed the break-up of the old National Bank of Commerce[4]. Three entities were created and these were NBC Holdings Limited, National Bank of Commerce Limited (see next) and National Microfinance Bank Limited. Initially NMB provided savings and payments with limited lending before becoming a fully-fledged bank. 2005 saw the Government of United Republic of Tanzania privatise the bank initially by selling 49% of its shareholding and later, in 2008, a further 21% through an Initial Public Offering. The Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ('Rabobank Group'), bought 35% of the shareholding in 2005 and also provides management services and technical assistance to NMB. In 2009 NMB launched NMB Foundation for Agricultural Development (NFAD)[5] with support from the Rabobank Foundation. Its main aim is to build sustainable and bankable cooperatives so that better outcomes can be achieved in farm produce.

  NMB now has a network of 140 branches which cover more than 80% of Tanzania's districts. NMB has over 1.4 million clients[6] and 380 ATMs. About 400,000 clients use the mobile banking services. NMB focussed more on agriculture from 2007 and, partly due to the influence of Rabobank Netherlands, it established an agri-business unit. This supports agriculture through value chain to various clients including individual farmers, cooperatives and large corporate clients. It also provides wholesale facilities to MFIs and SACCOS that represent around 40% of its total agriculture loan book. The Agri-business Team works with out-growers and cooperatives. NMB also works with Government on the nationwide agricultural voucher scheme, as well as on the warehouse receipts. The clients cover farmers in the coffee, cashew nuts, cotton and sesame value chains. Sector exposure is highest for consumer loans, with Tsh 448 billion in 2010 up from Tsh 307 billion in 2009. Exposure to agriculture lending was Tsh 46 billion in 2010 up from Tsh 28 billion in 2009.

- The National Bank of Commerce (NBC): is owned by ABSA group (55%), International Finance Corporation (15%) and Consolidated Holdings Corporation (30%). In 2007 the National Bank of Commerce (NBC), made a commitment to move into rural areas by increasing its branches from 42, using pre-fabricated (and thus cheaper and more flexible) branch buildings. It currently has 56 branches located in the major towns of the country. ATMs increased from 197 in 2009 to 224 in 2010. Following bad debt problems in 2008-9, it has become more conservative in its lending practices with a focus on larger credits. This affected the growth in net loans, although deposits grew. In 2009 agriculture lending (gross) was 6.3% (Tsh 45 billion) of total lending, down from 7.2% (Tsh 50 billion) for 2008. In 2010 agriculture lending decreased further as a proportion of gross lending to 5.2%[7] (Tsh 41 billion). Manufacturing and wholesale lending provides the bulk of NBC's lending at 24.1% and 30.8% respectively.

3 *CRDB Annual Report 2010*

4 *NMB annual report, 2010.*

5 *Ibid*

6 *Ibid*

7 *NBC Annual report, 2010.*

- Tanzania Investment Bank (TIB): was set up as a development finance institution in 1970 and has been transformed into an investment/development bank. It offers a range of services and has an agricultural finance window which focuses on cooperatives, microfinance and corporate clients, for the production, processing and marketing of agriculture. According to TIB[8], its lending is allocated as follows: 30% to SACCOS, cooperatives and farmers associations; 30% to MFIs; 35% to corporate farmers, and the remainder of 5% goes towards technical assistance. By 31 December 2010[9], the Bank had an "on balance sheet" loan portfolio of Tsh 113 billion (gross), an increase of 29% from the 31 December 2009, a loan portfolio of Tsh 87.5 billion. The agriculture component was Tsh 22 billion[10] (27% of its net loan portfolio), and for 2010 it was Tsh 32 billion (30% of net loan portfolio). In 2010 two branches were opened in Dar es Salaam (Mlimani and Samora) and in Mwanza, in addition to the Arusha Branch.

A summary of the portion of total bank finance going to the agricultural sector is provided in Table 1 and Figure 3.1 below. The summary shows that over the last 7 years agricultural lending by the banking sector (as reported by commercial banks, regional banks and financial institutions to the BoT) has not exceeded 13.9% of the total. In 2010, 11.9% of bank lending went to the agriculture sector, comprising the activities of production, inputs, agri-processing, commodities and marketing.

Table 2: Agriculture Lending by Banks

Year	Agriculture Lending (Tsh m)	Total Lending (Tsh m)	Agriculture Lending (%)
2004	147,111	1,060,077	13.9
2005	177,320	1,425,062	12.4
2006	266,865	2,093,649	12.7
2007	298,419	2,976,276	10.0
2008	515,936	4,376,471	11.8
2009	467,097	4,805,814	9.7
2010	691,210	5,798,422	11.9

Source: Bank of Tanzania

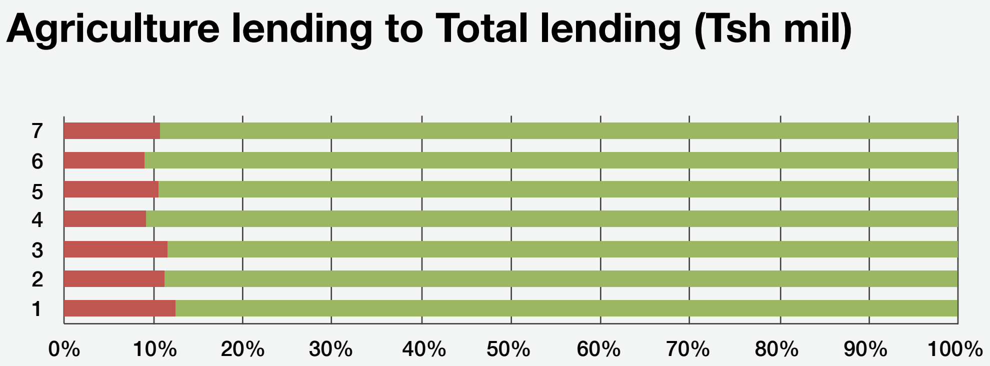
As shown, the banking sector supplied Tsh 467 billion to the agriculture sector in 2009 sand this figure rose to Tsh 691 billion in 2010. This represents 9.7% and 11.9% of the total domestic lending in the country, respectively. Whilst this is a smaller percentage than in 2004, the proportion going to agriculture has been fairly consistent at between 10% and 13% over the seven year period.

8 *http://www.tib.co.tz/agriculturefinance.php accessed 15 September 2011*

9 *TIB annual report,2010*

10 *TIB annual report, 2010.*

Figure 2: Agriculture Lending



	1	2	3	4	5	6	7
Year	2004	2005	2006	2007	2008	2009	2010
Agriculture	147,111	177,320	266,866	298,420	515,936	467,097	691,210
Total Lending	1,060,077	1,425,062	2,093,650	2,976,276	4,376,471	4,805,814	5,798,422

Source: Bank of Tanzania

The Zanzibar banking sector provides an almost negligible amount to agriculture, at less than 1% of the total lending, as per Table 2 below, for the period April 2010 to June 2011.

Table 3: Zanzibar Agricultural Lending by Banks

PERIOD ENDING	AGRICULTURE (Tshm)	TOTAL (Tshm)	% for AGRICULTURE
Apr-10	517	80,427	0.6
Jun-10	442	76,953	0.6
Sep-10	457	80,207	0.6
Dec-10	372	82,544	0.5
Mar-11	344	94,955	0.4
Jun-11	363	120,007	0.3

Source: Bank of Tanzania

Methodology and Conclusions

In order to estimate the amount of bank financing going to agriculture, AYANI has relied on public data, reports by the banks, including their Annual Reports, and the discussions held with the banks interviewed (see Annex 1).
Based on this data, AYANI has estimated the proportion of bank lending that is going direct to the agriculture sector. AYANI has also estimated that the bulk of the financing (about 75% of the lending) is retail in nature, with the balance being wholesale to fund agriculture lending by SACCOS and MFIs.

Table 4 sets out the findings and also includes the figures discussed for each of the four banks above.

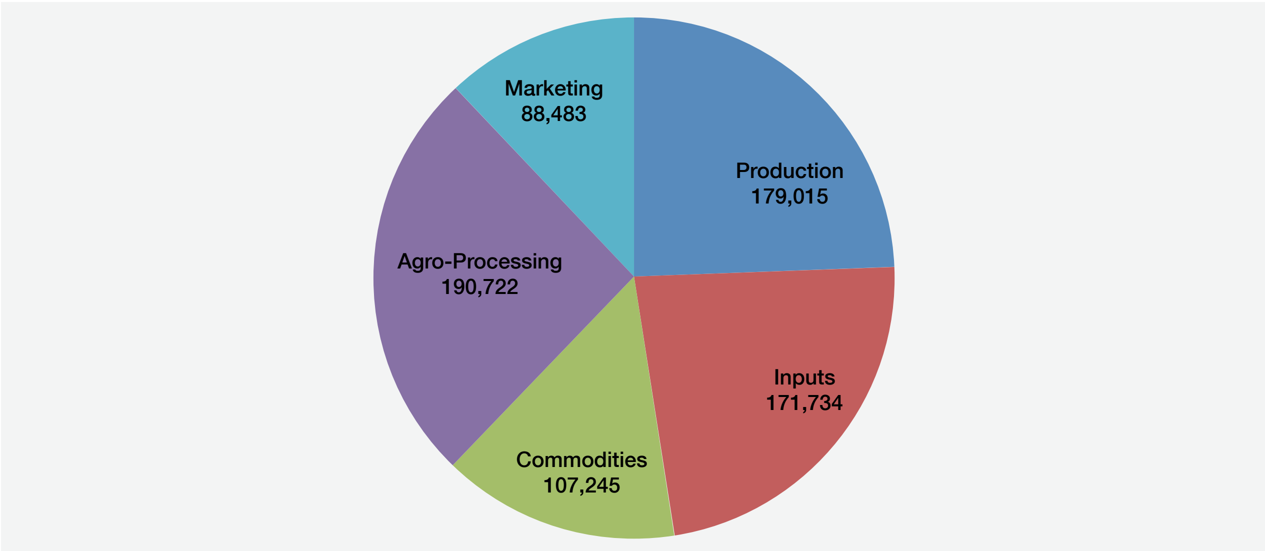
Table 4: Agriculture Lending by Banks - Wholesale and Retail

(Tsh millions)	Agric Lending Dec -09	Total Lending Dec 09	Agric Lending Dec 10	Total Lending Dec 10
TOP 4 BANKS	341,491	2,380,357	422,708	2,797,997
Other Banks	125,605	2,425,457	268,502	3,000,425
Total	467,097	4,805,814	691,210	5,798,422
Wholesale Lending	117,874		174,386	
Retail Lending	349,223		516,824	
Total	467,097		691,210	

Source: Ernst and Young, Bank of Tanzania (totals only), Annual Reports and AYANI

The figures for "other banks" include those that also lend to the agriculture sector, such as Standard Chartered, Stanbic and Exim Bank, but none are major lenders to agriculture, and the amount of their books going into agriculture is less than for the four discussed above.
An analysis of the distribution of agricultural lending was undertaken for 2010 and Figure 3.2 below provides a breakdown according to the type of agricultural activity.

Figure 3: Distribution of Agriculture Lending at 31 December 2010 (Tsh million)



The banking sector savings were Tsh 9.8 trillion in 2010 up from Tsh 7.9 trillion in 2009.

3.2 MFIs

MFIs that operate in Tanzania are mostly concentrated in the urban centres, leaving the rural areas largely under-served. Descriptions of the leading MFIs are set out below:

- PRIDE Tanzania: has split off its agriculture activities into a separate MFI called PRIDE RW. Whilst the original PRIDE has approximately 10% agriculture clients, the new entity operates through ten branches in rural areas targeting agri-business value chains, which make up approximately 80% of its clients, with group guarantee loans. Some of the loan products that it offers include: the MEC Loan Product – based on Grameen modified model with loan size ranging from Tsh 100,000 to Tsh1.0m; and the Fahari Loan Product – based on a solidarity group guarantee, a 6-24 months variable loan term which is ideal for agricultural use, ranging from Tsh 2.0m to Tsh 15.0m. PRIDE is also pilot-testing a wholesale loan to SACCOS, SACAs and rural based MFIs in Mbeya. The loan size for this product ranges from Tsh 10.0m to Tsh 50.0m and a loan term of 6 to 24 months. Again, the product is designed to suit agricultural borrowers.

- BRAC: aims to build on its strong presence in the country, with over 100 branches and other outlets, to implement a growth strategy that will expand its microfinance business with a focus on agriculture. In doing so, BRAC Tanzania offers agricultural loan products with the aim of improving the efficiency and management of small to medium farm enterprises. The program is designed to increase agricultural output, decrease livestock mortality, raise farm income and increase rural employment. BRAC currently employs 1,200 staff in Tanzania and Zanzibar.
- FINCA: Tanzanian microfinance operations cover rural, urban and semi-urban Tanzania. FINCA has 22 branches and its clients include women, individuals unable to find work in the formal sector, the rural poor and those affected by chronic poverty.
- YOSEFO: provides group and individual loan and insurance products to low income entrepreneurs in Dar-es-Salaam, Morogoro, Lindi and Tanga regions as well as both Unguja and Pemba in the Zanzibar archipelago. Its target clients are youth and women in urban, peri-urban and rural areas. “Benkijamii” loans are offered in rural areas to clients who are members of a village bank and seek to reach remote communities in a cost effective manner.
- Sero Lease and Finance Limited (SELFINA): has branches in the regions of Dar es Salaam, Coast, Mbeya, Mwanza and Shinyanga. SELFINA offers three types of products: financial leases, a sale and leaseback facility, and a social security facility. It pioneered the lease product that enables borrowers to access capital equipment, often of an agricultural nature, which has allowed SELFINA to access the rural client base.
- Small Enterprise Development Agency (SEDA): part of the World Vision NGO, has operations in Arusha, Tanga, Dodoma, Morogoro, Dar es Salaam, Mwanza, Tabora and Shinyanga. It provides group and individual loans for borrowers in agriculture and business.

Data for the MFIs is set out in Table 5.

Methodology and Conclusions

In contrast to the banks, there is no source of data for all MFIs in Tanzania. Just 13 are listed on the Mix Market and only around 30 are members of TAMFI, the local microfinance network. No large MFI is regulated by the BoT, although the Bank does receive reports from MFIs seeking to transform to deposit-taking institutions. There is no comprehensive, detailed data available on the MFIs that specialize in the supply of microfinance services in the rural areas.

Therefore, AYANI has based its analysis on data provided for individual MFIs, using various sources to identify all MFIs that provide significant microfinance services in rural areas.
It supplemented the available data with the interviews it conducted in order to determine estimated numbers for the agricultural loan portfolio and clients of each MFI.
Table 5 below shows data compiled from documents and field interviews to demonstrate key features of the current supply of agricultural lending by major MFIs.

Table 5: Total Loan Portfolio and Clients for Major MFIs as at December 2010

Category	Total Loan Portfolio (Tsh million)	Agric Portfolio (Tsh Million)	Total clients	Agric Clients
TOP SIX MFIs	96,761	22,245	369,175	100,550
Other MFIs	18,106	4,037	49,857	16,715
TOTAL	114,867	26,281	419,032	117,265

Source: AYANI, Mix Market

Some MFI lenders classify a credit as “agriculture” based largely on the client’s location and the primary enterprise activity identified by the client, without knowing the precise use of the loan. It is recognised therefore, that a proportion of the above volumes may be for related or even non-agriculture activities undertaken by producers’ households. A client may borrow for one stated purpose and use the funds for another, either in addition to, or instead of the stated reason for the loan. However, it is most likely that at least part of the activities of the vast majority of clients in rural areas of a country with the economic and employment structure of Tanzania (see section 1.1) will be connected to agriculture. See section 6.3 for more on this issue.

3.3 Semi-Formal Institutions (Saccos)

SACCOS are formally registered by the Ministry of Agriculture, Food Security and Cooperatives. SACCOS are audited by The Cooperatives, Audit and Supervision Corporation (COASCO) on an annual basis. The Cooperative Societies Act, 2003 creates four types of cooperatives tiers: primary, secondary, apex and federation. A cooperative that has savings and deposits totalling more than Tsh 800 million will be licensed as a Financial Cooperative (FICO) and supervised by the Bank of Tanzania, although no such registrations have taken place to date.[11]

There are three main apex associations for SACCOS in Tanzania:

1. Dunduliza Limited: receives funding from FSDT, and technical assistance from Desjardins International Development (DID). Dunduliza has 24 SACCOS, a number which has declined from a high of 38 in 2008. Dunduliza’s main services include capacity building of the SACCOS. It operates in 7 regions in Tanzania in the Lake, Southern Highlands and Eastern Zones.
2. Umoja wa SACCOS za Wakulima Kilimanjaro(USAWA): is an off-spring from a four-year project in which FERT (a French NGO) provided support to SACCOS in Kilimanjaro region, with funding from the EU. USAWA has 30 SACCOS, all rural/agricultural based.
3. Savings and Credit Cooperative Union League of Tanzania (SCCULT): is by far the biggest apex with more than 1200 SACCOS. Part of its role includes providing a line of credit to SACCOS, the Central Finance Program (CFP) which is a wholesale Credit Fund for on-lending to SACCOS and amounted to Tsh 2bn at the end of 2010. SCCULT also provides technical assistance to SACCOS.

11 *Triodos/Facet: Tanzania Microfinance Country Scan, February 2011.*

Methodology and Conclusions

In order to estimate the amount of SACCOS finance going to agriculture, AYANI has started with public data available at the sector-wide level. According to the Ministry of Agriculture, there are 5,300 SACCOS or semi-formal providers of finance as of 31 March 2011, of which 3,000 are classified as rural. The total membership is 970,000, of which approximately two-thirds are men. As of 31 March 2011, the total volume of outstanding loans amounted to Tsh 220bn and savings Tsh 238bn.

A portion for agricultural lending has been estimated, based on the surveys received and face-to-face meetings. These indicated that an average of 60% of rural SACCOS' clients take loans for agriculture related purposes. The volume of lending and client numbers for the rural SACCOS is assumed to be the proportion of the total figures represented by the respective numbers, i.e. approximately 3,000 out of 5,300, as figures for rural SACCOS only are not kept separately. This also allows for the fact that some urban based SACCOS do offer limited amounts of agricultural lending, especially in areas such as Tabora.

The analysis is set out in Table 6.

Table 6: SACCOS on Mainland

	2007	2008	2009	2010	2011 (March)
Number of SACCOS	3,469	4,191	5,432	5,168	5,314
Total SACCOS Membership	573,710	698,201	820,670	866,297	972,577
Savings/Deposits (Tsh million)	59,735	107,415	148,144.	177,349	238,419
Total Disbursed Loans (Tsh million)	116,737	204,337	383,564	426,255	563,098
Total Loan Balance (Tsh million)	49,058	137,168	172,576	188,133	219,603
Agriculture Lending (Tsh million)	16,645	46,540	58,554	63,832	74,510
Agriculture Clients	194,655	236,894	278,447	293,928	
Savings and Deposits (Tsh m)	20,268	36,445	50,264	60,173	

Source: IFAD, Ministry of Agriculture, AYANI

On the basis described above, lending to agriculture was Tsh 63.8 billion at the end of 2010, and Tsh 74.5 billion by 31 March, 2011 for mainland Tanzania. The total number of clients was 294,000 at the end of 2010.

In addition those shown in Table 6, there are 371 SACCOS on the two islands of Zanzibar, with a total membership of just 28,000 and total loans outstanding of Tsh 2.7bn. 59% of members are male, although female membership is higher on Pemba.

3.4 Informal Sector

There are many forms of unregulated, informal institutions and arrangements that provide a huge volume of financial services for participating households in Tanzania. These are often the only source of financial service in the most geographically isolated locations, where banks and MFIs cannot reach, due to high transaction costs, infrastructure deficiency and other reasons. These informal arrangements are built on trust, social and family relations, and reciprocity rather than written contracts.

The most common characteristics of these groups are that they exist among people who know each other. This knowledge is used to screen the transactions that are undertaken and to enforce informal agreements. These traditional mechanisms have stood the test of time so any future effort to expand financial services into rural areas needs to harness these practices rather than try to replace them.

There are a number of facilitating organizations that employ resources and technologies to support savings groups. The facilitating organizations are mostly non-governmental agencies (NGOs) that do not specialize in microfinance but focus on serving the very poor, usually living in remote and neglected areas where services of other financial institutions such as banks and MFIs are not accessible. The agencies normally derive revenue from donor funded programs which means that there is no cost recovery in a Saving Groups (SGs) program.
Leading NGOs that promote Saving Groups (SGs) in Tanzania such as ROSCAs, VICOBAs and others are as follows:

- Care International (CARE): calls its SGs Village Savings and Lending Associations (VSLAs). Its programs in Tanzania are located in Dar-es-Salaam, Morogoro, Mwanza and Shinyanga.
- Catholic Relief Services (CRS): calls its SG program SILC, meaning Savings and Internal Lending Communities. CRS covers 14 regions in Tanzania, including Mwanza, Mara, Manyara, Tanga and Coast.
- Plan International (PLAN): uses CARE's VSLA methodology but has been very aggressive in exploring the potential of expansion using village agents. PLAN's program in Tanzania includes locations in Morogoro, Dar-es-Salaam and Mwanza.
- Aga Khan Foundation (AKF) is a relative newcomer to Savings Groups promotion. In Tanzania AKF calls its SG program Community Based Savings Group (CBSG) and is a component of a larger program called Coastal Rural Support Program in the coastal regions of Mtwara and Lindi.
- PACT: its model is known as WORTH and has roots in Nepal. PACT is replicating its program in a number of countries including Tanzania, where it operates from its main office in Dar-es-Salaam and also in Mwanza and Mtwara
- World Vision: the WV operations in Tanzania are in Arusha, Tanga, Dodoma, Morogoro, Dar es Salaam, Mwanza, Tabora and Shinyanga.

CARE has been the pioneer in the sector. Its methodology, products and delivery channels have evolved as a result of a deeper understanding of how the pro-poor financial services market is segmented. Taking this into account, CARE has applied greater simplicity of management and record keeping systems, combined with greater flexibility of products on offer, to its savings groups.

FinScope 2009 concludes that 27% of people in Tanzania are "informally included". However, the report notes that not all receive and lend money out to members. A further analysis conducted by FinScope shows that 2.6 million people "give one member all the monies collected in one round". Others raise money for funerals and emergencies. However, this figure is much broader than the SGs such as the groups facilitated by CARE and the others. It also includes money lenders, employers, buyers and family members.

Methodology and Conclusions

The FinScope data provided some assistance with respect to the supply of financial services in the informal sector. At the high end, there are 1.1 million members that receive money through groups that "lend money out to members" and from no other sources. Of these members, approximately 950,000 are located in rural areas. (There would be additional people in Tanzania who have access to loans from informal groups and also access financial services from other suppliers, such as SACCOS, MFIs and/or banks.

However, to include them in our analysis would mean that the total client numbers of all suppliers to the agriculture sector would mean undesirable double counting. The volume of credit to the agriculture sector would ideally include the lending to informal members who are also recipients of loans from the semi-formal and formal sector, but we understand that data is not readily available from FinScope.)

Other data from FinScope indicates that the numbers actually borrowing at a given point in time may be as little as 500,000 or less. To obtain a clearer picture, AYANI met and interviewed the networks such as CARE, Plan, Aga Khan Foundation and CRS, and a sample of the groups themselves.

Table 7 sets out the estimated members, loans and savings for the six NGO SACA programs. The calculation is based on applying the average loan size ($61) and savings account ($31) from the informal groups for which AYANI has information and applying that to the total membership numbers provided by each NGO, taking into account that just under half of the members (48%) have a loan.

Table 7: Estimated Loan Portfolio and Savings from Savings Groups

(Tsh m	Aga Khan	CARE	CRS	PACT	PLAN	WV	TOTALS
Members	**2,556**	**383,915**	**71,333**	**10,255**	**40,396**	**12,524**	**520,979**
Loans	120	17,986	3,342	480	1,892	587	24,407
Savings	126	18,907	3,513	505	1,989	616	25,657

Source: AYANI, FinScope, relevant documents and reports from institutions

Other data suggests that approximately 60% of the members are working in agriculture. On this basis the total numbers of members from the six groups that had a loan for agriculture is 150,000.
There are a number of other local facilitating organizations, including those which are faith based, whose programs are not included in Table 7. This category would include Orgut-SEDT which is a Tanzanian based agency promoting a Tanzanian model of SG called VICOBAs (Village

Community Banks). AYANI met with this group that serves 56,000 clients. Such organizations and others were included in an estimate made by AYANI as to the amount of agriculture finance from the remainder of the informal sector.

On the basis of the knowledge obtained from the above sources regarding all the informal groups in Tanzania, AYANI has estimated the total supply of agriculture finance to members of the informal sector that do not receive loans from other sources. As of December 2010, there are estimated to have been loans outstanding to 400,000 agricultural clients, with a total value (using the above average loan amount) of Tsh 39bn.
Others e.g. Government Programs and NGOs

3.5 Others e.g Government Programs And Ngos

As noted in section 1, agri-business is the biggest employer in Tanzania, with 80% of Tanzanians working in the sector.
Therefore, there are many government and NGO programs working to build capacity in the sector. A summary is set out below with a particular focus on those providing finance. The volumes identified are added to the national picture in Section 6.

3.5.1 Government Initiatives

- Kilimo Kwanza
  The Government created Kilimo Kwanza in 2009 as a national policy earmarking agriculture as the country's foundation for future economic growth and poverty eradication. It is a strategic tool to encourage widespread involvement in increasing knowledge, productivity, access to markets, and private sector opportunities in agriculture.
  However, in contrast with past initiatives, the private sector is to be the lead implementing agent, and Kilimo Kwanza was formulated by the Tanzania National Business Council, a forum for public-private dialogue. One of the "ten pillars" is a new Tanzanian Agricultural Development Bank, yet to be established. The intention is that it will be a major source of financing Kilimo Kwanza. Another is to provide incentives to attract and retain private sector investments in agriculture. However, there is no direct finance for agriculture provided by Kilimo Kwanza.
- Small Industries Development Organization
  SIDO is a parastatal providing assistance to SMEs with marketing and information services, technology development centres, BDS and outreach, and a women entrepreneur development centre. It provides only limited direct finance.
- Private Agricultural Support Services
  PASS assists with the financing of agriculture production, processing and marketing. It has received $25.7m of donor support from Denmark. PASS provides a partial guarantee to top up collateral pledged by farmers borrowing from partner banks. By December 2010 30,000 farmers had been served with regard to TSh 70bn of loans. However, PASS does not provide any direct finance.
  Some of the other services that PASS provides to facilitate financing arrangements with partner banks are technical, financial and operational feasibility studies and advice on how to establish a successful business in various agricultural sectors. These include

accompanying business plans that meet international standards. Its activities are focussed on certain regions, with the greatest number of business plans with which it has assisted being in Morogoro (37% of the total in 2010), Iringa (18%), Ruvuma (13%) and Kilimanjaro (12%). Of the investments financed through a credit guarantee to facilitate access to credit from financial institutions, 50% were in crop production and 35% for tractors and equipment. Finally, the largest sector focus in PASS's activities is coffee (47%) and paddy (46%).

In the sugar, cotton, tea and paprika industries, PASS has supported contract farming, for example, through the organization of farmers into groups that become focal points for contract farming, input supply, credit, produce price negotiations, etc. Full breakdowns in each area are contained in Annex 10.

- Small Enterprise Loan Facility (SELF)
  SELF is a government program aimed at improving access to financial services by the poor particularly in rural areas. It was established under the Ministry of Planning, Economy and Empowerment with a loan from the African Development Bank (AfDB). It has lent a total of TSh 82bn to 243 SACCOS but only 15% of the total is in rural areas. The outstanding balance is TSh 6.2bn of which we estimate, based on the above ratio, that less than TSh 1bn goes to wholesale agriculture finance.
- Agricultural Input Trust Fund (AgITF)
  The AgITF is a government program established in 1994 for improving production and productivity in the agricultural sector. It supports the stocking and distribution of agricultural inputs and machinery. Beneficiaries are any lawful stockists of the inputs and the machinery, with loans made by banks and SACCOS. These loans are made via SCCULT at concessionary interest rates and the outstanding balance at the end of 2010 was Tsh 2.1bn.
- MKURABITA Property Formalization Program
  The program deals with the problems of rights to land, by seeking to improve or legalize the collateral available, particularly to smallholder farmers without formal land title.
- Southern Agriculture Growth Corridor of Tanzania
  The Southern Corridor of Tanzania links Dar es Salaam with Malawi, Zambia and the DRC and the SAGCOT project has been initiated with a $60m grant. The ultimate goal is to catalyse $2.1bn of private investment and $1.3bn of public funds over a 20 years period to triple the agriculture output in the region. An additional 350,000 hectares of agriculture will be brought on line, much of it by smallholders, with resulting income increases and employment generation across value chains.
- Marketing Infrastructure, Value Addition and Rural Finance Support (MIVARF) Program
  As part of the Government's overall poverty alleviation program, the MIVARF program will invest $170m over seven years into the construction of feeder roads, market centres and storage facilities to improve farmers' access to markets and increase share of value added of small- and medium-scale producers. MIVARF donors are led by IFAD and its ultimate aim is to enhance food security and improve the socio-economic welfare of the farmers and small- and medium- scale producers through increase in household income.

3.5.2 Other Programs

- Tanzania Gatsby Trust
  TGT was established in 1992 and has funded many agriculture projects including seed development, seed multiplication, contract farming, conservation agriculture and value addition initiatives. It has also invested in, and provided technical assistance on the formation o, community banks.
- TechnoServe
  TechnoServe has been working in Tanzania with farmers, cooperatives, suppliers and processors for over 16 years. It seeks to develop competitive rural industries around key crops such as: cashews (by improving farmer productivity and establishing efficient local processing plants), coffee (produce higher quality beans for the premium coffee market), tea (increase yields and crop quality), cotton and Artemisia (a natural herb used in the production of the most effective treatment for malaria).
  TechnoServe is also supporting entrepreneurship programs and the development of SMEs in a variety of sectors. While it helps clients to access financial services, TechnoServe does not provide any direct funding.
- International NGOs
  AYANI met with other leading NGOs working in Tanzania. Many of them are working on projects in agriculture, such as USAID (Feed the Future and the ACDI/VOCA value chain project); JICA (the Agriculture Sector Development Program) and DFID (FSDT, BoT, the African Enterprise Challenge Fund and various value chains projects). However, none is working directly on the provision of finance to agriculture.

3.6 Agri-Enterprise Companies e.g Inputs Providers Or Buyers

There is some financing provided to the agriculture sector though agri-enterprise companies. However, the companies interviewed were generally not prepared to disclose the amounts for this report.
Some agri-companies have worked with banks to provide finance to producers. NMB for example, made loans to 50 barley producers supplying SAB/Tanzania Breweries (TB) totalling of TSh 500m but, due to a 30% delinquency rate, the project was discontinued in 2010. TB is making small interest free advances to around 30 buyers of about Tsh 200,000 for a period of two weeks only.

Kilombero Sugar Company Limited (KSCL), part of ILLOVO Sugar Limited (ISL) is a leading direct provider of loans A South African company, it owns 55% of KSCL, with the balance held by the Government of Tanzania (25%) and ED&F Man Holdings (20%). KSCL is the largest sugar-processing company in Tanzania. It offers credit financing through the Kilombero Community Trust (KCT) which helps the farming community obtain loans, for not only sugarcane development but also other crops. KCT provides the loan services via out-grower associations, namely the Kilombero Cane Growers Association and, in the Kilosa district, the Ruhembe Out-growers Association. However, the data was not made available to AYANI in the course of producing this study and no value could be placed on this facility.
The Norwegian fertiliser company, Yara, helped to establish the Tanzania Agricultural Partnership (TAP) in 2006. It has remained active in the partnership, with a special priority given to the

distribution of mineral fertilizer, including establishing credit facilities for farmers, and setting up storage for a warehouse receipt system. Of 15 agri dealers they supply, six or seven get 30 days credit. Total supply is 50,000t of fertilizer at about $500/t, i.e. $25m. Therefore the value of the credit is about $10m. Yara also provides 30 days credit direct to about 15 large farmers on 5-10,000t of fertilizer i.e. a short-term credit of $1.2-2.5m.

In addition to the programs outlined above, others, e.g. Mukpar (a leading importer and distributor of fertilizers, agri-chemicals, seeds and animal healthcare products), do provide extended credit terms to agri-input suppliers and large farmers. However, this is generally only between 30 and 90 days and is not real agriculture finance. Given the very short-term nature of the finance and the fact that it is not possible to get a complete picture of the quantum, due to confidentiality and other constraints, the numbers are not included in the “national picture” in section 6.1.

Most agri-companies work with entities servicing the agriculture sector, e.g. TechnoServe and Gatsby, and act as a conduit for bank and SACCOS lending. The suppliers of financial services most frequently mentioned in meetings were NMB, CRDB and Stanbic. (The latter was not included in section 3.1 because its current volumes of agriculture finance are still low but it has a guarantee from Kilimo Trust and AGRA, comprising a 15% First Loss Guarantee to enable the bank to extend loans totalling up to $25 million outstanding to agri-businesses in Tanzania.)

Prior to 2009 the tobacco companies used to provide input finance to out-growers but this practice has been discontinued. However, the direct provision of financial services by agri-companies is relatively very small in the overall scheme of the financial sector.

3.7 Private Sector Operators: Investors, Telecoms And Insurance Companies

3.7.1 Investment Companies

A number of microfinance investment vehicles (MIVs) operate in Tanzania, such as MicroVest, responsAbility, Blue Orchard and Oikocredit, focussed mainly on lending to MFIs and CBs. There are also other social investment funds that are active.

Of particular note are the following:

Oikocredit is the only MIV with an office in the country. It has made a direct loan to Farm Heritage ($3m) and set up a facility with Footloose, a sunflower project.

Root Capital is a non-profit social investment fund that offers finance for grassroots businesses in rural areas of developing countries, as well as financial training and market linkages. Coffee is a particular focus and in Tanzania, it works with Kilicafe, a membership association comprising more than 12,000 smallholder coffee farmers. In 2006, Root Capital lent Kilicafe $225,000 to finance the acquisition of 22 de-pulping machines, which allowed farmers to increase the quality of their coffee.

Acumen Fund was established in 2001, with seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three individual philanthropists. In East Africa, Acumen Fund provides products and services in the health, sanitation, energy, housing, and agricultural sectors. It also supports enterprises aimed at improving smallholder farmers’ access to better agricultural inputs and equipment. However, its total portfolio of $17.4 million in Kenya, Uganda, Rwanda and Tanzania does not include agriculture in the latter.

3.7.2 Telecommunications Companies

The number of telephone subscribers in Tanzania has grown from just 284,000 in 2000 to 21.2 million in December 2010[12] with all of the growth coming in the mobile area. This provides the opportunity for the expansion in financial services seen in many African countries.

The leading Telecoms companies in Tanzania are Vodacom (8.7m subscribers as at March 2011), AirTel (6.0m) and Tigo (4.5m). All have electronic remittance products with the best known being M-PESA (the mobile phone money transfer service operated by Vodacom). Based on recent company information (July 2011) there are over 2000 M-PESA agents across the country in both urban and rural areas, facilitating transfers of US$12.8m per month Others include Zain's Zap, Tigo Cash and Zantel Z-pesa.

With this service, subscribers can deposit, withdraw and send money to any mobile customer in Tanzania, purchase airtime, prepay electricity, and pay various bills. Currently, there are discussions taking place with banks and MFIs to expand the services, as has occurred in other countries.
Whilst such products add to the facilitation of finance, the Telecoms companies are not directly contributing to agriculture finance other than facilitating money transfers between farm producers and urban wholesalers.

3.7.3 Insurance Companies

In general terms, the insurance industry in Tanzania is in its infancy, with assets of just 2% of GDP in 2008[13]. Some reports suggest that the reputation of the insurance sector was severely damaged by the behaviour and subsequent 2003 bankruptcy of National Insurance Corporation, which had become infamous for its inability to honour claims. Tanzania's Insurance Act of 1996 had established a working framework for seven different categories of insurers. In 2004 reinsurance was introduced, with compulsory requirements on a sliding scale, i.e. 10% in 2006, 15% in 2007, 20% between 2008-12, 15% in 2013 and 10% in 2014, after which mandatory cessions will cease.

The resulting regulatory requirements for the sector, whilst an understandable response, hamper the sector's development. For example, insurance companies are required to transfer 20% of their net profits to a capital reserve account and to reinsure a certain percentage of their liabilities with the public Tanzania National Reinsurance Corporation. As a result of this and other factors, most insurers underwrite urban policies only, and it is estimated that 80% of Tanzania's rural population remains uninsured[14].

Whilst there is some micro-insurance in Tanzania, there is no agriculture insurance, beyond specific insurance of assets, such as in horticulture (e.g. flowers with guaranteed markets) and general property insurance (including greenhouses) for large corporates. However, two insurance companies, MicroEnsure and Golden Crescent, confirmed in meetings with AYANI that they are

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12 *Tanzania Communications Regulatory Authority: http://www.tcra.go.tz/publications/telecomStatsMarch11.pdf downloaded on 22 September 2011*

12 *Making Finance Work for Africa: http://www.mfw4a.org/tanzania/tanzania-financial-sector-profile.html*

13 *Ibid*

involved in a new pilot scheme for agriculture insurance. Other insurance companies, such as Lion, are closely monitoring the agriculture sector for opportunities to expand.
Under the pilot, the two partners plus World Vision (WV) will provide small-scale farmers with access to credit from the WV MFI, SEDA, to buy farm inputs supported by agricultural extension services from Farm Concern International. The initial pilot is being launched at an existing WV project in the Kilimanjaro region and will be rolled out to farmers by November 2011. In the pilot, MicroEnsure is providing Weather Index Insurance to cover the farmers in the event of crop failure due to drought.

The main issues with such schemes in the past have been the size of farms, the lack of historic weather data, and the ability to access new data through weather stations. If perfected, PRIDE and BRAC indicated that they would also be interested in providing crop insurance, and AYANI believes that others would follow.

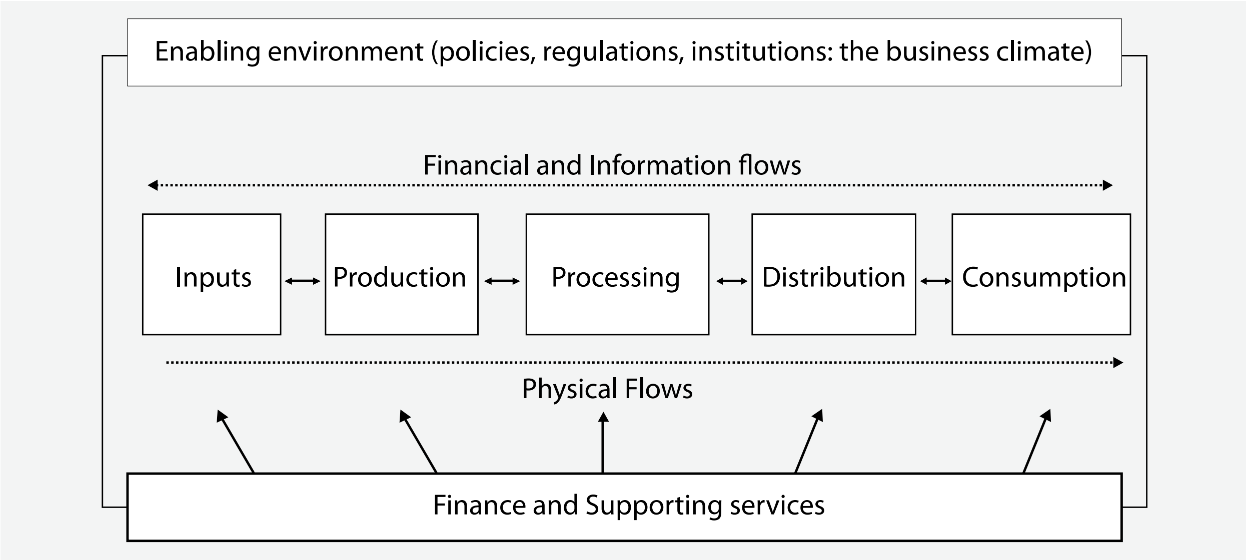
4 Value Chains And Context Of Agriculture Finance

4.1 Role Of Value Chains In The Supply Of Agricultural Finance

Role of Value Chains

Value chain concepts are important and useful in understanding risks and in improving efficiencies among the value chain players, including the suppliers of finance. A value chain, also referred to as a "supply chain", is described as value adding activities which cover production, processing and commercialisation.[15] These activities, and the role of financial services, are summarised in the diagram below.

Figure 4: Value Chains at Work



Source: Calvin Miller and Carlos da Silva (adapted from da Silva and Batalha, 2000)

Agriculture is affected by certain risks not prevalent in other sectors including weather, pests, diseases and other calamities which could affect the yield. Crop failures can occur as a result of drought or excessive rains and floods, both of which happened in Malawi in 2003, affecting 176,000 families.[16] The correct use of high quality inputs is important. Markets and

15 *Calvin Miller and Carlos da Silva, Value Chain Financing in Agriculture , Southeast Asian regional Conference on agricultural value chain financing, Kuala Lumpar, Malasia, December 12-14 2007, downloaded at www.apo-tokyo.org/projreps_acd/16-07-AG-29-GE-CON-B.pdf*

16 *Ibid*

prices are also risks in agriculture as many markets are imperfect and lack information and communications infrastructure that would indicate numbers planting the same crop or what the average yields.

These factors can have implications for the financial sector. For example, in Uganda in 2001-2, a bumper harvest caused maize prices to fall and this affected, amongst others, loan repayments in four branches of the Centenary Rural Development Bank. Another example is Mali's Kafo Jiginew (a federation of credit unions) which was affected by a slump in cotton prices: cotton loans were a major portion of the credit union's loan book[17].

As a result of these and many other instances, banks and other financial institutions have become wary of lending to agricultural clients. The situation can be improved if all stakeholders work together for the benefit of all the value chain players. A study that was conducted in Nigeria in 2010 found that the main participants in value chains are smallholders, with relatively few processors, and that there is not enough finance to cover all the actors in the chain.

These three factors (risk, lack of finance and a need for cooperation) apply in Tanzania. As an example of the latter, 90% of rice is produced by subsistence or smallholder farmers and the sector is highly fragmented with many millers and brokers, as well as a long supply channel.[18]

Tanzania

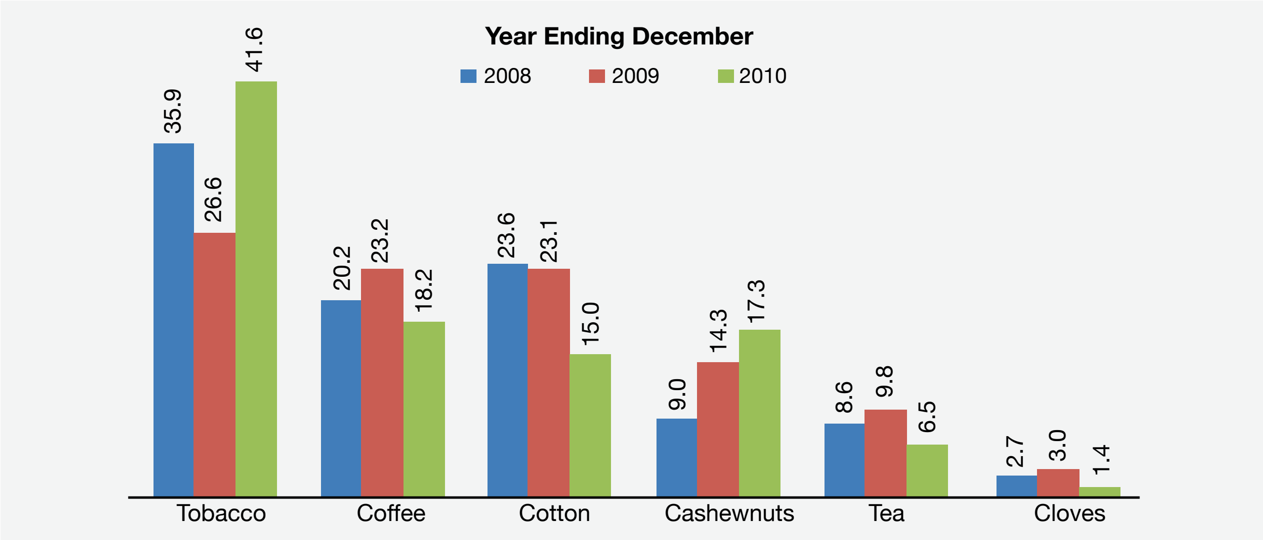
The Top six value chains which will be discussed in this section are coffee, tea, cotton, cashews, tobacco and rice/paddy. We will consider which value chains are being used to supply financial services and, in a final section, which appear most conducive to an expansion. Five of the selected value chains are part of "traditional crops" and one, paddy or rice, is part of "food crops". According to the Bank of Tanzania[19] the value of exported goods in 2010 was USD$ 3,687.4 million, out of which the traditional crops amounted to USD$ 558.9 million. Among the traditional crops, tobacco, coffee and cotton were the three top earners, as shown in figure 5 below.

17 Ibid

18 MatchMaker Associates Ltd. Value chain Analysis of Rice and Maize in selected districts in Tanzania, 2010

19 Bank of Tanzania, Monetary Monthly Statement, January 2011

Figure 5: Composition of Traditional Exports



Source: Bank of Tanzania, Monetary Monthly Statement, January 2011, page 19

4.1.1 The Coffee Value Chain

Coffee is largely produced by small holder farmers in Tanzania. Available data estimates that there are more than 450,000 coffee farmers, most of them smallholders.
The crop is grown mostly in five major regions of the country: Kilimanjaro, Arusha, Kagera, Mbeya and Ruvuma.

Economic Relevance

Coffee contributed Tsh 102bn to the country's exports in 2010. Backward and forward linkages, such as for fertilizers, processors and exporters, stimulate growth in other sectors. In addition, the value adding activities of coffee generate job opportunities and producer incomes.

Financing

The opportunities for finance to agriculture through this value chain include:

- Financing of inputs supplied to smallholder farmers
- Provision of finance for investments in agri-processing
- Finance for production, distribution and marketing of seedlings
- Financing production and processing of high quality specialty beans for the premium coffee market

4.1.2 The Tea Value Chain

Like coffee, tea production in Tanzania is dominated by smallholder farmers and the crop has largely remained in the traditional commodity market.
Tea is produced mostly in the foothill districts of the south and north. The main tea area in the north is Usambara in the Masai Steppe and in the area leading up to Mount Kilimanjaro. In the south, tea is grown in the Njombe and Mufindi areas bordering the Great Rift Valley and Lake Malawi.

Economic Relevance

Tea is the fifth largest export crop in Tanzania contributing Tsh 88 billion to the country's GDP. More than 30,000 farmers are directly engaged, and the sector reaches over 50,000 families from a combination of estate and smallholder production. Contract farming schemes between processing factories and smallholders have long been used in Tanzania. These small scale farmers, therefore, need access to inputs, agricultural technology and markets.[20]

Financing

Financing of agri-processing has a large potential for tea in Tanzania. Where feasible, there is also an opportunity to finance private sector participation in research particularly in the areas of special production technologies and seed development. Other opportunities exist with respect to:

- Input supply including seed production, multiplication and distribution to small holder farmers
- Financing of contract farming arrangements between agri-processors and out-growers

To promote and expand tea production, action is needed to address specific sector issues, some of which could be dealt with, at least partly, through greater financing:

- Limited access to material inputs and extension services
- Lack of smallholder stake in processing operations

On the last point, Tanzanian smallholders receive just 26% of the made tea price, compared to the 75% received by Kenyan smallholders. Some of the benefits and advantages accruing to Kenyan tea producers compared to those in Tanzania are better collective bargaining power and greater ownership of factories. Tea is a sector with significant growth opportunities if yields and quality can be improved.

4.1.3 The Cotton Value Chain

Cotton is the fourth most important cash crop in Tanzania in terms of foreign exchange earnings, contributing Tsh 84 billion to exports in 2010.

20 *Loconto, A, Value Chains and chain of values: Tracing Tanzania Tea, 2010, downlaoaded at http://ageconsearch.umn.edu/bitstream/95057/2/paper%20completo%2087.pdf*

Economic Relevance

According to the Cotton Board, the cotton sub-sector employs up to half a million Tanzanian smallholder farmers mostly from the Western Cotton Growing Area (WCGA) which includes Shinyanga, Mwanza, Tabora, Mara, Kigoma, Kagera and Singida. It accounts for 99% of national production. The small balance comes from the Eastern Cotton Growing Area (ECGA) consisting of Coast Region, Morogoro, Iringa, Tanga, Manyara and Kilimanjaro.
Based on production statistics in the last ten seasons, Shinyanga accounts for 60% of the total seed cotton production in Tanzania, followed by Mwanza (25%), Mara (8%), Tabora (4%) and Kagera (2%).

Financing

Cotton is an annual crop that requires a substantial investment in pesticides and fertilizer to achieve profitable yields. Tanzanian cotton farmers face three major constraints that affect the production of seed cotton:

- Soil fertility exhaustion especially in the WCGA
- Insects including cotton stainer, aphids and bollworm
- Weeds especially in the ECGA

One of the mechanisms to address these cotton sector challenges could be additional finance. Moreover, during the past two decades, the sector has experienced a steady erosion of production capacity. This is due to less and less money invested in inputs, a weakening of extension services and a breakdown of trust or lack of transparency within transactions.

At the moment there are two approaches to input provision. The first is the Cotton Development Trust Fund (CDTF) and the second is the agri-dealer based input supply system (subsidy voucher system). In the first approach, the CDTF collects money from ginners to procure inputs which are then distributed by ginners to farmers on credit. The second approach is based on 'cash and carry' for distribution of partially subsidized inputs. The Tanzanian Cotton Board (TCB) also provides a line of credit to growers. However, there is a need for greater finance in both areas.

In an effort to revive the declining industry and restore quality, the TCB, with the support of the Gatsby Charitable Foundation, has launched what is called the Cotton and Textile Development Program (CTDP). The major aims of CTDP are to promote contract farming as a means to increase access to inputs for farmers, to incentivize cotton quality and to stabilize the supply chain for the ginners.
Contract farming enables ginners to engage actively in the seed cotton production process and the Government is considering making this mandatory. Through contract farming, ginners are involved in provision of credit inputs to farmers to increase yields and stabilize their seed cotton supply chain. Key benefits to farmers include access to credit, inputs, and a guaranteed market.

4.1.4 Cashews Value Chain

Economic Relevance

Cashews now provide the third largest export earnings for Tanzania, with Tsh 97 billion in 2010. It is an important source of income for small farmers in the Southern Coastal regions of Mtwara, Lindi and Ruvuma (accounting for 80-90% of the mainland crop), as well as Pwani and Dar-es-Salaam. There are roughly 360,000 cashew growers in Tanzania, where it is estimated that 88 per cent of them are smallholders with an average acreage of around 2.9.

Financing

The main potential interest for financial institutions is in the areas of inputs and financing the establishment of agri-processing plants.
Regarding input financing, farmers face problems tapping the funds needed to finance production costs. The cash costs of inputs and labour are financed through savings or money lenders, traders or input suppliers. Poor past repayment performance has severely limited the number of farmers who can obtain credit.

4.1.5 Tobacco Value Chain

Tobacco is mainly grown in the seven regions of which the main ones are Tabora, Shinyanga, Singida, Iringa, Kigoma and Ruvuma[21].

Economic Relevance

Tobacco contributed Tsh 232 billion to exports in 2010 making it the single largest export. The sector has seen a steady increase in production from 55,000 metric tons in 2008 to 60,000 tons in 2010.[22] Apart from direct contribution to the economy, a levy on the industry is collected by the government and used for public service delivery purposes, for example in 2007/8 Tsh 90 billion was collected, up from Tsh 52 billion for the 2003/2004 period.

There has been a recent over- supply of tobacco, due to better weather and increased planting coming on line, with the volume for 2009 being a much larger than normal 163,000 metric tons. In addition, as occurs in many countries, there has been lobbying against the sale and marketing of tobacco products, to which the industry has responded by making contributions towards health and education programs.

Financing

Prior to 2009, most farmers obtained their inputs from tobacco companies. Since the change in the system, tobacco farmers, through their cooperatives and primary societies, are using bank credits to source agricultural inputs such as ploughs, ridging equipment and draught animals,

21 *Ibid*

22 *http://www.dailynews.co.tz/feature/?n=23193&cat=feature accessed 20 September 2011*

as well as seeds, fertilizers and chemicals. In some cases, tobacco farmers can also source technical assistance to advise on various farming methods and techniques to enhance

productivity and crop quality. To facilitate that process, a tripartite agreement is signed between farming cooperatives, banks and tobacco buyers. The inputs procured by the society are then loaned to members. The members in turn sell their produce through the society which maintains an account with the loaning bank. The lending bank (NMB and CRDB have been involved) deducts its loan repayments until fully liquidated from the society account after which the rest of the proceeds are paid out to the society for distribution to its members.

4.1.6 Paddy Value Chain

According to Rural Livelihoods Development Company, rice is the second most important food and commercial crop after maize. About 71% of rice is produced under rain fed conditions with only 29% being irrigated. As mentioned in section 4.1.1, around 90% of the rice production is by (subsistence) smallholders. The rice subsector is highly fragmented with "millers and brokers playing a central role in the trading process."[23]
Weaknesses in the rice sector include limited production and distribution of improved seeds (inputs), low quality (i.e. due to mixing of varieties), inefficient chains, insufficient input suppliers and extension workers, inadequate storage capacity, high post-harvest losses due to poor post-harvest handling and uses of inefficient milling machines. Finally, farmer organisations "are weak and transport costs are significantly high"[24].

Economic Relevance

About 48% of Tanzanian rice is produced in the Central Corridor covering Morogoro, Shinyanga and Tabora, due to favourable growing conditions, with the balance in areas such as Singida, Dodoma, Mwanza and Manyara[25]. In the Central Corridor about 230,000 small holder households are involved in paddy and they employ a large work force. Small mills are contracted to convert the paddy into rice, and the bulk is sold to local traders. The local dealers then move the rice to urban centres and, before it gets to the final consumer, it goes through brokers, wholesalers, middleman and retailers.[26]

Financing

The key areas where financing is required for paddy are fertilizers (for existing production), tractors/power tillers (for expansion of paddy fields) and warehouse receipts (for storage and marketing). However, there is very little bank financing, according to the Rural Livelihoods Development Company, for the reasons set out in section 7.2. Much of the financing is left to SACCOS, most of which are faced with structural problems and operational risks.

23 MatchMaker Associates Ltd. Value chain Analysis of Rice and Maize in selected districts in Tanzania, 2010

24 Ibid

25 Rural Livelihood Development Company, 2011

26 Ibid.

4.1.7 Value Chains Most Conducive To Finance

The value chains have been analysed and rated in terms of certain criteria from the perspective of providing finance:

- Functioning supply and demand: this criterion relates to financing provided to a value chain actor and includes inputs, a critical component, constraints if any as well as the market for the produce and, therefore, the prospects of repayments. For example, if there is a price collapse it could be a disaster for the financier.[27]
- Economic relevance: this analyses the value chain's general contribution to individual livelihoods and national income, gross domestic product, etc.
- Food security: on the other hand, this criterion focuses on the commodity's role as a food item and whether the commodity has the dual role of a food item and a source for income generation. Since in the event of market failure it could be consumed in the household, more points are awarded for food security[28].
- Banks interest in Financing: this focuses on the interest of financial product suppliers in the sector and includes issues such as the existing and potential credit-worthiness of value chain actors, the potential revenue from providing the services, and the costs of doing so.
- National importance: this criterion relates to government policies towards the value chain whether positive or negative[29].
- Complementary TA & BDS: the last factor refers to provision of "critical technical assistance beyond finance". This support acts as comfort to lenders in terms of being able to be more productive.

Each value chain is rated by criteria from 0 to 5, with 5 being the highest and 0 being the lowest, for each of the items in table 8 below. The desk top conclusions as to the value chains that appear most conducive to an increase in finance can then be assessed.

Table 8: Summary of Key Criteria for Finance by Value Chain

Criteria	Coffee	Tea	Cotton	Cashews	Tobacco	Paddy
Functioning Supply and Demand	3	4	5	3	5	4
Economic Relevance	5	5	5	5	5	5
Food Security	2	2	0	4	0	5
Banks interest in financing	4	4	4	4	5	3
National Importance	5	5	5	5	5	5
Complementary TA & BDS	3	3	2	1	4	4
TOTAL	22	23	21	22	24	26

On the basis of the above analysis using the approach from the study in Kenya, the value chains most conducive to additional finance are, in order: rice/paddy, tobacco, tea and coffee. Cashews are equal fourth but the value chain would rate higher were it not that some of the

27 *FSD Kenya and USAID, Agricultural value chain financing in Kenya: Assessment of potential opportunities for growth, October 2009.*

28 *Ibid*

29 *Ibid*

complementary TA is provided by underfunded and understaffed government agencies.[30] An assessment of barriers to supply as well as competition was undertaken for the value chains and these are summarised in Table 9 below. It must be noted that most of these commodities are grown in areas such as Kilimanjaro, Shinyanga, Ruvuma, Mwanza, Iringa and Tabora.

Table 9: Summary barriers of the value chains

Criteria	Coffee	Tea	Cotton	Cashews	Tobacco	Rice/Paddy
Growing areas	Kilimanjaro Arusha, Kagera, Mbeya and Ruvuma.	Southern Highland Zone (Mufindi, Njombe, and Rungwe Districts), the North East Zone (Lushoto, Korogwe and Muheza District) and Northwest Zone(Bukoba,Muleba district).	Shinyanga, Mwanza, Tabora, Mara, Kigoma, Kagera, Singida, Morogoro, Iringa, Tanga, Manyara Kilimanjaro	Mtwara, Lindi, Ruvuma, Pwani and Dar-es-Salaam	Tabora, Shinyanga Singida, Iringa, Kigoma and Ruvuma.	Morogoro, Shinyanga, Tabora, Singida, Dodoma, Mwanza and Manyara
Barriers to Entry	Access to credit. Lack of authentic inputs and usage.	The green leaf has to reach processing factory within 12 hours. So close proximity between farmers and factories with little option for competitive markets for green leaf	Low levels of productivity as well as cotton quality and low level of mechanisation.	Not much. On the processors side both large and small are in existence although technology differs between the groups. Long-term finance welcome.	Purchase adequate quantities of seasonal inputs especially for smallholder farmers.	Traders/ Millers main cost drivers are raw material (paddy) (60-80%). Producers main cost drivers are (own) labour (60-80%)
Competition Among Buyers	30-40% are direct sales with the remainder sold through auction at Moshi.	Tea prices are fixed at the weekly auction in Mombasa although the bulk of Tanzania tea is sold outside the auction.	Regional unions trade in cotton now attempts to introduce contract farming	Accessibility of information on price data at farm/ factory/port international markets not available to everyone	Prices are agreed at the Tanzania Tobacco Council.	Fragmented sector. Long supply channels. Many players before final consumer.

Source: Tea board of Tanzania: http://www.teaboardtz.org/tea-growing-areas; Loconto. A: Value Chains and chain of values: Tracing Tanzania Tea; MatchMaker Associates Ltd. 2010. Value chain Analysis of Rice and Maize in selected districts in Tanzania

30 *3ADI, African Agribusiness and Agri industries, 2011*

4.2 Role Of Agricultural Associations

Background

Agricultural associations stem from smallholder farmers organizing themselves into representative groups (farmers' unions), legally registered bodies (such as cooperatives, savings and credit unions or water users' associations) or special-interest farmers' groups (formed to receive advice or facilitate the processing/marketing of produce). These groups provide an avenue through which to develop capacity with farmer groups, local networks and farmer organisations for active representation in decision-making fora and resource-allocating bodies.[31]

Mode of Operation

There is a diversity of Farmer Associations (FAs) that exist and operate as Farmer Organizations (FOs) in Tanzania and many go back decades.

Following the use by Tanzania's farmers of the traditional umbrella organization (The Tanzania Federation of Cooperatives), the NGO MVIWATA emerged in 1993 as a new representative network of farmers' groups, eventually representing more than 60,000 farming households. MVIWATA and its local networks are strongly involved in agriculture research and development (AR&D) issues and actively work with many different sources of information, knowledge and value addition for innovation purposes.

Apart from MVIWATA, which is the only multi-issue Farmer Organization, other specialized Farmer Organizations exist that focus on particular commodities. There are several for example, in relation to coffee research, some resulting from the old cooperative sector, such as the Kilimanjaro Native Co-operative Union (KNCU), the Tanganyika Coffee Growers Association (TCGA) and others from the newly developing overseas specialty markets such as the Association of Kilimanjaro Speciality Coffee Growers (AKSCG). There are also numerous forms of these organizations such as the Kilombero Sugar Cane Growers Association, Nyanza Cotton Farmers Association, tea grower associations and Agricultural Marketing Cooperatives (AMCOs).

As explained in Section 3.5, some of these groups, notably the KSCGA, have been involved in the provision of financial services.

Facilitation NGOs

Many NGOs work with farmer groups, looking to improve access to technology for poorer smallholders through farmer empowerment and through targeted investments aiming to deliver public goods and rectify market failures, especially in drought-prone and risky areas. NGOs have been active in working with these groups have also added value to SACAs (see section 3.4).

Some groups are legally registered entities with strong binding governing constitutions (e.g. the seed growers' associations in the Lake Zone and similar groups in Bukoba, Morogoro and Mbinga districts). Others are registered only under the Cooperatives Act (No. 15, 1991) or simply listed by the Community Development Department (CDD). Most informal groups are not fully

31 *Ninatubu M. Lema and Barnabas W. Kapange, Farmers' organizations and agricultural innovation in Tanzania.:The sector policy for real farmer empowerment*

registered and there are no formal registers available concerning the numbers of such groups, although many surveys record their existence and activities. Informal groups have neither a legal status nor written constitution.

Furthermore, there is no defined coordination mechanism for Farmer Organizations' formation, operations and evolution, and their overall impact on agriculture research and development decision-making processes can therefore not be easily evaluated. Secondly, there are many financial organisations that do not take advantage of the assistance offered by rural (public) service providers because they tend to operate informally and do not comply with official legal requirements.

Finally, the formation is often executed by outside agents of change, as a vehicle for reaching many farmers in a cost-effective manner (and thus also useful to achieve the objectives of the outside agent). The result is that the groups can be dependent, unstable and (after external assistance ends) have few resources. Changes will be required if these groups are to be a better source of finance for agriculture. For example, they need to reinforce their resource base and create links with grass-root institutions to provide backup and represent farmers' voices. It will also be necessary to form groups and organizations beyond the traditional associations based around crop production.

There are also various networks and associations within the financial sector with representation based on legal status, e.g. commercial banks, community banks, SACCOS etc. The microfinance sector lacks a strong and functioning network or association that can bring together the variety of players and represent their common interests. However, there has been recent effort in which TAMFI was revived as an apex body that will bring together member MFIs as well as oversee the growth of the microfinance sector. In terms of industry associations, other key players are:

- Tanzania Bankers Association (TBA) is an association of banks and financial institutions licensed by the Bank of Tanzania to carry on banking business in Tanzania. The TBA was registered in 1985 and now has 34 member banks and financial institutions operating in the country. A prime goal is to encourage members to conduct their business in accordance with the governing laws, ethics and internationally accepted banking principles and practices. TBA operates a limited Credit Information Bureau amongst its members. The TBA acts as a lobbying body to government and otherwise represents members' interests.
- The Community Banks Association (CBA) was founded by Tanzania Gatsby Trust (TGT) in liaison with all community banks in Tanzania in 2005 and now has eight community banks as members. It builds capacity of bank staff and clients, networks to build economies of scale for unit banks, lobbies and advocates and facilitates the set-up of new community banks.
- Tanzania Federation of Cooperatives (TFC) was registered in 1994 and is the national cooperative umbrella organisation that promotes, serves and coordinates the development and prosperity of all cooperative societies in Tanzania Mainland. Currently TFC has 14 members, comprising 13 cooperative unions (one of them is SCCULT: see section 3.3) and one federation.

4.3 Industry Infrastructure

Financial infrastructure is important for the supply of finance by providing a set of market institutions, networks and shared physical infrastructure. These enable the effective operation of financial intermediaries, the exchange of information and data, and the settlement of payments between wholesale and retail market participants.

As of 2009, the gross domestic savings rate in Tanzania reached just 15% of GDP, significantly below the Sub-Saharan average of 25%, although the increasing amounts of bank lending (see Section 3.1) suggest that signs of deepening have emerged.
Apart from the institutions themselves (see sections 3.1 to 3.4), Tanzania's financial infrastructure includes the following characteristics, with some recent important developments:

- There is only a collateral registry for property but not for other forms of security
- A formal credit bureau is not yet operating but it was announced in September 2011 that it would be by the end of that year (and, in the meantime, the Tanzania Banking Association operates the restricted credit reference bureau for its members' use mentioned in section 4.2).
- Credit rating systems are only beginning to be developed and are not yet functioning as all required legislation is not in place. However, MicroRate has evaluated certain MFIs.
- The Dar es Salaam stock exchange is small, with total market capitalization at around 20% of GDP and free-floating shares are very limited.
- The primary government bond market is in its nascent stages of development and, despite government efforts to improve both the efficiency and absorptive capacity of the market, government treasuries amount to a mere 2% of GDP.
- The Tanzanian payments and securities settlement infrastructure (that applies to banks only) is largely underdeveloped.

There is rapid growth in financial service delivery channels as a result of electronic banking, extension of access points through ATMs, and branch networks. There are over 300 branches and all major and most small banks now have ATMs (over 700 in number) for their retail banking. POS devices are also entering the market, creating new partnerships and new delivery challenges.

For the non-major banks, the Umoja Switch partnership provides a shared payment switching infrastructure. The Umoja Switch Card enables customers of member banks to transact on any member ATM bearing UMOJA SWITCH logo anywhere in Tanzania. Members include Azania, Akiba, BOA Bank, DCB, Twiga Bancorp, TIB, Mkombozi Bank, Commercial Bank of Africa and Peoples Bank of Zanzibar.

There is also a limited network of Point of Sale (POS) devices. Most of the financial institutions offer debit cards: CRDB offers the Tembo Card and the Tanzania Postal Bank offers its TanPay facility. CRDB has also started to offer its Tembo Cards to SACCOS.
Various banks, including NBC, CRDB and NMB have introduced internet banking. However, due to the limited population with access to the internet, this is not likely to be a driver for access to financial services for those currently excluded, at least not to the extent of mobile banking.

4.4 Regulation

A recent report on the Tanzania draft rural services strategy concludes that the regulatory environment does not appear to be a constraint on the delivery of financial services to the rural areas as most recommendations have been implemented.[32]
However, AYANI believes that there are some issues that should be tackled, either because they are bottlenecks or implementation issues that affect the smooth delivery of financial service products. An example is the minimum requirements relating to security and maintenance, imposed by the banking regulations for opening a branch. Other regulations relate to the need to take collateral for lending.[33]

Banks

Banks also have other limits with which they have to contend, such as the maximum amount that they could lend to one party, e.g. a SACCOS. Other regulations include:

- The Banking and Financial Institutions Act 2006 prescribes conditions of entry or exit into the banking industry in Tanzania (licensing requirements). It consolidates the law relating to business of banking and the operations of all financial institutions in Tanzania.
- The Bank of Tanzania Act 2006 which deals with the regulation and supervision of banks and financial institutions in Tanzania.
- The Foreign Exchange Act 1992 dealing with foreign currency, securities, payments, debts, import, export, transfer or settlement of property.
- Capital Adequacy Regulations (2001) providing for capital adequacy requirements for various forms of banking institutions in Tanzania.
- Other regulations e.g. on management of risk assets, liquidity assets ratio, credit concentration and exposure limits, internal control and audit.
- Entities applying for a license from the BoT as a commercial bank or non-bank financial institution have to be legally registered with the Registrar of Companies (the Business Registration and Licensing Agency, or BRELA) as a company limited by shares under the Companies Ordinance (Cap 212).

Microfinance Institutions

The Microfinance Companies (MFCs) and Microcredit Activities Regulations (2005) allow for the establishment of MFCs, able to take deposits from the public, subject to supervision by the BoT. The minimum core capital requirement for MFCs has been set at Tsh 800 million for a nation-wide network and Tsh 200 million for a one unit entity. So far, only one MFC has been licensed, namely EFC Tanzania (although they have no agricultural products), but applications are pending from at least three MFIs.

The stated goal of the BoT's approach to MFCs is to avoid early supervision and allow institutions time to experiment before subjecting themselves to regulation. The approach allows the regulatory authority to avoid having to supervise numerous small institutions. On the other hand, the law could also encourage institutions to avoid supervision by staying small. This will be to the disadvantage of the financial sector.

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32 *Oxford Policy Management in association with Hendricks & Associates and Ibrahim Seushi, Tanzania Draft Rural Services Strategy, 2007.*

33 *Ibid*

The second issue is whether such a licensing regime could assist the growth and development of the sector and the expansion of the range of agriculture products and services available. Apart from MFIs meeting the minimum capital and other requirements of the regulation to become deposit taking institutions, the other key pre-condition will be for the BoT to develop the capacity to efficiently license, regulate and supervise them.

The fact that no MFI has yet been licensed suggests that the required transformation is not a simple task and that the regulation may still be too onerous. In addition, the new MFCs will need considerable assistance in designing savings instruments that appeal to the general public and not just the poor who have been their traditional clientele. More importantly for the supply of finance to the rural sector, the MFCs will need additional capital and staff to expand their branch networks and to develop new products for crop and livestock enterprises. This may not be easy to achieve.

Semi-Formal (SACCOS)

Section 3.3 notes that SACCOS are regulated by the Ministry of Agriculture, Food Security and Cooperatives. The Cooperative Development Department has the role of registering, promoting and inspecting SACCOS in accordance the Cooperative Societies Act 2003. SACCOS are also subjected to the Cooperative Rules as issued by the Ministry in 2004.
In accordance with the legal framework, the Registrar of Cooperatives will also apply similar prudential regulations on SACCOS as those applied on MFCs. Taking into account the fact that SACCOS are cooperatives and need to conform to cooperative principles. However, in practice, the regulation of SACCOS does not operate in a consistent manner. The main issues identified by commentators are that the regulation is not well implemented due mainly to a lack of resources within the Ministry for the Cooperative Officers who are to exercise delegated authority.

Section 7 contains findings from the institutions themselves revealing attitudes about the constraints of regulation on the supply of financial services to agriculture. Recommendations in this area are made in Section 8.

Others

Informal institutions, such as VICOBAS, VSLAs and ROSCAs, are not regulated. Their main issues relate to scope and capacity, which could hamper their long term prospects although they remained a critical player in the delivery of financial services especially in the rural areas.

5 Products Provided To The Agricultural Sector

5.1 Product And Service Descriptions

According to a CGAP/IFAD report[34], from successful experiences in various developing countries and with some emphasis on micro-lenders, it was observed that successful agricultural products were those with a combination of traditional finance, careful product design, area based insurance and technology . Ten features were identified for a successful agricultural product (although not all of them had to be present). These features are listed below:

- Repayments are not linked to loan use. The assessment covers all the borrower's businesses and in this way repayment capabilities can be better judged.
- Character-based lending techniques are combined with technical criteria in selecting borrowers, setting loan terms and enforcing repayment. This would include group guarantees if possible as well as a good knowledge of markets.
- Savings mechanisms are provided. Where this was possible, farmers were able to save for lean times.
- Portfolio risk is highly diversified. The institutions that were successful were those that were able to lend to a diversified portfolio to mitigate against risk affecting one particular sector.
- Loan terms and conditions are adjusted to accommodate cyclical cash flows and bulky investments. Successful agricultural micro-lenders were able to modify loan terms to track cash-flow cycles.
- Contractual arrangements reduce price risk, enhance production quality and help guarantee repayment. This is critical where the quality and quantity of a crop were concerned as it would bring together the traders and processors especially if this were combined with technical assistance and input finance.
- Financial service delivery piggybacks on existing institutional infrastructure or is extended using technology. Various technologies such as ATMs, point-of- sale (POS) devices, "smart cards" and loan officers using personal digital assistants can lower transaction costs and help deliver finance to the rural communities.
- Membership-based organizations can facilitate rural access to financial services and be viable in remote areas. Lenders would face lower transaction costs if there were dealing with, for example farmers associations or member based organisations as long as the associations would administer the loans.

34 *CGAP/IFAD: managing risks and designing products for agricultural microfinance, 2006.*

- Area-based index insurance can protect against the risks of agricultural lending. Area-based index insurance schemes have more promise for protecting lenders against risks.
- To succeed, agricultural microfinance must be insulated from political interference such as moratoriums on loan repayments, etc.

The paper went on to state that some of these factors were still relatively new and/or experimental in the area of micro- or development finance. Some of the collateral being championed in this model includes use of a combination of personal guarantors and pledges on household and enterprise assets.

One other recommendation made in the report was that it is necessary to have specialised knowledge. Employing specialist staff such as agronomists and veterinarians would enhance the quality of the decision making. Training in farming and agri-business was also important for the credit officers.

The situation on the ground in Tanzania is now considered.

Commercial banks

Banks offer generic products including savings, investment products, overdraft facilities for up to 12 months, short and medium-term business loans for up to five years, SME banking, personal loans, lease finance, foreign currency borrowing for medium and long term, trade and export finance, electronic banking and other specialist services.

However, most of these products are not tailored for the agricultural sector. For example, term loans may not be suitable for agriculture if they require immediate repayment instead of, say, grace period or repayment according to cash flows. In the interviews we had with SACCOS this issue of repayments came up as there was a feeling of mismatch between repayment time/period and income from agricultural produce. One challenge with ordinary loans is that the repayment is usually required immediately, without any grace period or with very little regard to the cash flows of the project.

Another example is personal loans which require that a client be gainfully employed and be earning a set minimum salary. The employer would need to write a letter of introduction and indicate whether the job is a permanent one or not. Proof of salary must also be provided by way of three recent original pay slips, as well as bank statements for the past six months or so. This would disqualify those farmers who survived on the land and needed a small accommodation to augment any finance that they already have.

Some banks, such as CRDB have established an agricultural unit or window that provides value chain finance. They have special products that finance the different stages of the value chain such as crop production, storage, distribution, harvesting and processing. However, others process agricultural loans as part of their normal loan products, with additional requirements, if any, provided at the time of a written application.
Some of the products, such as electronic banking would suit the agriculture sector, since they would address the issue of access. Overdrafts could be ideal to finance those activities that had to be repaid within a year. Beyond adapting existing products, some banks do acknowledge that there is need for innovation for agricultural products. The introduction of warehouse receipts and

voucher schemes are some of the more innovative responses that have been brought into the sector but there is still a lot more that can be done, especially on the issue of security to access a particular product.

Security for loans

The challenge for some of the farmers especially in the rural areas concerns collateral. In some discussions with farmers, the issue of title to the land was raised. At present, most banks insist on taking security for loans in the nature of deposits under lien, mortgage interests over property, registered securities over assets and guarantees.

The banking sector currently lacks the type of innovation mentioned in the CGAP/IFAD paper, such as accepting land without title, group guarantees, household assets, etc. There could be some concerns, however, that this type of security could adversely affect the provisioning requirements of the BoT. One way to overcome this without greatly impacting the provisioning requirements could be by obtaining additional guarantees.

Regional Banks

Regional banks or Community Banks are located in specific places, as discussed in Section 3.1. The target market for most of these banks is individuals, groups, SACCOS and local governments. Regional banks offer savings and loan products as well as other services such as funds transfer. Examples of the specific products include:

- Savings accounts
- Fixed deposit accounts
- Agricultural loans for individual farmers, groups and SACCOS
- Loans for small traders
- General loans

Microfinance Institutions

Microfinance Institutions offer a number of products to suit their target markets, including:
Micro-Business Loans

- Agricultural Group loans including livestock loans
- Identified Value Chain loans (e.g. dairy processing, livestock)
- Solidarity Loans for various purposes, e.g. education, bicycles
- Leasing (although limited to few institutions)
- Individual and SME Loans

Leasing itself is not that big a part of the financial sector. Despite the setting up of an association, as of December 2008 the value of leasing was $150 million. SELFINA has been championing leasing among MFC especially among women, but it also appears to have its own challenges.[35]

35 *Triodos/Facet, Tanzania Microfinance Country Scan, February 2011.*

The security for the loans includes guarantees. In order to borrow some MFIs require potential solidarity/group lending borrowers to undertake some training which will lead to formation of groups through which they could then borrow.

Semi-Formal (SACCOS)

SACCOS provide a variety of products to suit their members. These include loans for agricultural use e.g. input purchase, purchase of implements, vehicle loans (transport), savings, deposits and shares in cooperatives. Some types of loans include micro-business loans which the members can use for any type of micro-business including buying and selling agricultural produce. Other types of products are warehouse receipts loans, and social loans (education, health, other).
The security for the loans includes liens on deposits, savings and guarantees. In order to borrow one has to be a member of a SACCOS and buy shares. A few SACCOS were able to provide loans to SACAs in their areas creating a kind of wholesale function. According to the Tanzania rural services strategy[36] SACCOS were limited in their reach due to their small sizes that affected their ability to offer a more robust range of products and services.

Informal Groups

Included in this category are SACAs, VICOBAs, ROSCAs and other savings groups and the type of products include:

- Savings with peers at the SACA
- Merry go round savings
- Loans for various uses by the member, such as agricultural purposes including buying inputs, and the buying and selling of agricultural produce.

Table 9 provides a summary of the types of products offered by each supply channel, showing that in many areas the competition is limited.

Table 9: Summary of Products by Channel

Products	Banks	MFIs	Semi Formal (SACCOS)	Informally Included
Overdrafts	√			
Individual Loans	√	√	√	√
Group Loans		√	√	√
Medium term Loans	√			
Wholesale loans	√		√	
Leasing				
Foreign Currency Borrowing	√			
Savings Accounts	√		√	√

Source: AYANI

36 *Oxford Policy Management in association with Hendricks & Associates and Ibrahim Seushi, Tanzania Draft Rural Services Strategy, 2009*

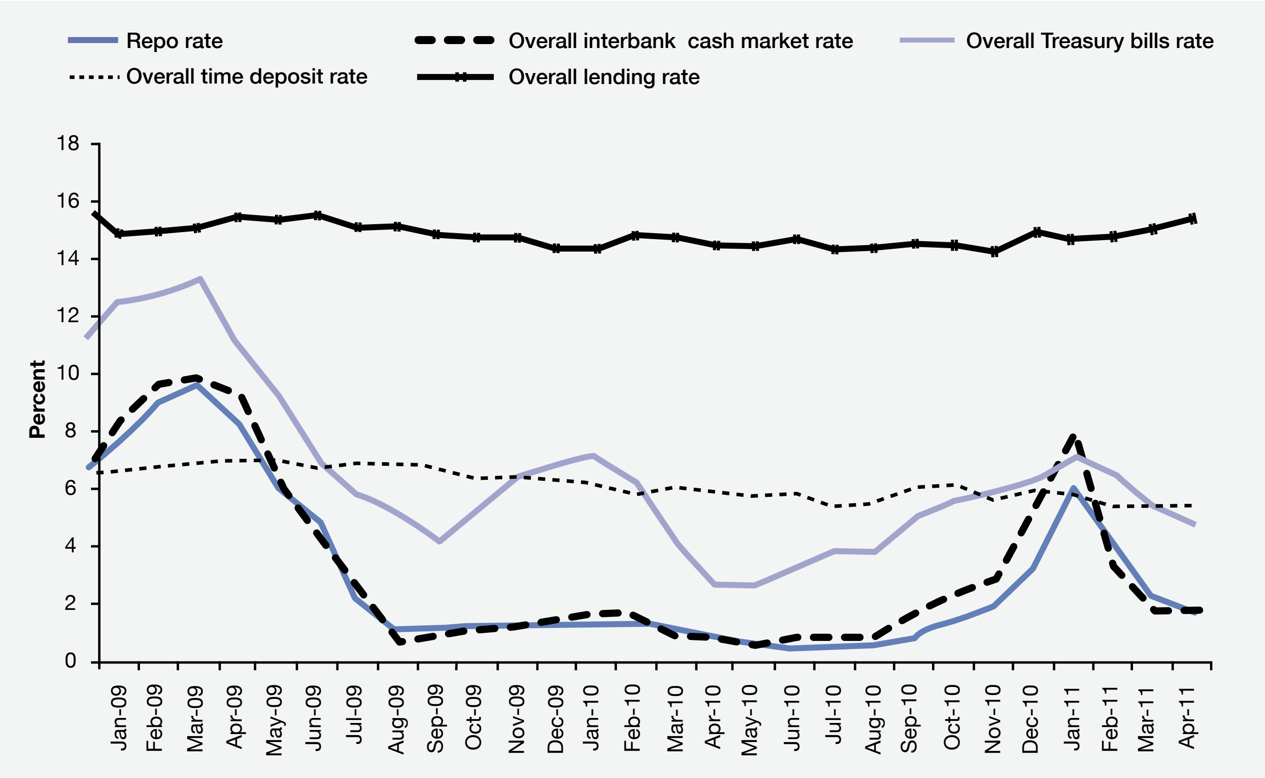
5.2 Pricing Of Products And Services

Interest rates for banks in Tanzania are generally market determined and the Bank of Tanzania (BoT) continues to use monetary policy instruments to sustain stability in the financial markets.[37] (However, the Bank of Tanzania does not have a benchmark lending rate and sets monetary policy by targeting money supply.) Whilst deposit rates for banks remained relatively stable in the first quarter of 2011, lending rates were generally on an upward trend.

Banks

Figure 6 below shows the movement of banking rates from January 2009 to April 2011, when the rate was 14.76%. The overall bank base lending rates were between 14% and 16% per annum.

Figure 6: Selected Interest Rates Developments



Source: Bank of Tanzania; Monetary Policy Statement, June 2011, page 7

Bank savings interest rates were 2.74% as of 31 December 2008, 2.83% by 31 December 2009 and 2.41% by 31 December 2010, according to the BoT monthly monetary statement for January 2011. The margin between short term lending and one year time deposits rate was 5.07% in 2008 and 5.27% by 31 December, 2010 as shown in Figure 7 below. The table h also provides treasury bill rates, REPO rate, time deposits rates and lending rates.

37 *Bank of Tanzania, Monetary Policy Statement, June 2011, page 29*

Figure 7: Weighted Average Interest Rates Structure

	Dec-08	Dec-09	Formal (SACCOS)	Informally Included										
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Overall Interbank cash maret rate	6.54	1.57	1.80	1.89	1.29	0.92	0.87	0.97	0.92	1.09	1.65	2.29	2.86	5.26
Overnight interbank cash market	6.27	1.16	1.67	1.66	0.98	0.86	0.67	0.86	0.82	0.93	1.68	2.27	2.87	5.19
REPO Rate	6.42	1.26	1.22	1.22	1.06	0.79	0.65	0.54	0.58	0.58	0.90	1.53	1.78	3.20
Discount Rate	15.99	3.70	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58	7.58
Overall Treasury bills rate	10.99	6.91	7.20	6.32	4.15	2.70	2.68	3.33	3.89	3.86	5.06	5.68	5.85	6.32
35 days	6.88	3.80	4.57	4.09	1.99	1.26	0.89	0.65	0.78	0.97	1.62	1.84	1.46	1.33
91 days	11.20	6.06	6.35	5.57	3.25	1.77	2.16	2.89	3.22	2.71	3.89	4.76	4.61	5.24
182 days	12.13	6.59	7.20	6.33	4.45	2.58	2.26	2.59	3.91	3.91	4.77	5.67	5.62	6.20
364 days	12.79	8.83	9.06	8.24	6.32	4.86	4.96	6.08	6.26	5.98	6.96	7.85	7.48	7.67
Saving Deposit Rate	2.74	2.83	2.84	2.89	2.88	2.83	2.82	2.82	2.69	2.58	2.57	2.56	2.51	2.41
Treasury Bonds Rates														
2-years	14.35	10.89	10.89	9.40	9.40	9.40	9.40	8.79	8.88	8.88	9.82	9.82	9.67	10.35
5-years	16.39	13.45	13.77	13.77	13.77	13.77	9.52	9.52	9.52	9.70	9.70	10.44	10.44	11.58
7-years	17.04	14.15	14.15	14.15	12.11	12.11	10.38	10.38	10.38	10.85	10.85	11.88	11.88	11.88
10-years	19.47	16.73	16.73	16.73	16.73	11.99	11.99	11.68	11.68	11.68	13.00	13.00	13.59	13.59
Overall Time Deposits Rate	6.63	6.36	6.12	5.82	6.11	5.96	5.79	5.88	5.42	5.55	6.03	6.11	5.55	5.11
12 month time deposit rate	8.48	8.99	9.06	8.84	8.78	8.67	8.56	8.43	7.86	7.13	7.15	7.26	6.14	7.09
Negotiated Deposit Rate	10.23	9.94	7.44	7.16	9.41	9.63	9.47	9.57	8.76	8.58	9.33	9.60	8.76	8.45
Overall Lending Rate	16.05	14.38	14.39	14.81	14.80	14.50	14.50	14.67	14.34	14.35	14.47	14.49	12.84	13.45
Short-term Lending reat (up to 1 year)	13.56	13.96	13.76	14.73	14.61	13.88	14.02	13.92	14.14	14.37	14.29	14.22	12.31	12.37
Negotiated Lending Rate	12.05	13.18	13.68	13.79	13.71	13.97	13.80	14.13	13.84	14.00	13.80	13.71	13.65	11.88
Margin beteen short-term lending and one year time deposit rates	5.07	4.97	4.71	5.89	5.84	5.21	5.47	5.49	6.28	7.24	7.14	6.96	6.17	5.27

Source: Bank of Tanzania, Monthly Economic Review, January 2011, page 10

Whilst these rates appeared relatively low, the final interest rate charged to the borrower is determined by a combination of factors such as type of security offered, term of borrowing, type of loan or facility requested (among others). A facility that is not secured for example would generally attract a higher interest rate to compensate for the presumed higher risk.

Commercial banks were charging between a minimum of 14% and a maximum of 24% (including the pricing margin) for commercial and business loans. Complaints about the high rates have been made.[38] There are some agricultural concessionary loans available through institutions such as TIB, and these loans are made at a subsidised interest rate of around 8% (see Section 3.1). In other cases there is no difference between the interest rates charged to the agricultural sector and that offered to other sectors of the economy[39].

38 *The Citizen, http://allafrica.com/stories/201109220163.html accessed 21 September 2011*

39 *BoT Taskforce Report (Revised), Enhancing banks and financial institutions financing to the agricultural sector in response to "Kilimo Kwanza" initiative, July 2011.*

39 *BOT, Final report on improving the enabling environment and business conduct of credit only microfinance institutions in Tanzania , November 2010*

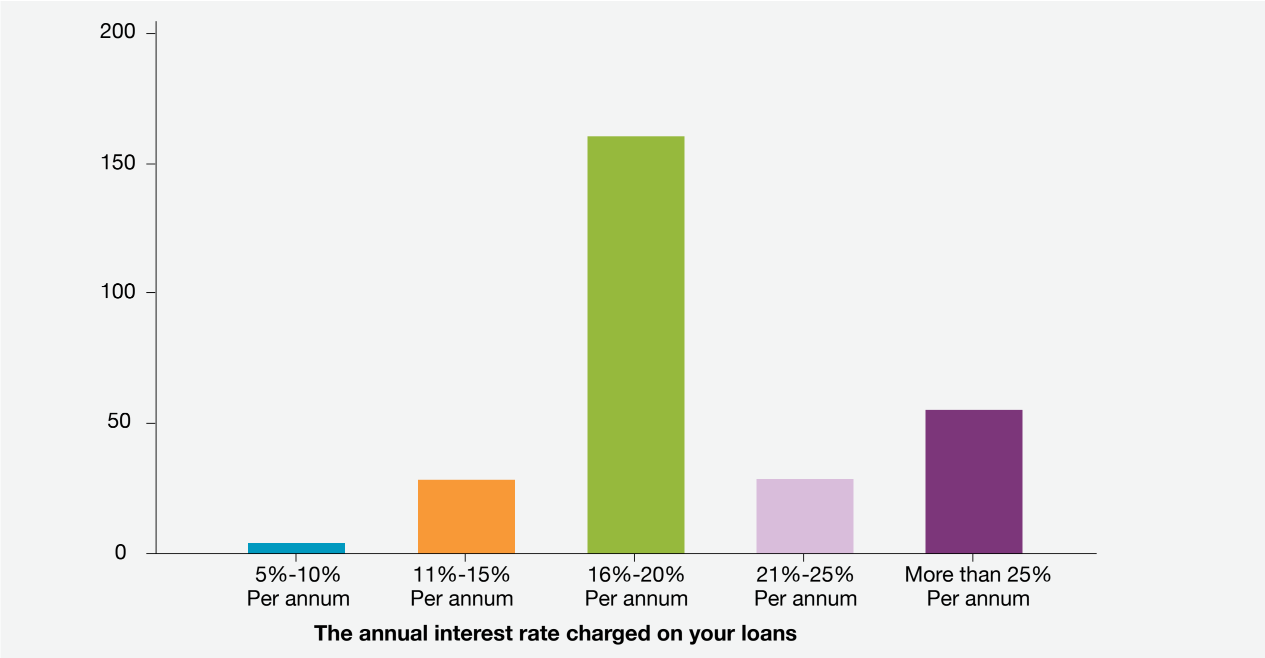
MFIs

The BoT undertook a study on credit only institutions. With regard to interest rates, the institutions used the flat rate method[40]. The report went on to state that the nominal rate charged "by some of the surveyed credit only companies was as high as 240 per cent per annum." The effective interest rate for most of these surveyed institutions was over 100% per annum and this affected borrowers. The justification provided was that the on–lending funds were expensive. The meetings held by AYANI indicated that most MFIs were charging in the range of 3% to 4% per month or 30% to 35% per annum, on a flat rate basis.

SACCOS and SACAs

The survey conducted on SACCOS and informal groups (SACAs) included a question regarding the interest rate paid on their borrowing. The results, which are depicted below, show that over 150 groups were charging an interest rate of 16 to 20% per annum and around 50 members had interest rates above 25% per annum.

Figure 8: The annual interest rate charged on loans



40 *BOT, Final report on improving the enabling environment and business conduct of credit only microfinance institutions in Tanzania , November 2010*

6 Financial Services Provided To The Agricultural Sector

6.1 Volume And Value For 2010

Sections 3.1 to 3.4 analysed the available data on the supply of financial products to the agriculture sector. The outstanding loan values held by end agriculture users in December 2010 can be summarised by category of supplier as follows.

Table 10: Summary of Direct Lending to Agriculture as at December 2010

	Banks	MFIs	SACCOS	Informal sector	Other, e.g. MIVs, Agro	TOTAL
Value (Tsh bn)	517	26	64	39	10	656
Client numbers (000)	NA	117	294	400	NA	811

There is likely to be some overlap between the client numbers for MFIs and SACCOS as some may borrow from bot±h types of institution. It is not possible to eliminate this other than by making a broad assumption. However, the overlap is not likely to be large, for a number of reasons. Firstly, MFIs generally make enquiries as to prospective clients' existing obligations and normally discourage clients from taking more than one loan. Secondly, the degree of overlap indicated in the FinScope study will be much higher than is relevant here: whilst loan clients of one MFI or SACCOS may well have a savings or another account with a semi-formal or informal institution, the duplication of loans will be much less common.

The total value of Tsh 656 bn represents the following proportions of certain relevant indicators[41]:

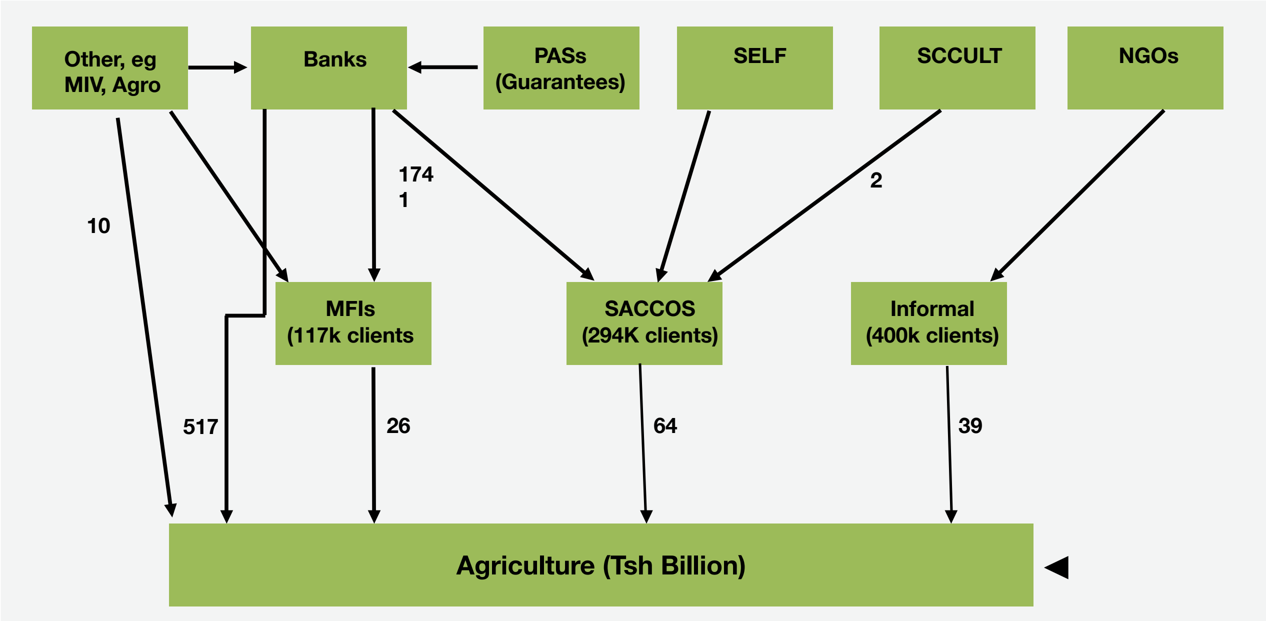
- GDP (Tsh 29,100 bn): 2.3%
- Total bank credit (Tsh 5,800 bn): 11.3%
- The total agriculture sector (Tsh 8,400 bn): 7.8%

The above data excludes wholesale funding provided mainly by the banks (estimated at around Tsh 174 bn in December 2010) and others such as SELF and SCCULT (see section 3.5). Finally, guarantee programs, including the one offered by PASS, are excluded.

The total national picture, including wholesale funding and other non-financial support (which it is not always possible to quantify), is summarised in figure 9 below:

41 *Bank of Tanzania; National Bureau of Statistics, Tanzania in Figures 2009; and World Bank, Indicators: http://devdata.worldbank.org/AAG/tza_aag.pdf downloaded on 22 September 2011*

Figure 9: Sources for agricultural funding & other non-financial support



6.2 Channels Of Distribution For Products And Services

The main channels of distribution for the products and services that go to the agriculture sector, as outlined in Section 5, are (in descending order of value, as shown in Table 10): banks, SACCOS, the informal sector and MFIs.
In addition, as mentioned, we are aware of flows of funds to intermediaries, such as MFIs and SACCOS. The banks are the main providers of this wholesale funding, with Tsh 174bn estimated to be outstanding at the end of 2010. Small amounts (as indicated in Figure 9 above) are also provided by entities such as SELF and SCCULT.

Certain programs also act as catalysts for this type of funding. As mentioned in Section 3.5, PASS provides guarantees such financial services. Other programs offer technical assistance through NGOs and others. An example is the (RFSP) whose activities have been summarised by IFAD as follows:

> “RFSP provided support to link Financial Institutions and NGOs to MFIs (SACCOS). A total of 132 SACCOS were linked with upper level financial institutions and other types of bodies (CRDB, KCB, Postal Bank, SCCULT, National Microfinance Bank, Small Industries Development Organization, SELF, Promotion of Rural Initiative and Development Enterprises Limited, community banks, apex SACCOS, Sisal Board, LGAs) mainly as sources of funds for onward lending. By December 2009, this had generated total cumulative lending of Tsh 14 billion. In addition, in a number of cases, in particular where CRDB Bank Ltd is [the lender, RFSP] links [the borrower to experts] providing additional support services including training, cash machines, counters, broader banking services, safes, and microfinance management software.”[42]

42 *IFAD, Completion Report for the Rural Financial Services Program, June 2011*

Whilst admirable, such programs are generally small in scale. Secondly, they can have longer term implications for access to finance, as the projects inevitably have a limited life and do not necessarily build a permanent supply of financial services. Thirdly, during the life of the program, they may have an impact on the efforts of others, e.g. private financial institutions which are working to promote more sustainable financial services on a commercial basis. These institutions offer products and services demanded by a wide range of clients. An example of this ‘crowding out’ phenomenon is the subsidised agriculture lending program of TIB.

Another scheme used in Tanzania relates to Warehouse Receipts (WRs). WRs enable farmers to use crop delivery receipts issued by a licensed warehouse as collateral in seeking loans from banks and financial institutions. Uchumi Commercial Bank, Kilimanjaro Coop Bank, CRDB and NMB have financed coffee, cotton and grain in this way. According to IFAD[43], WRs have been used in eleven districts. Under the scheme to which they refer, Participating Commercial Banks (PCBs) extended loans to SACCOS for onward lending to 4,066 crop depositors. Cumulative lending under the scheme reached Tsh 4.1 billion (US$3 million) in 2009.

Whilst extremely useful to incentivise banks, MFIs and SACCOS to provide finance to the agriculture sector, the schemes themselves do not add to the volume of financing determined in section 3. The lender in each case is still the financial institution but it assists in the “deeper” access to finance.

6.3 Main Recipients Of Agriculture Finance By Category

As expected and as shown in section 6.2, banks make larger loans but have the smallest number of clients, although the precise number is unknown.
Whilst to do a sector-wise break-down of financing on the basis of each individual crop or agriculture activity would be ideal, it could be difficult and of limited value. This is because of limited availability of information, given the MIS sophistication required to provide detailed information by crop or sector.

AYANI found some specialized lenders that target only one specific crop sector, e.g. some of the WRs mentioned in Section 6.2, and programs undertaken by certain banks, such as the former NMB program relating to barley (see Section 3.6). However, the vast majority of lenders are multi-sector suppliers, dealing with different types of borrowers at different stages in the value chain. Either their MIS is not sophisticated enough to analyse the portfolio by type of crop/sector or the institution was not prepared to disclose detailed client data due to concerns about confidentiality.

The questionnaires used by AYANI for interviewing the banks and the MFIs and the surveys conducted among the sample of SACCOS, SACAs and VICOBAs sought to categorise the clients operating in agriculture into the same groups as the demand side survey. They can be summarised as:

1. Grow crops and/or livestock/poultry/fish/bees etc. and sell them
2. Buy any items in (a) and sell them unprocessed or after processing, i.e. processors

43 Ibid.

3. Service providers making inputs and implements (e.g. hoes, tractors, fertilizers, pesticides) used for farming activities and sell them, or provide services (e.g. lease equipment or land, provide transport or warehousing/storage, supply farming labour), mainly to farmers or farming related activities
4. Sell products to farmers for farming purposes e.g. seeds, agri-chemicals, fertilizers

The interviews with banks suggested that their direct agricultural clients were virtually all in the commercial category. Typically this meantgroups using warehouse receipts, other farmers' groups (it is estimated by FACET that between 500,000 and one million farmers may be benefiting from NMB's agri-dealer finance facility), large growers, producers and buyers, and agri input providers.

Other interviews and the surveys indicated that the vast majority of clients of MFIs, SACCOS and informal groups were in category (a). Some MFIs also served large clients: in one instance large individual clients made up 10% of the MFI's clientele by number and 50% of its outstanding loans by volume. Whilst for SACCOS and informal groups, most clients would be categorised as subsistence, many such clients have a "commercial" aspect to what they do.

They might, for example, produce both for their own needs and to sell a surplus, whilst also often operating a microenterprise, e.g. a shop. However, as explained in section 3.2 in regard to MFIs, we have categorised clients as "agricultural" if that is their major activity as perceived by the lender.

As anticipated, it proved difficult to obtain client information by gender, size of business and poverty levels.

6.4 Recent Movement And Immediate Outlook

It has been possible to obtain time series data in a number of the supply side sectors. As set out in Section 3:

- Banks: lending to agriculture has grown generally in line with total lending as a whole (Section 3.1). Whilst this has meant a 400% increase since 2004, the proportion of lending to agriculture has dropped slightly from 13.9% to 11.9%. However, this fall is a result of the period for which data exists: if 2005 had been chosen as the starting point, there would have been virtually no change. Over the seven year period, the proportion going to agriculture has been fairly consistent, between 10% and 13%.
- MFIs: the records kept for this sector are the weakest, as MFIs are not regulated by the BoT (the source of bank data) and the industry body (TAMFI) is not as diligent as the government department monitoring the SACCOS. However, what we can observe is that the four leading MFIs that are reporting to the MIX Market have grown, as shown in Table 11.

Table 11: Leading MFI growth over 2008 to 2010

MFI	Year	Loan portfolio (USD)	Change	Borrowers (numbers)	Change
BRAC	2008	7,350,716		69,502	
	2009	10,067,847		89,818	
	2010	16,616,892	65%	115,695	29%
FINCA	2008	5,339,810		37,006	
	2009	7,220,782		41,253	
	2010	13,170,000	82%	54,196	31%
PRIDE	2008	27,940,160		106,082	
	2009	26,916,470	-4%	72,977	-31%
SEDA	2008	2,802,089		16,380	
	2009	1,518,053		7,990	
	2010	3,160,530	108%	17,167	115%

Source: MIX Market and AYANI analysis

BRAC and FINCA have shown strong growth. On the other hand, PRIDE and SEDA have been through a period of consolidation, with 2010 numbers (for PRIDE, based on the AYANI interview) increasing after a fall in 2009.

However, these raw numbers are for the MFI as a whole and do not indicate the trends in agriculture finance.

- SACCOS: AYANI estimates that agriculture client numbers have increased by approximately 50% (see Table 6 in Section 3.3 based on data from the Department of Cooperatives) since 2007. The volume of lending has more than quadrupled over the same period, indicating that the average loan has increased substantially.
- SACAs: the information available for SACAs is limited in terms of changes over time.

As for the outlook, all of the parties to whom we spoke were generally expecting to see greater finance being made available to the agriculture sector. This came through in the interviews with banks and MFIs and the survey conducted with SACCOS and informal groups.

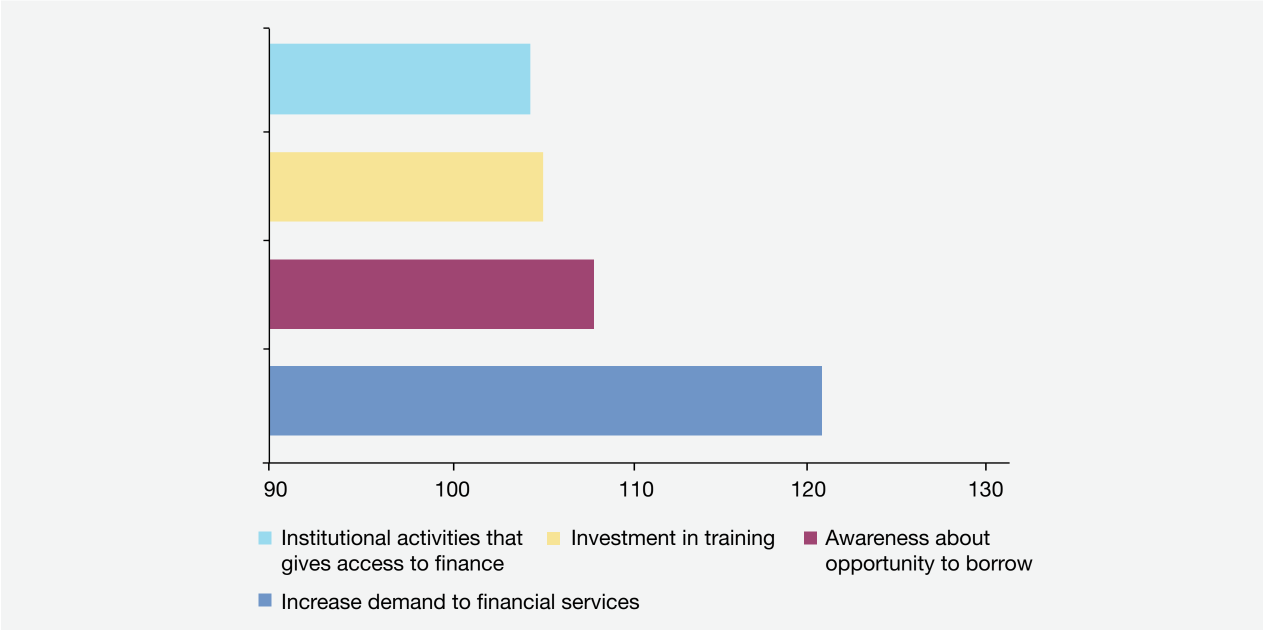
There have been some setbacks with various programs run by banks where they are seeking to reach down to smaller borrowers as mentioned in section 3.1. This would explain why, despite positive trends such as NMB setting up an agriculture finance department, lending to the sector as a proportion of total lending has not increased. There have also been some positive trends with the MFIs, including the establishment of a separate organisation by PRIDE to focus on agriculture lending.

Nonetheless, among the banks and MFIs the general response was that supply would increase, with sample comments indicating a desire to expand agriculture finance such as:

- “It has become more of a focus and will increase”
- “More banks are seeing agriculture as a business”
- “The business is increasing its support to the agricultural sector”
- “If funds are available, growth will come”
- “(Lenders) are becoming more willing to go into rural areas”

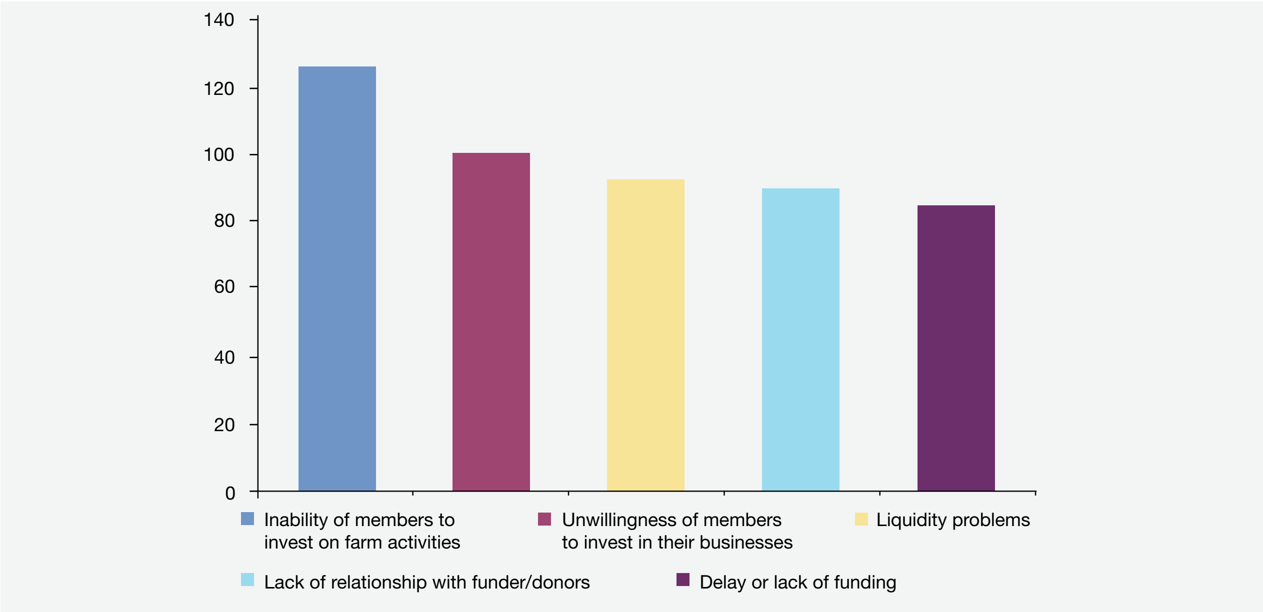
With the SACCOS and SACAs a majority of those surveyed, (around 60%) indicated that they had seen growth in agriculture lending in recent years. The reasons cited for an increase were (in terms of numbers of respondents):

Figure 10: Reasons for the increase in loans to agriculture



The factor most often referred to by the respondents was that demand for financial services had increased. Whilst that is subject to a separate AgFiMS report, the anecdotal evidence picked up by AYANI is very positive in terms of demand for financial services. For example, TIB indicated that demand for their (albeit subsidised) product far outstrips the supply.
The reasons given by those who have seen a decrease in lending were:

Figure 11: Reasons for decrease in loans to agriculture



The factors that were most commonly cited by clients of SACCOS and informal groups who have seen supply decrease fall into two camps: the lack of willingness or capacity amongst their clients to invest additional funds in their businesses, and the lack of available funding or liquidity of the institution to make more loans.

As for the outlook, again a majority of respondents expect to see an increase in agriculture lending in future years.
Taking the market as a whole, and given the more positive sentiment towards agriculture and the commitment of most institutions to expand, we expect that the rate of growth in agricultural lending will be maintained and may even increase.

7 Factors Affecting The Supply Of Agricultural Finance

As an initial step in examining the factors affecting the supply of agricultural finance in Tanzania, AYANI has conducted a scan of some of the recent literature on the subject. The findings are summarised in table 12 below.

Table 12: Summary of supply & demand issues relating to agricultural finance

	Banks	MFIs	SACCOS and Informal Groups
Issues for Clients	• Uncomfortable using banks • Inability to meet minimum client criteria • Also issues for MFIs and SACCOS as clients	Title to land to allow for collateralisation Desire to move beyond traditional group lending Physical access to services	Low literacy, entrepreneurship and business s skills Lack of product range to meet their needs
Challenges for Institution	• Government involvement in institutions and markets • Understanding client indebtedness and value chains • Poor infrastructure, e.g. power, roads	• Difficulty in enforcing collateral • Focus on urban and peri-urban leads to greater competition • Lack of clear governance and clarity re ownership structure • Decentralised operations	• Disproportionate (due to size) exposure to crop failures and other rural disasters • Cost of reaching remote regions • Preparation of financial statements • New product development and appropriate pricing
Institutional Weaknesses (apart from general capacity issues, e.g. staff, MIS,)	• Excess liquidity • Poor understanding of agriculture credit • Lack of willingness to provide even wholesale lending	• Funding issues • Poor loan monitoring, which encourages group lending (not always suitable for agriculture) • Variety of reporting structures	• Ability to screen and assess applications • Limited scale, e.g. low membership and capital/ savings • Portfolio quality and delinquency management • Capacity to grow, e.g. internal controls, risk management • General lack of knowledge of microfinance best practices

Recommend-ations (apart from a general need to build capacity at all institutions)	• Government should focus on supporting, rather than creating, institutions • Expand credit bureau reforms at BoT • Encourage wholesale financing by guarantees and other instruments • Better infrastructure	• Better land titles and court system • Do not restrict bank funding, e.g. maximum % of capital to one credit • Grants and TA to build capacity • Incentives to move to rural areas • Expand deposit-taking MFI numbers • Electronic and mobile products	• Expand insurance with support for enabling environment • Form better links between SACCOS and groups • Improved regulation and enabling environment • Better co-ordination of support from networks etc. • Better access to markets

The relevant findings from these studies can be compared to the observations made by AYANI through the fieldwork, interviews and surveys it conducted, which are summarised in the remainder of this section and Section 8 of the report.

7.1 Issues For Clients

The research confirmed that banks are not able to attract small retail clients. Farmers are served through large farmers' groups each of which represents around 1,000 producers. Whilst MFIs, SACCOS and informal groups can reach further down, the clients face issues such as:

- A lack of title to land or other collateral needed to obtain loans
- Interest rates that are too high for many clients
- The risks of running businesses dependent upon rain and other potentially variable inputs
- Other threats such as ill health or death
- The absence of stable and reliable markets for their goods
- Other issues raised by their remote locations, such as accessing financial services
- The lack of infrastructure, such as roads, irrigation

7.2 Challenges Faced By Suppliers

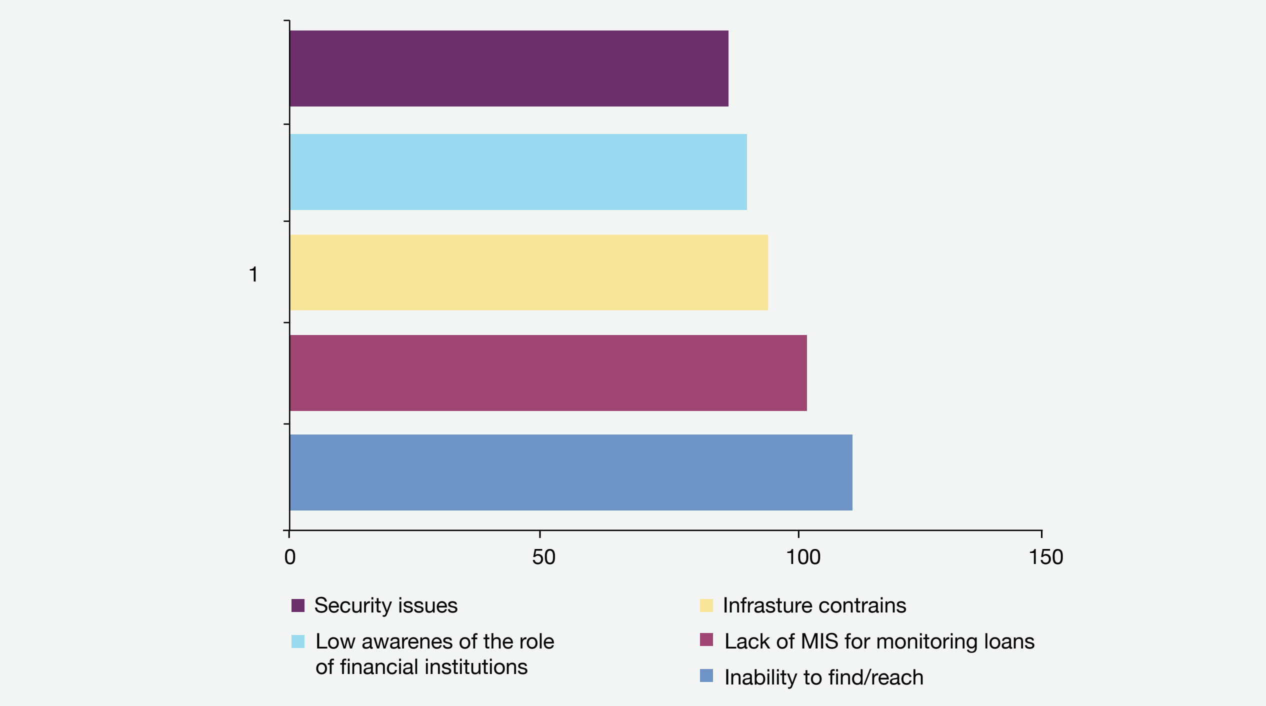
The research identified ways in which the supply of financial services to the agricultural sector needs to evolve in response to the demand side.
The banks face capacity constraints very different to other suppliers: their issue is less to do with funding and more with the understanding of agriculture credit, requiring staff with experience lending in the area and assessing the inherent risks. MFIs have a better understanding of lending to agriculture but face funding issues and shortages of knowledge, skills and capacity. The following types of constraints that may affect or impede the supply side response were identified by banks and MFIs:

- How to deal with the lack of collateral
- The absence of insurance to cover some of the risks faced by clients, particularly weather related matters such as drought and flood

- The need to develop products that cater for the facts of life for farmers, such as that cash flows accrue only once or twice a year, which may mean less regular loan repayments or longer grace periods
- The fact that agriculture is a politically sensitive sector prone to occasional interference from the government
- How to reach clients in remote areas, through solutions such as those offered by technology

One positive factor is that neither the banks nor the MFIs indicated that the pricing of agriculture products is such that it alone discourages them from working in the sector.
The challenges faced by SACCOS and the informal groups were ranked through the surveys as follows:

Figure 12: Challenges and risk factors faced by institutions offering agricultural finance



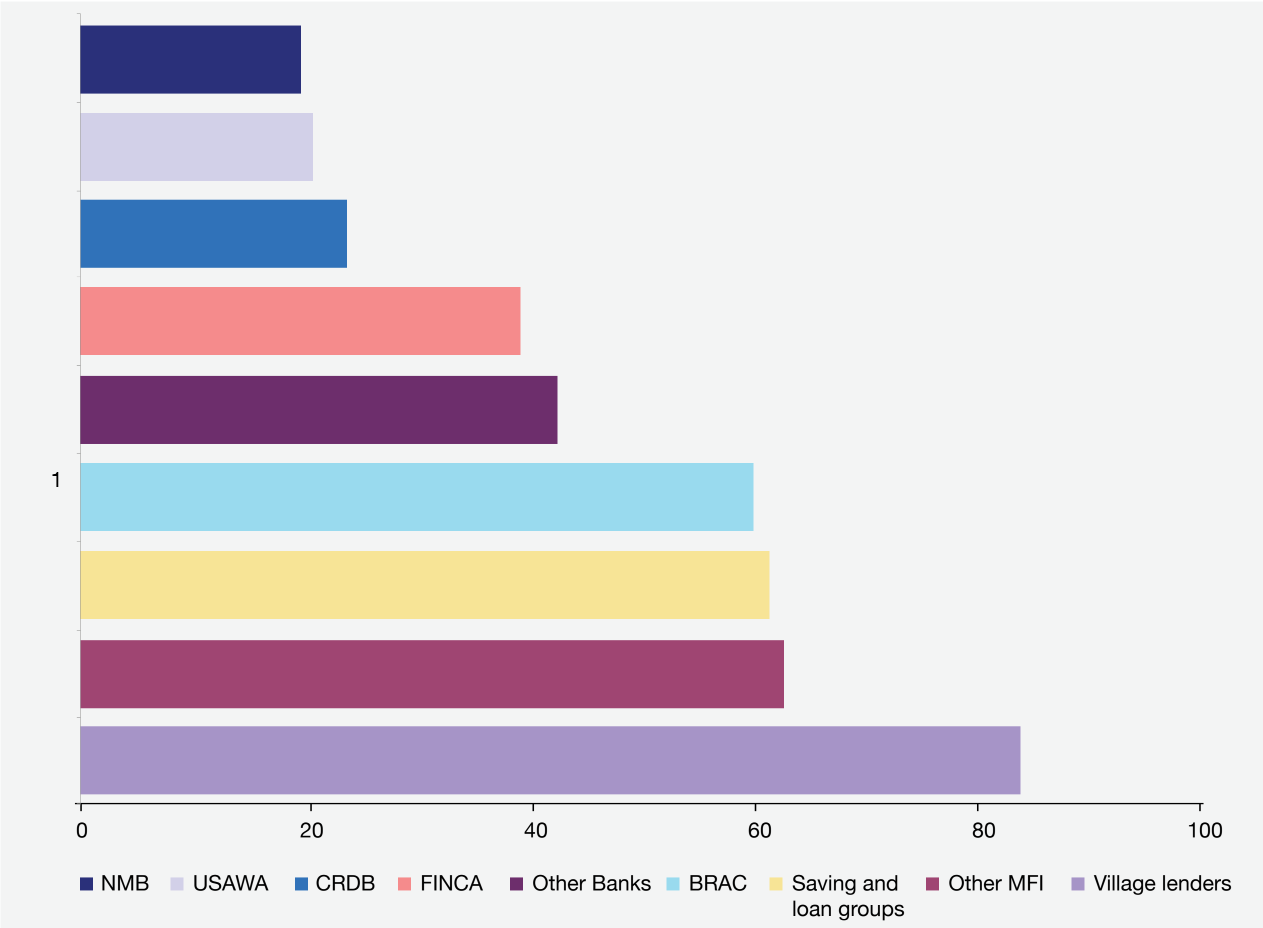
The major issues for SACCOS and informal groups are an inability to reach the clients. This may well be driven by other factors including constraints of infrastructure (e.g. roads and communications) and security issues, such as transporting cash over long distances. The corollary is the fact that potential clients have a low awareness of the role of financial institutions. The final factor is that SACCOS and informal groups have less ability to acquire MIS than banks and MFIs.
Competition is much less of an issue in rural areas than in the cities. However, banks and MFIs generally perceive themselves as having competitors, the most often identified being:

- Banks: NMB, CRDB, NBC, Stanbic and TIB
- MFIs: BRAC, PRIDE and FINCA
- Community Banks, regarded by some as having a clearer focus on agriculture

The surveys of SACCOS and informal groups revealed that 43% of the respondents do not see any competition for their services. This is consistent with the issues identified in the previous chart relating to institutions reaching clients and clients' awareness of the institutions.

The 57% of surveyed SACCOS and informal groups which do face competition identified the following institutions most often:

Figure 13: Names/types of competitors



The banks and MFIs were identified much less frequently as competitors than the informal groups and village lenders.

7.3 Institutional Weaknesses

The capacity enhancements required to improve agricultural lending in Tanzania identified by banks and MFIs included:

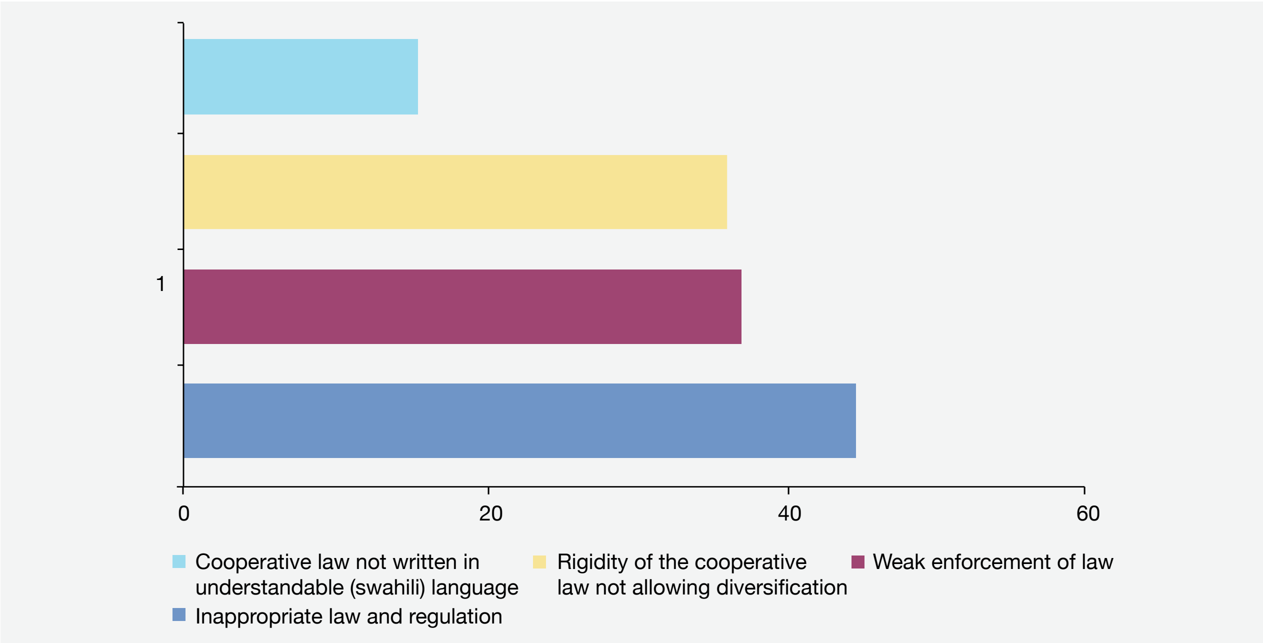
- More funding on better terms
- Improved capacity of management and staff
- Better ability to move cash between branches in a secure manner

Regulation was cited by some respondents as an issue, notably MFIs seeking a deposit-taking licence. Common complaints revolved around the stringent requirements, which some said were not much less than for a full bank. This may derive from the lack of a law specific to microfinance, or experience of microfinance at the BoT - or both.

The view of the role played by the MFI representative body, TAMFI, was mixed. Some MFIs suggested it was not effective; others said it played a useful role.

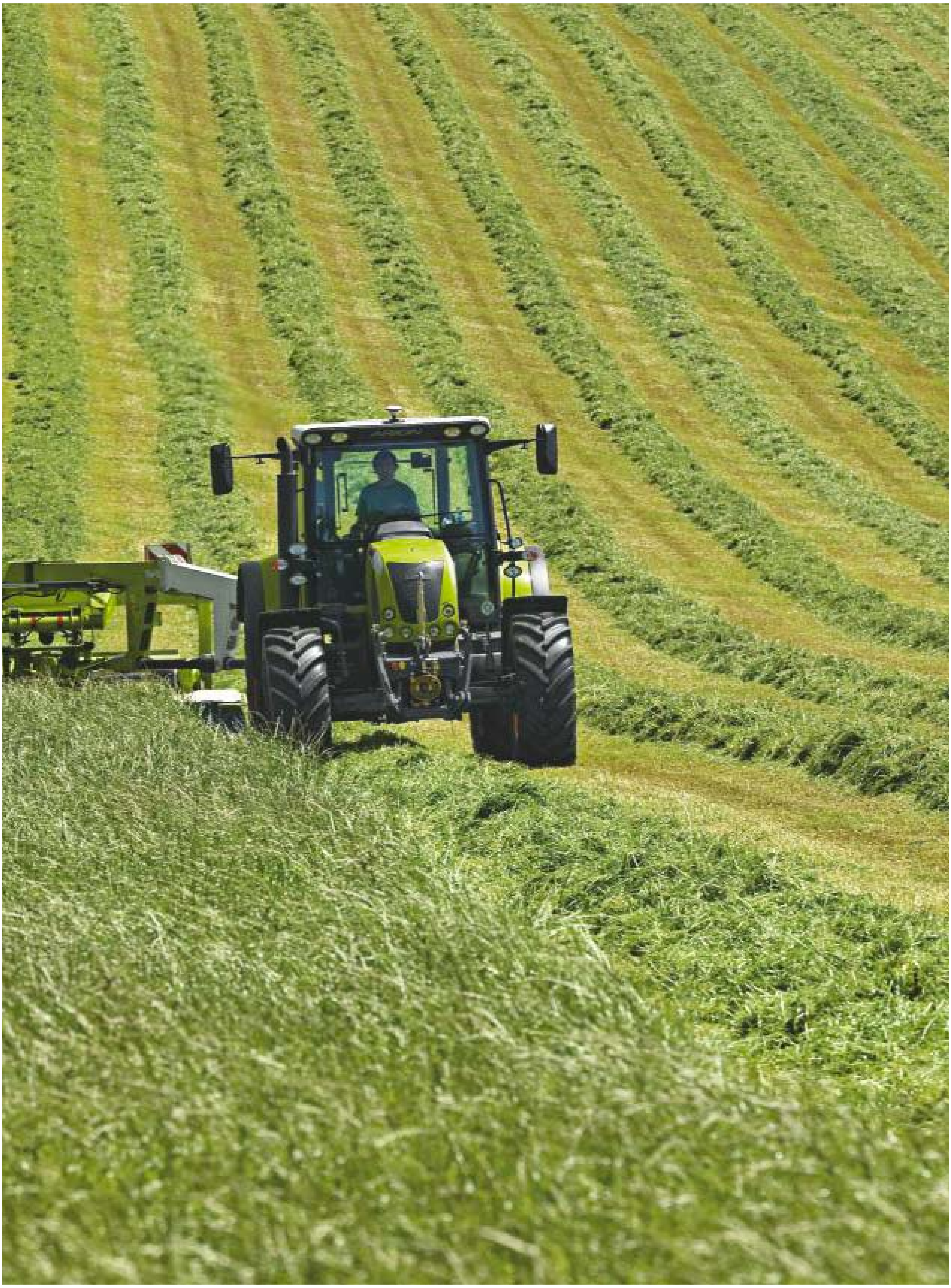
For SACCOS, who are also subject to some regulation (see section 4.4), 62% indicated that regulation hampered their delivery of financial services. The following issues were identified:

Figure 14: Rules and regulations governing SACCOS that hamper delivery of financial services



The key factors here are the rigidity and inappropriateness of the regulations affecting SACCOS. As mentioned in section 4.4, there is a lack of resources to administer SACCOS and the regulators appear unwilling to take action. This inconsistency creates an environment of uncertainty for SACCOS.

The constraints identified in this section are ranked in terms of perceived importance and covered by way of recommendations in Section 8.



8 Recommendations

The aim of this section is to look at issues in terms of policies, programs and other initiatives that need to be implemented, or improved , so that the supply side expands to meet the demand. It therefore involves the areas of action that have relevance to both the supply and demand side. The issues raised in the many studies conducted over recent years in this area fall into three broad categories: modernization of Tanzania's financial sector; issues for modernization of agriculture, so that the two can work together in a more efficient manner; other issues including technology.

- Modernization of the financial sector

  Infrastructure is a key to many issues including access to finance. For banks this includes credit bureaux and the degree of regulation. For MFIs and SACCOS it is the extent of regulation. MFIs are particularly concerned about conversion to deposit–taking institutions. Appropriate insurance to cover supply side risk in lending to agriculture is a crucial missing element in the financial sector. The funding available to the suppliers of finance is also important and this is covered below.
- Modernization or transformation of agriculture

  There is another set of policy issues for the government if agriculture is to generate economic activities that improve the lot of rural communities.. Issues such as access to markets and data on the supply of crops and pricing are key. There is a range of support programs in this area, coming from government, NGOs and the private sector. Some investment should also flow from the private sector once the right policies and infrastructure are in place.
- Other areas

  The prime example and key concern in this area is for more to be done with regard to technology. The use of mobile telephony has a great potential to improve the operation of finance suppliers, although at this stage the products are focused mainly on the end users. Based on the findings in this report, AYANI is working with the consultants preparing the demand side analysis to identify the 'financing gaps'. It is essential to examine the nature of the demand and supply relationship for financial services in Tanzania because appropriate and responsive financial services will only increase if they meet the demand from potential clients.

  Having done that, it is not the intention that this report should repeat the technical analysis of those matters that have been closely examined in the past. However, certain observations can be made. As stated in section 1, the underlying aim of the Supply Side Study is to increase the availability of good quality information on agricultural finance, in order to increase investment in the sector and to help increase the flow of finance to the agricultural

activities in Tanzania. The primary audiences for the study are financial institutions, donors, foundations and civil society, government ministries and agencies.
The three key priority items for each class of supply avenue are identified and discussed below, together with an outline of their particular audiences.

1. Banks And MFIs: Product Development

Banks and to a large extent MFIs, have the financial capacity to make more funding available to agriculture. However, what they lack is a willingness to expand into the sector. Therefore, the first suggestion, based on a comparison of the demand side findings and the current suite of agriculture financing products being supplied, is that an assessment be made of shortcomings in products for the rural market. Some products being offered are already tailored to confront these issues, in areas such as:

- Length of the loan
- Repayment frequency
- Collateral demanded
- Interest rate charged

Banks have already been convinced to provide microfinance, exploring how clients can be served efficiently with appropriate products. They now need to direct similar attention to agriculture.

Marketing and access to clients is also crucial. Some MFIs already use information dissemination sessions to create awareness about their products, and pre-loan training to impart business knowledge to borrowers. Section 7 also identified a need for clients to receive Business Development Services. However, the key issue is the need for more activities to improve access to finance. This might include new product developments that modify loan terms and conditions, so that products are better suited to, and more accessible by, more people in the agriculture sector.

Finally, the need for insurance to afford lenders protection against the particular risks of agriculture has already been identified (see Section 3.7) and work is being undertaken to overcome Tanzania's shortcomings in this area.

The primary audiences for this recommendation are banks and MFIs as well as donors and others providing technical assistance to the institutions.

2. MFIs And Saccos: Regulation

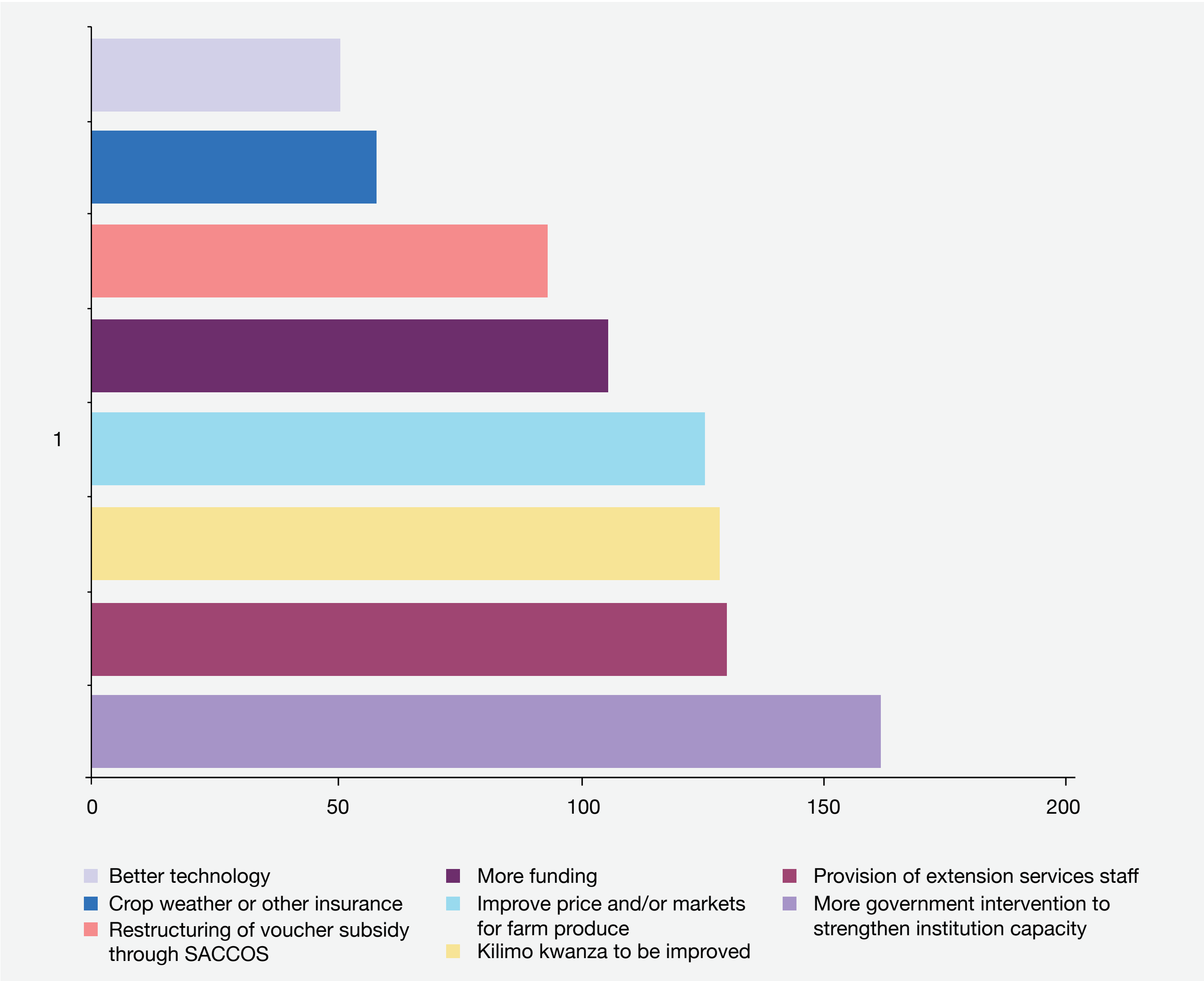
The regulatory regime for both deposit-taking institutions and insurance companies has also been considered (Section 4.4). SACCOS also raised concerns about their own regulation (Section 7.2). Therefore, we consider there is a need for change here.
The MFIs argue that their regulation is too close to that required of a bank. This imposes high financial costs, beyond those that they concede are needed to become a deposit-taking

institution. Therefore, there may be a case for this issue to be looked at again.
The primary audience for this recommendation is the government and policymakers in the sector, as well as others who can offer advocacy and technical advice on such matters.

3. Saccos And Informal Groups: Funding And Support

This report has the benefit of knowledge from the specific issues raised in the surveys of SACCOS and SACAs, which are ranked in order of frequency below:

Figure 15: Recommendations for enhancing the supply of finance to the agricultural sector



The chart identifies certain matters already prioritised, such as insurance, client assistance (including extension services) and the need for a cost effective form of MIS for loan monitoring. However, the most commonly mentioned factors fall broadly into the categories of funding (including warehouse voucher subsidies) and other support (with the Kilimo Kwanza program being mentioned in particular). Accordingly, the primary audience for this recommendation is donors and others providing technical assistance to the institutions, as well as the Government which is also involved in such support.

In responding to the stated need of SACCOS and SACAs' for more funding, subsidised programs, such as TIB, may not be the answer for the suppliers of financial services. Such programs can have longer term implications for access to finance, as the projects inevitably have a limited life and do not necessarily build a permanent supply of financial services.

Therefore, the appropriate response may be either more funding by banks or a dedicated fund. The former will mean that the issues raised above from the banks' perspective will need addressing: a bank may be unwilling to lend to a SACCOS which is lending to an agriculture client, as it is already hesitant to lend to an agriculture client anyway. However, if this unwillingness can be resolved, the expansion of financial services to smaller clients may be better served by a bank increasing wholesale lending, rather than convincing banks to make small loans.

A dedicated fund, sometimes called a Challenge Fund, may also be of assistance. Such funds have been established in other countries such as the DRC and Sierra Leone to provide loans and technical assistance to the financial sector. The lending is of a wholesale nature and normally on near commercial terms. Other instruments, such as guarantees, can also be offered to encourage banks to lend to financial institutions.
Secondly, we see a related demand from SACCOS and informal groups in the survey results for better and more support from governments, with respect to programs such as the voucher subsidy and Kilimo Kwanza (see Section 3.5). Again, the response needs to ensure that the institutions can build capacity that is sustainable in the long term.

Priority Institutions: SACCOS

It is intended that this report will influence financial sector policy reforms to strengthen, broaden and deepen the system. Therefore, our recommendations are intended to have general application. However, of the different types of institution, SACCOS seem to have the greatest potential to expand the supply of finance to rural areas. The 3,000 plus rural SACCOS have certain advantages over the others:

- An extensive presence in rural areas, without the need to build expensive branches on which banks and MFIs rely
- Alarge volume of existing agriculture clients
- A semi-formal governance structure
- Some regulation, but less 'heavy handed' than that affecting MFIs
- More familiarity with small rural credit than banks and MFIs

A membership base that will support the focus on agriculture
More current funding than SACAs and other informal groups
Informal savings groups also have the potential for reaching poor rural households in remote locations, due to their member based, grass-roots nature. On the other hand, the model lacks institutional mechanisms needed to achieve long term sustainability, such as a formal structure with annual auditing.

Also, experience has shown this segment is most susceptible to manipulation by politicians and local elites eager for votes and influence. For example, there is a misinformed notion that groups

are the way for members to obtain outside financial assistance. There is also a great challenge in finding effective ways to develop the groups once facilitating agencies have stopped support. The groups may then lack the means to transform into a dynamic and sustainable segment of the financial sector.
Despite their perceived advantages, SACCOS need to address many of the issues that have been raised if they are to reach their full potential. Those highlighted as priorities include:

- Product development (see above)
- Appropriate technology according to an institution's scale of activity
- Access to appropriate risk management instruments, such as MIS and insurance
- Training facilities to build employee institutional capacity to support transformation of institutions, which could even make them attractive to private sector investments
- Greater access to other channels of finance to improve liquidity and enable SACCOS to expand their operations

This is not to suggest that only SACCOS can expand agriculture lending in Tanzania. All the different institutions mentioned above have a role to play, including input providers and Telecoms companies. It is also possible for other financial institutions to work with the SACCOS. For example, banks could provide more wholesale funding while MFIs could consider partnership with SACCOS to reach the more remote rural areas.

We suggest that of the four different categories of financial institution identified, the areas highlighted above should be given the greatest priority.

ANNEX 1: DATA COLLECTED

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The AgFiMS Tanzania 2011 dataset offers a wealth of information that can be mined in greater depth. For more information, please contact:

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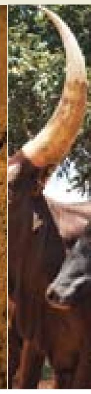
2	Allan Magoma	Tanzania Investment Bank (TIB)
3	David Kwimbere	The Bank of Tanzania (BoT)
4	Ian Anderson	Gatsby Charitable Foundation
5	Ibrahim Seushi	Tanzania Gatsby Trust
6	Irma Grundling	FinMark Trust
7	James Obama	PRIDE Tanzania Limited
8	Jane Kelly	Gatsby Charitable Foundation
9	John Wakiumu	Alliance for Green Revolution in Africa (AGRA)
10	Kees Verbeek	National Microfinance Bank PLC (NMB)
11	Maregesi Shaaban	CRDB Bank PLC (CRDB)
12	Mwallu Mwachang'a	Financial Sector Deepening Trust (FSDT)
13	Mwatima Juma	International Fund for Agricultural Development (IFAD)
14	Nangi Massawe	The Bank of Tanzania (BoT)
15	Nkuvililwa Simkanga	Prime Minister's Office (PMO)
16	Prof Andrew Temu	Sokoine University of agriculture (SUA)
17	Revelian Ngaiza	Ministry of Agriculture, Food Security & Coops
18	Salum Shamte	Agricultural Council of Tanzania (ACT)
19	Samuel Dyellu	Tanzania Chambers of Commerce Industries and Agriculture (TCCIA)
20	Sephania Mwakipesile	Ministry of Finance (MoF)
21	Sosthenes Kewe	Financial Sector Deepening Trust (FSDT)
22	Sylvia Meku	National Bureau of Statistics (NBS)



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