

AgFiMS Tanzania 2011

Headline findings



AGFiMS
AGRICULTURAL FINANCE
MARKETS SCOPING
TANZANIA



Introduction

The Agricultural Finance Markets Scoping (AgFiMS) is a country by country diagnostic tool which researches, collates and presents data about the demand for and supply of financial services in the agricultural sector. The aim of AgFiMS is to boost the supply of, and enhance the access to agricultural finance through market-leading innovation and policy change.

The first AgFiMS took place in Tanzania between April and September 2011. Its range included an examination of both the demand and supply side of agri-finance. The demand study used a nationally representative sample of 626 Enumerator Areas (EAs) provided by the National Bureau of Statistics (NBS). Interviews were undertaken with a variety of people working in agriculture, determined after a careful listing exercise which defined selected households. The AgFiMS research design, methodology and approach is likely to be replicated in multiple countries. It will then form the basis of a cross-country benchmark of progress in developing agricultural financial markets, allowing stakeholders to learn from successes and challenges in other places.

Both quantitative and qualitative research methods were used in the supply side study. Data was collected from primary sources including interviews and surveys. These were drawn from a sample composed of financial institutions at formal, semi formal and informal levels, government bodies, donors, private sector companies and other stakeholders. Secondary sources included other surveys such as FinScope Tanzania 2009.

In spite of greater emphasis in recent years, both smallholder and agri-business finance continue to be considered high risk by the financial community. This has hampered the development of financial services and products suited to agriculture and limited the penetration of micro-finance and formal bank finance in rural areas. As a result the need for finance for production, processing or trading of agricultural products is not being met. In addition, the need for crop, weather and price risk insurance products remains largely unsatisfied.

Analysis from AgFiMS bridges the information gap about the extent and type of need for financial services in the agricultural sector. It also examines the best distribution channels for financial services at different points along the supply chain. AgFiMS can identify potential markets and areas for targeted investment. The data provides both the means and motive for the Government, donors, the financial industry, civil society organisations and other public and private sector stakeholders to design collaborative interventions to encourage agricultural finance on a market-led basis.



The AgFiMS audience

AgFiMS aims to provide specialised information about agricultural markets to both public and private sectors:

- **Formal, semi-formal and informal financial service institutions:** *analysis will help identify new market opportunities, encourage new providers to enter the market, and support product development.*
- **Bilateral donors, foundations and civil society organisations:** *by showing the size and nature of financing gaps, including detailed information by geography and value chain, AgFiMS can guide the design of appropriate instruments to support or catalyse a private sector response. It also offers detailed market information to donors interested in unblocking non-financial constraints in agricultural development.*
- **Government ministries and agencies:** *AgFiMS will make it possible to benchmark the supply of finance to agriculture and to identify areas of possible intervention for the Government. It will also help in the design and prioritising of interventions which stimulate the provision of agricultural finance.*





Methodology and approach

AgFiMS includes two complementary components: the demand side focuses on potentially commercially viable agri-businesses and their needs; the supply side attempts to quantify the degree and type of finance provision to such businesses and identify the various channels through which it is deployed.

The demand component includes:

- Producers who sell surplus produce and whose income level or acreage reaches a predefined limit
- Processors and agricultural service providers with an annual income above a predefined threshold

Those eligible for the study include all agricultural businesses meeting the above criteria, from small to large scale farmers and trading companies. A three-stage sampling methodology is applied:

- Stage 1: ensures that the sample represents the country geographically. In Tanzania, the National Bureau of Statistics (NBS) drew a stratified random sample of 626 enumerator areas (EAs)
- Stage 2: ensures that a sampling frame for qualifying agri-businesses is generated for every sampled EA
- Stage 3: ensures that a random sample of qualifying agri-businesses is interviewed

The supply side component 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 telecommunications companies
- Quantitative assessments comprising surveys with SACCOS and informal groups
- Secondary data: extrapolations from other surveys including FinScope



AgFiMS Tanzania 2011 sample

Demand side

- **4,094 face-to-face interviews:** conducted with qualifying producers and processors
- **Sample drawn by NBS:** representative at national, urban-rural and zonal level
- **Threshold for producers:** use of at least 5 acres of land for farming activities OR an income of at least USD 600 per annum from farming activities. This represents farms which are slightly larger than the average, most of which tend to be subsistence only
- **Threshold for agri-businesses (processors and service providers):** Income of at least USD 1,500 per annum from agri-business

Supply side

- Respondents to the quantitative surveys were identified through the NGO networks working with informal groups, the Savings and Credit Cooperative Union League of Tanzania (SCCULT) and other SACCOS networks. (SACCOS (75) and informal groups (195)
- Interview data was supplemented with information obtained from umbrella organisations such as the Registrar of Cooperatives and the Tanzania Association of Micro-finance Institutions (TAMFI)



AgFiMS Tanzania 2011

Demand side profile

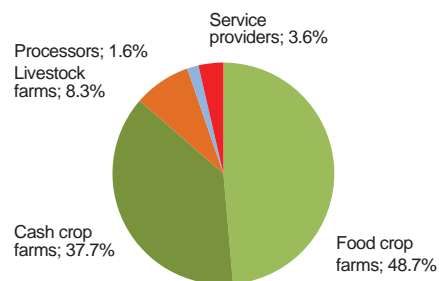
The first step in the AgFiMS Tanzania 2011 research process was to determine the size and scope of the agricultural market in Tanzania. This became the sampling frame to select AgFiMS qualifiers (i.e. farmers and other agri-businesses qualifying as potentially viable commercial agri-businesses based on the threshold criteria). The selection was made by listing all households in a representative sample of 626 enumerator areas (sample drawn by NBS), screening for farmers and agri-businesses, and determining whether they qualified using the AgFiMS criteria. Based on the findings of this exercise, estimates of the size of the agricultural market in Tanzania are as follows:

Market Segment	Total in Tanzania	AgFiMS qualifiers		
		Number of qualifiers	% of Total that qualifies	% of Qualifiers
Producers	1 932 222	492 980	25.5%	94.8% of qualifiers
Processors	21 017	8 199	39.0%	1.6% of qualifiers
Service providers	62 502	18 793	30.1%	3.6% of qualifiers
	2 015 741	519 972	25.8%	

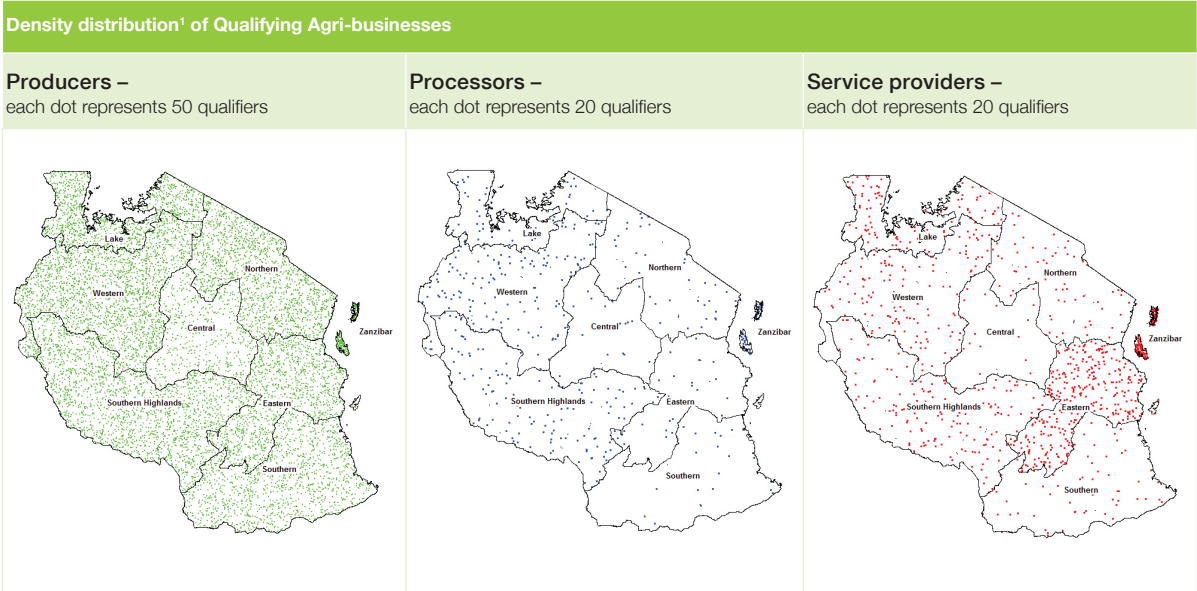
Profile of qualifying businesses

AgFiMS findings suggest that there could be more than half a million commercially viable agricultural enterprises which represent new market potential for financial institutions.

Only the main income generating activity of qualifying producers is used for the survey. AgFiMS categorises this market segment as follows:



Geographical distribution of qualifying businesses



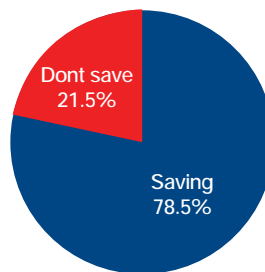
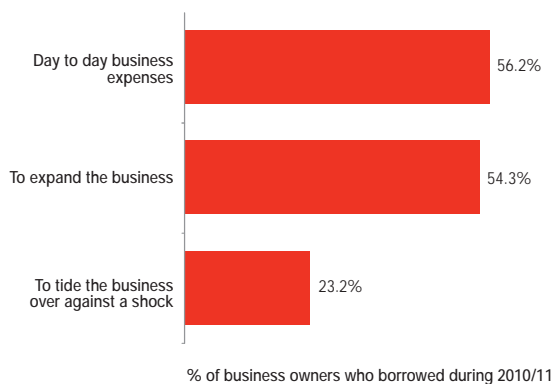
The GIS maps above show the relative density of qualifiers in the different zones. The dots are not indicative of actual locations of qualifying businesses.

Profile of qualifying business owners

Qualifying business owners in Tanzania generally present the kind of profile which could be very attractive to potential investors. In common with many successful entrepreneurs, the majority enjoy what they do. More than half are involved in the business because they believe it presents positive opportunities and generally have a professional attitude to their work. Most (70%) had been involved in the business activity for more than ten years. Qualifying owners generally manage their finances wisely: a significant proportion claim to know the financial situation of their business at any given time; three out of five keep some form of financial record for the business and nine out of ten are prepared to take risks. Indeed, they seem significantly less risk averse

than general consumers (FinScope¹ Tanzania 2009) and owners of other small and micro-enterprises (FinScope² Tanzania SMME baseline survey 2010). Nine out of ten owners of qualifying businesses indicated that they would plough back part of any surplus income into the business, mainly to build production capacity.

Business owners generally borrow to bridge cash flow problems and/or to improve production capacity and expand the business



The culture of saving is evident amongst the majority of agri-business owners

Potential investors and all stakeholders with an interest in improving access to agricultural finance should note that there is a strong culture of saving within the agri-business community. More than three quarters of all qualifying business owners save, and half of those who borrow do so for the benefit of their business.

In terms of credit consumption, agri-business owners are more interested in comparing **interest rates** and **repayment** terms when choosing credit sources. This is in contrast to the general consumer who is more likely to regard **quick access to money** and **simple application processes** as the most important criteria (FinScope).

¹ The FinScope Tanzania survey is based on the FinScope survey methodology developed by FinMark Trust. The FinScope survey is an individual-based, nationally representative, demand-side survey developed by FinMark Trust to determine how individuals generate an income and manage their financial lives. The survey methodology was implemented in Tanzania in 2006 and repeated in 2009.

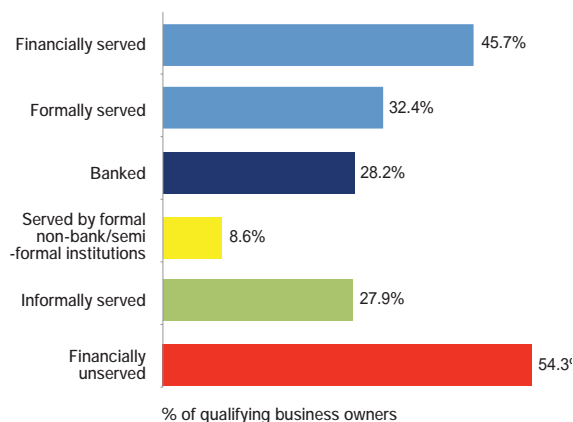
² The FinScope Tanzania SMME baseline survey is based on the FinScope SMME survey methodology developed by FinMark Trust. It is a nationally representative, demand-side survey developed to determine how SMME owners manage the finances of their businesses. The FinScope Tanzania SMME baseline survey was implemented in 2010.

Levels of financial inclusion

The following definitions are used to describe levels of financial inclusion in the AgFiMS survey (based on the definition of financial inclusion in FinScope):

Banked	Business owners who have or use any product or service from any commercial bank for the purpose of the agri-business
Served by formal non-bank and/or semi-formal non-bank financial institutions	Business owners who have or use any product or service from any regulated or registered financial institution which is not a commercial bank (e.g. SACCOS, MFIs, mobile banking) for the purpose of the agri-business
Formally served	Business owners who are banked AND/OR who are served by formal non-bank and/or semi-formal non-bank financial institutions for the purpose of the agri-business
Informally served	Business owners who use informal mechanisms to manage the finances of their agri-business. This would include services offered by agricultural associations or groups, input providers, VICOBAS, VSLAs, ROSCAs and money lenders etc.
Financially served	Business owners who are either formally AND/OR informally served for the purpose of the agri-business
Financially unserved/excluded	Business owners who are NEITHER formally NOR informally served for the purpose of the agri-business

Levels of financial inclusion qualifying agri-businesses: AgFiMS Tanzania 2011



AgFiMS analysis reveals that agri-businesses in Tanzania have a significantly higher level of financial inclusion than non-agricultural SMMEs (31% FinScope Tanzania SMME baseline survey 2010). Just under half (45.7%, 237,308) are financially served, compared with only 16% of the general adult population (FinScope Tanzania, 2009).

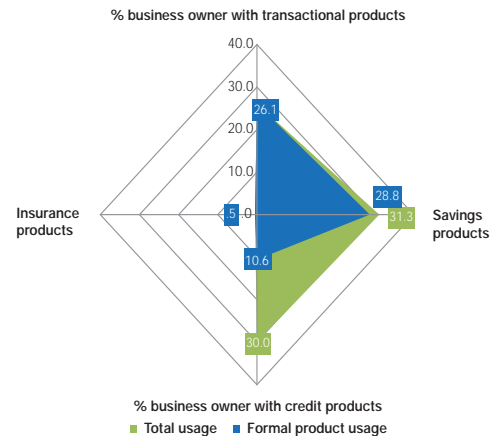
Nevertheless, in spite of greater inclusion, potential investors and others working to improve access to agricultural finance will note that agri-business owners' needs are not being adequately met by the formal sector: under a third of qualifiers (28.3%, 146,464) use bank products and/or services for their businesses. Although this is greater than the general adult population (12%, FinScope Tanzania, 2009) or SMME owners (10%), it still means that the majority is largely unserved. Also, almost half (42%) banked qualifying business owners are choosing to use informal mechanisms in addition

to those offered by the banks. Commercial banks are missing an opportunity here.

Profile of use: credit, savings and transactional facilities

The AgFIMS Landscape of Access (based on the Landscape of Access used by FinScope surveys) shows the percentage of qualifying business owners using transactional, savings, credit and insurance products for their agri-businesses. It is significant but unsurprising that analysis revealed virtually no qualifying businesses used insurance products for risk mitigation. This finding was substantiated by the supply side survey which confirmed that beyond specific assets insurance for large corporates, agriculture insurance is non-existent in Tanzania, although pilot schemes are being conducted.

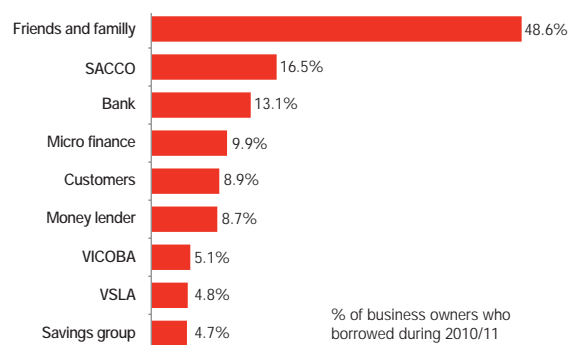
AgFIMS Tanzania 2011 Landscape of Access



The most significant finding in the AgFIMS landscape of access is that different sectors are used to gain access to different products. The informal sector supplies more credit while the formal sector provides more savings and transactional products. *The **total** landscape of access* illustrates that business owners have access to formal transactional, savings and credit products.



Sources of credit: business owners who borrowed money during 2010/11



Business owners who engage with banks mostly use transactional and saving facilities. Whilst nine in ten banked business owners use savings-type products, only one in ten banked business owners use bank credit for their businesses. A small number of banked business owners do not make use of bank credit, claiming that they did not need it for the

business. Lack of access to bank credit by banked businesses was mostly attributed to “banks not being interested in lending to agri-businesses,” high interest rates, the business not meeting the qualifying criteria for bank credit (i.e. not having collateral) and poor credit records.

More than 80% of businesses which use SACCOS and MFIs, and 95% of businesses using informal mechanisms, use them for the purpose of accessing credit. In total, one in ten (55,000) qualifying agri-businesses used formal credit, whilst an additional 101,000 gain access to credit through the informal sector.

In total, the supply side survey estimates that at the end of 2010, informal providers were supplying TSh 39bn in loans to 400,000 rural clients. The semi-formal sector (MFIs and SACCOS) supplied an estimated TSh 90bn of loans outstanding to 411,000 rural clients. However, it should be noted that the precise use of these loans was not always ascertained: while they have been used for agricultural activities, they may also have been used for other purposes.

Summary - December 2010

	Banks (agriculture)	MFIs (rural lending)	SACCOS (rural lending)	Informal sector (rural lending)	Others (rural lending)	TOTAL
Value (TSh bn)	517	26	64	39	10	656
Client numbers ('000)	NA	117	294	400	NA	811

Barriers to use of financial services

Supply side

On the supply side, the financial sector is constrained by the lack of infrastructure and the challenging geography, which makes reaching customers both difficult and costly. Developing products tailored to the needs of the agricultural businesses is also problematic: cash flow is generally erratic and dependant on good harvests. As a result, lending to the agricultural sector remains high risk. Providers also point out that agriculture is politically sensitive and prone to interference from government, making involvement with the sector less attractive.

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. The need for insurance to afford lenders protection against the particular risks in agriculture has been identified, and pilot schemes are being undertaken in this area. It is clear that products need to be better tailored to the demands of agriculture. For example, attention needs to be given to the length of a loan, its 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 can also be given to impart business knowledge to borrowers.



MFIs and SACCOS: regulation

The regulatory regime for both deposit-taking institutions and SACCOS needs to be reviewed. The MFIs argue that their regulation would be too close to that required of a bank if they were to become Microfinance Companies. This not only imposes high financial costs, but places obligations beyond those needed for them to be a deposit-taking institution. With regard to SACCOS, the law is both unclear and poorly administered. 62% of SACCOS surveyed indicated that regulation hampered delivery of financial services.

SACCOS and informal groups: funding and support

AgFiMS revealed that funding (including warehouse voucher subsidies) and other support (e.g. through Kilimo Kwanza) were the most commonly mentioned suggestions likely to enhance delivery of financial services provided by SACCOS and informal groups. Insurance, client assistance (including extension services) and the need for a cost effective form of MIS for loan monitoring were also cited.

Analysis of the AgFiMS supply-side data suggests that SACCOS may have the greatest potential to expand the supply of finance to agriculture. SACCOS have certain advantages: they have an extensive presence in rural areas and unlike banks and MFIs, do not need to build expensive branches. They have a high volume of existing farmers from the rural areas and familiarity with rural credit. Currently, they also have greater funding than other informal groups. However, if SACCOS are to succeed they will need better training facilities and better access to appropriate technology and risk management instruments, including MIS and insurance. Such improvements could also make them more attractive to private sector investors.

Banks would need to be satisfied that the issues they raised (outlined above) were satisfactorily addressed before considering an increase in funding to these institutions.

Banks are generally unwilling to lend to SACCOS financing agriculture as well as directly to an agriculture client. However, if this hesitation can be eliminated, expansion of financial services to include smaller clients could be achieved by increasing wholesale lending.

A dedicated fund, sometimes called a Challenge Fund, may also be considered. Such funds have been established in other countries including the DRC and Sierra Leone, and provide loans and technical assistance to the financial sector. Lending is wholesale and generally on near commercial terms. Guarantees can also be offered to encourage financial institutions to lend to the agricultural sector.

Demand side

On the demand side, factors prohibiting use of financial services vary significantly and depend on the services concerned:

Banking services

Owners of unbanked qualifying businesses perceive that the most significant barriers are supply side related both in terms of access and affordability: banks are too far away, banking hours are inconvenient, and costs are too high. At least one in ten unbanked business owners do not see the value of a bank account or banking services.

Insurance services

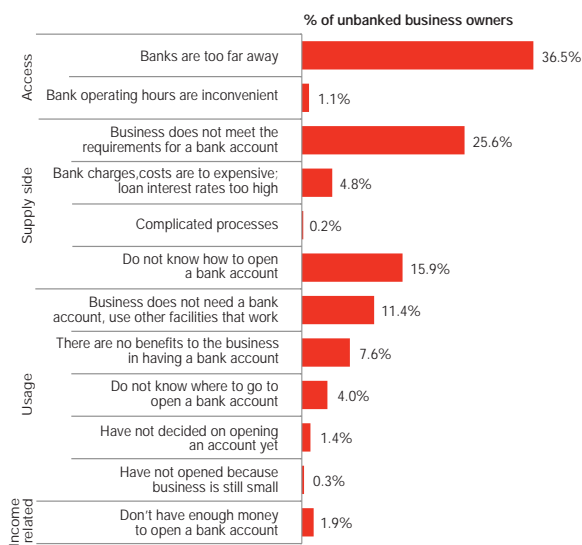
A combination of lack of information and understanding about insurance, together with the absence of agriculture-related risks products means that the insurance industry has virtually no impact on most agri-businesses

Credit

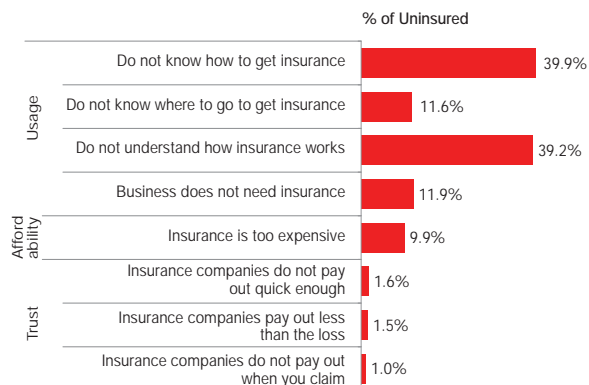
One in five business owners who do not borrow money for their business do not know where to borrow it from; the perception is that financial institutions are not prepared to lend to agri-businesses, and that this type of borrowing is in any case not affordable as interest rates are too high.

FinScope surveys show that general consumers claim that not having surplus money after covering expenses is the main reason for not using financial services and products. AgFIMS however found that agri-business owners perceived other barriers were more significant, many of which could be addressed either through financial or product education programmes.

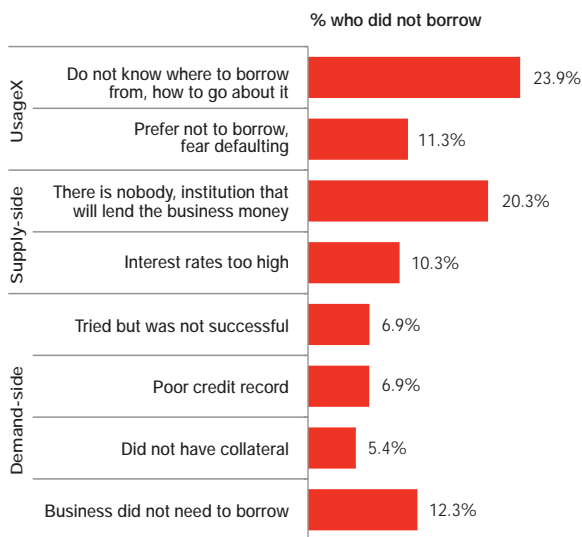
Barriers to access – banking



Barriers to access – insurance



Barriers to access – credit



AgFiMS Tanzania 2011 makes it very clear that access to infrastructure, markets and information and advice networks not only affects qualifying owners' uptake of financial services but also the potential to grow their businesses in general.

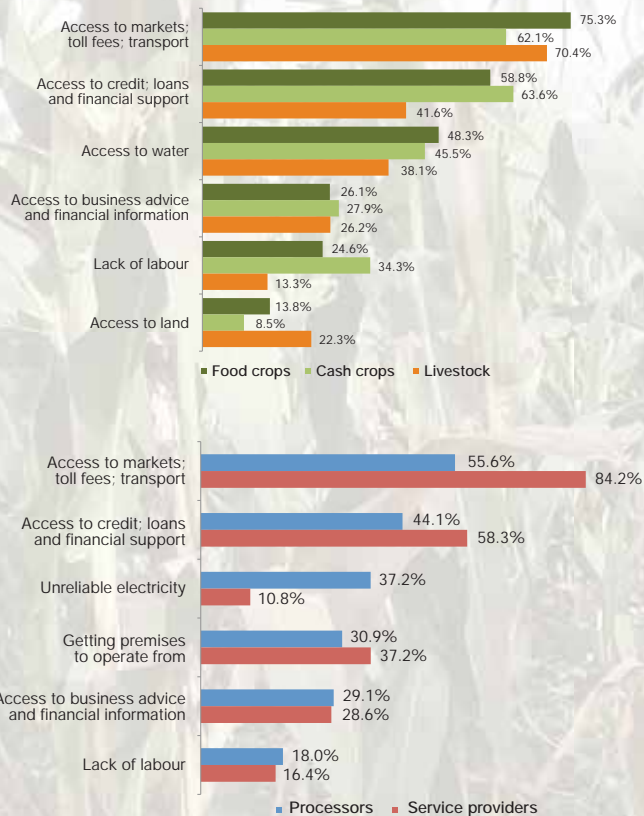
The study also shows that qualifying business owners have relatively high levels of financial managements skills, are less risk averse than general consumers and have a positive attitude to investing surplus money. This might suggest an inclination to engagement with financial services. However, they are significantly inhibited by the following limitations:

- Connectivity (mobile and IT networks)
- Access to infrastructure (more specifically access to electricity, roads and transport)
- Financial management skills of the business owner are still insufficient
- The business owner's attitude towards investment and credit
- Financial product knowledge
- Access to financial and business information and advice networks
- Access to agricultural markets
- Lack of labour



Perceived obstacles to growth

For producers, processors and service providers alike, the lack of access to markets and transport, insufficient infrastructure and limited credit facilities are the main inhibitors to growth.



Conclusion

AgFiMS is an exciting, new diagnostic tool with excellent potential. Analysis contained in the headline findings of this first study already indicates several areas on which investors and other stakeholders can focus their attention: agri-business owners are more inclined to use credit, to take risks and to want more engagement in financial services than was previously recognised. They need to understand what is available more thoroughly, they need more specialised products and services, and they need the financial services industry to be more prepared to take an active interest in their enterprises.

AgFiMS can be an extremely useful part of the process to widen and deepen access to agricultural finance in Africa. More detailed and in-depth analysis of the results of this first study is currently underway to segment the market. This segmentation will enable focus on the particular capacities and constraints faced by agri-business owners, identifying and describing critical factors for targeted interventions in each market segment.

Workshops will be conducted to expose the AgFiMS findings to targeted audiences. Analysis will be presented at seminars and conferences as well as at one-to-one meetings with government ministries, private and public sector institutions. An initial flagship report will be followed by secondary, targeted reports and other publicity material. The Financial Sector Deepening Trust (FSDT) and the Gatsby Charitable Foundation (GCF) are determined that the true value of AgFiMS is revealed, that its findings are applied by decision makers, and that its benefits are felt throughout the agricultural sectors of all those countries in which the study is conducted.

Governments, donors, financial institutions, mobile phone service providers, civil society and many other stakeholders will be able to use AgFiMS analysis to develop new products, services and policies. Analysis will also be extremely useful for education campaigns, marketing and lobbying exercises. AgFiMS has the capacity to illuminate a wide variety of applications and approaches. In the final analysis, it is up to all those interested in increasing access to finance in the agricultural sector to make the study work for them.





AgFiMS was developed by the Gatsby Charitable Foundation³ and the Financial Sector Deepening Trust Tanzania⁴ (FSDT), with co-funding from the Rockefeller Foundation⁵ and technical support from FinMark Trust⁶.

³ The Gatsby Charitable Foundation was established in 1967 by Lord Sainsbury of Turville, from whom all of Gatsby's funds have come. Gatsby acts as an "enabler" for projects across a small number of selected fields, including the agricultural sector in Africa.

⁴ FSDT was established in 2006 by five government donors (Canada, the UK, Sweden, the Netherlands and Denmark), in close collaboration with the Bank of Tanzania and the Government of Tanzania. It aims to provide greater financial access throughout Tanzania.

⁵ The Rockefeller Foundation was chartered in 1913 to "promote the well-being of humanity". It supports work that expands opportunity and strengthens resilience to social, economic, health and environmental challenges.

⁶ FinMark Trust, based in Johannesburg, was established in 2004 as a non-profit trust funded primarily by UK aid. Its purpose is to make financial markets work for the poor across Africa, by promoting financial inclusion and regional financial integration.



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