



FSDT CASE STUDY

Mfumo Jumuishi – A model borne from the need to overcome constraints to financial & economic progress for smallholder farmers

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“Through this collaboration, we are also simplifying even the provision of health care services to our people, by having cooperatives, it is easy right now for a citizen to even receive health care out there in their village.”

~ Prime Minister, Hon. Kassim Majaliwa.



Prime Minister, Hon. Kassim Majaliwa

Mfumo Jumuishi – a model borne from the need to overcome constraints to financial and economic progress for smallholder farmers

Life of a smallholder farmer can be financially desperate and lonely as the smallholder farmer fends for themselves to make economic gains in a world of agriculture value chains and commodities that is increasingly cut-throat and competitive. Alone, the smallholder farmer stands little chance of economic progress.

“The life of a small farmer is hard and it hasn’t changed much since I started. We still farm only for a little bit of cash. It could get better. We could farm on a bigger scale if we had loans. My children and I all sit down together to discuss how the farming is going. They have big plans, big visions and they are eager to grow more but without loans we can’t buy the inputs we need, like modern tools and labor.”

~ Mudricat Hassan, 74 year-old coffee farmer in Kagera.

The Mfumo Jumuishi initiative was designed to address and to overcome the economic inefficiencies faced by smallholder farmers in Tanzania. These inefficiencies make financial inclusion inconceivable and hamper the economic progress of farmers like Mudricat.

Mfumo Jumuishi is a rural financial linkage model bringing together smallholder farmers and financial service providers in rural communities and in the agriculture sector in Tanzania. Conceived by the Financial Sector Deepening Trust (FSDT) and then developed by a range of key stakeholders, the model triggered innovative financial solutions that have improved the lives of thousands of smallholder farmers in Tanzania.

At the heart of this successful initiative lies the rural-based cooperative societies, namely, Agricultural Marketing Cooperative Societies (AMCOS), the largest rural economic vehicle for farmers in Tanzania. The AMCOS were leveraged by Mfumo Jumuishi to reach out to the farmers, aggregate them and create economies of scale that are attractive as a client base for financial service providers (FSPs).

The first year of the Mfumo Jumuishi model helped to coordinate service providers and to mobilize financial inclusion for cashew farmers. These activities led to around 600,000 cashew farmers opening bank accounts and 350,000 of them registering for mobile money payments – providing a powerful demonstration of the effectiveness of the model and, almost instantly, improving the security of smallholder farmers.

The demonstration was beyond facilitating payments as the model also linked farmers with access to health insurance and the potential to take out loans. Ultimately, Mfumo Jumuishi offered the cashew farming sector the potential to expand value chains and bring about rural transformation.

Mfumo Jumuishi connected stakeholders in Tanzania’s agricultural and financial sectors efficiently and on a large scale. This put into play an intervention that addressed decades-long financial exclusion for some of the country’s poorest and most vulnerable people. It also showed what the facilitation of wide-ranging partnerships could achieve and how innovative thinking could adapt similar results for other agricultural value chains.

The success of Mfumo Jumuishi lies in its name: all inclusive. The AMCOS were at the center, linking the farmers with FSPs, the Warehouse Receipts Regulatory Board (WRRB) and the Tanzania Mercantile Exchange (TMX). But the commitment and involvement of multiple enabling institutions – including the WRRB, TMX, the crop boards and the Bank of Tanzania (BoT) – was crucial.

Mfumo Jumuishi’s successful demonstration with cashew farmers provoked the scaling up of the linkage model in other regions and for other value chains to replicate their own adaptation, such as the coffee farmers of Kagera.

“What made Mfumo Jumuishi so successful was its complete inclusiveness. Every stakeholder played a role.”

~ Isaiah Tendega, Kagera Regional Trade Officer.



The constraints are varied and multi-dimensional but needed to be overcome

Tanzania's FSPs have typically undervalued farmers as customers due the fact they are in hard-to-access rural areas and offer little return on investment because of their extremely low income levels. These farmers are also considered high risk when it comes to loans and other products, such as health insurance, because of their relative poverty and the seasonal nature of their income.

Yet, to financially empower smallholder farmers would bring almost instant and sustainable economic benefits for rural communities and therefore the entire country, triggering a rural transformation that would benefit generations to come.

“We want farmers to better manage the daily financial and economic risks they experience. Effective financial solutions enable them to build revenue-generating capabilities so that they can earn more and they can also then invest in assets or become entrepreneurs. This enables them to convert opportunities within their surroundings into real benefits.”

~ Sosthenes Kewe, FSDT Executive Director.

Before Mfumo Jumuishi, farmers struggled to keep incomes from their harvest secure because when paid in cash they immediately became targets of theft. Cash payments also inhibited their ability to build a credit history with FSPs, which would have enabled them to have far easier access to loans that could have helped them purchase tools, fertilizers and pesticides – thereby increasing their productivity and taking them further along the road to improving their livelihoods.

With financial inclusion, comes the opportunity to add value to the agriculture commodity. For example, instead of the cashew sector being focused on growing nuts, cashew nut derivative products could be made and this would lead to additional sources of income within communities. Mfumo Jumuishi sought to grow financial inclusion and to unlock opportunities by raising awareness among all stakeholders, bringing innovation to the products and services FSPs could offer, and alerting regulators and policy makers to the fact that AMCOS could play a far greater role in financial inclusion if enabled to do so.

The model sought to address three key constraints:

1 Lack of awareness

Farmers and FSPs knew little about each other and this hampered them having any kind of effective transactional relationship. Farmers thought FSPs dismissed them as an unworthy customer base. FSPs had no awareness of how to engage enough farmers to make the development of relevant products and services viable.

“FSPs knew little about the lives of farmers, their ambitions, or the challenges they faced daily. Banking representatives struggled to connect with farmers who were not financially literate. Farmers lacked confidence in the presence of the educated bankers and were worried about the way they spoke and dressed.”

~ Mwombeki Baregu, FSDT's Head of Agriculture and Rural Finance.

Most farmers are not financially literate and therefore unable to understand interest rates, overdrafts and loan terms. This lack of understanding had in the past resulted in farmers taking products they then failed to use effectively. This led to a wariness of banking products.

FSPs had previously tried direct marketing but often failed and deemed it expensive. Farmers tended to approach banks as registered groups rather than as individuals. Neither farmers nor FSPs considered the possibility that the AMCOS might offer them a way to bridge their differences.

Nor did it occur to the Tanzania Cooperative Development Commission (TCDC) and the Ministry of Agriculture that the FSPs could develop direct relationship with farmers through AMCOS. Previously, the promotion of accounts was done directly to farmers with very limited results.

The AMCOS collect, deliver and sell their farmers' crops in bulk to the warehouse and acquire a collective payment to distribute among the farmers. This aggregation of the farmers and the financial flows would provide the mechanism for the mass impact Mfumo Jumuishi aspired to.

Organic Store in Kagera



2 Innovative solutions

FSPs' lack of awareness about how AMCOS could help them access the farming market and limited ideas about how to target a mass market resulted in the absence of innovative financial products and services that would be attractive for farmers. Similarly, the AMCOS clung to their traditional role of helping to market crops and distribute payment during the harvesting and selling seasons.

Farmers are not business entrepreneurs and their earnings cycles differ from other sectors: they typically only earn revenues once their crops are harvested and sold. Therefore, standard financial products, such as loans with interest payments requiring monthly servicing, would not be appropriate for farmers who would have months without any income.

As a result of Mfumo Jumuishi, FSPs gained a far greater awareness and began exploring new kind of products and services that would help farmers invest and deal with their cash flow issues.

“Coffee is a long-term crop. When you plant a bush or a seedling, it can take 4-5 years for it to become a productive coffee bush. The people giving loans need to understand this. The right products need to be developed. Too often commercial banks offer loans with terms that are very difficult for a single farmer to meet, such as holding the right collateral to warrant a loan.”

~ Mdyamukama Wolfgang Libent, 63 year-old coffee farmer from Kagera.



3 Driving policy change

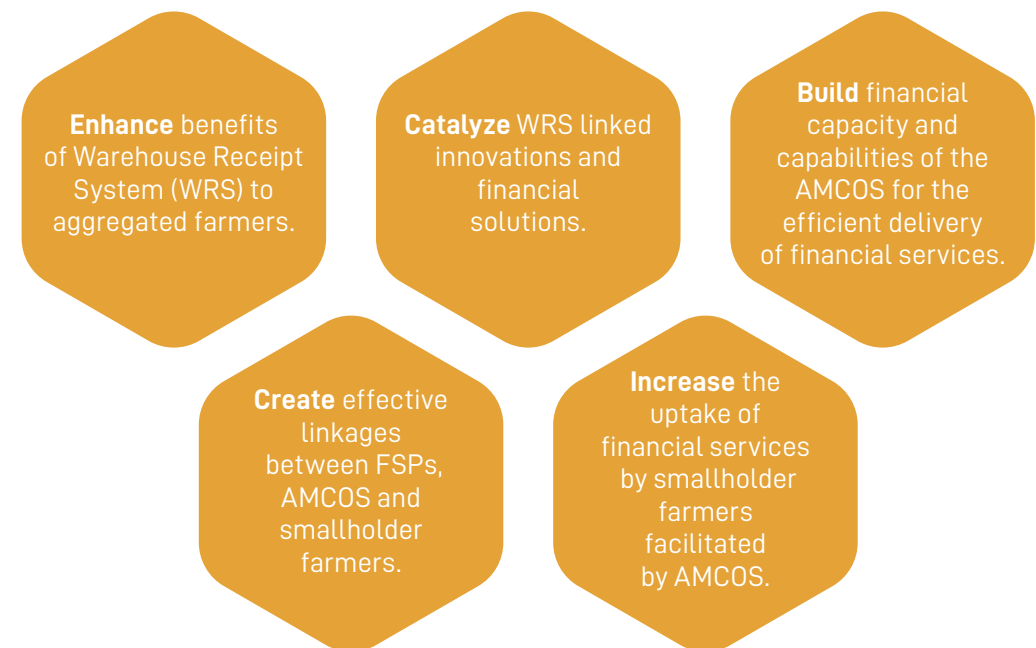
Cooperative societies, AMCOS specifically, have historically been the most dominant economic vehicle for farmers in Tanzania. However, for various reasons, this potential is not always lived up to. In the last 15 years or so, for cashew farmers, the AMCOS role had largely been reduced to one of collecting bags of commodity at harvest time and giving farmers a receipt detailing what percentage of the payment they should receive. Once the commodity was sold, the AMCO disbursed payments to farmers.

Prior to Mfumo Jumuishi, policy makers and regulators lacked evidence of how the AMCOS' role could be enlarged to enable greater financial inclusion for farmers and for AMCOS to play a more strategic role in economic progress. Even if they knew there were gaps in the country's financial services sector, they had insufficient proof to push forward policy shifts.

So, even though government was largely aware there were gaps, there was no evidence to provide political will to make these shifts. This was until the Mfumo Jumuishi demonstration with cashew farmers provided enough evidence to illustrate that success through the AMCOS is possible.

Mfumo Jumuishi would test the efficiency and effectiveness of the AMCOS. Above all, it would determine whether crop payments were making their way to the farmers or whether leakage was occurring within the organization.

Mfumo Jumuishi's objectives:



Mdyamukama Wolfgang Libent, 63 year-old coffee farmer from Kagera

Demonstrating success of the Mfumo Jumuishi model was the first and vital key step

The Mfumo Jumuishi model was demonstrated with the targeting of cashew farmers in the Mtwara region. The cashew sector was chosen because it has a regulated warehouse receipt system in place, making it an efficient testing ground for the linkage model's aggregated intervention.

FSDT facilitated the formation and testing of the Mfumo Jumuishi model partnering with WRRB and then jointly by coordinating key implementers; providing thought leadership on the development of financial solutions and partnerships; and giving limited financial support for some partners and activities.

FSDT also facilitated the innovation of financial solutions for farmers to promote uptake and gave advisory support for the institutionalization of the initiative. FSDT was influential in aligning the messages with all partners and persuading them to work together.

“Our role was to bring together the inspired stakeholders, to combine their strengths and leave some legacy. We helped to bring useful conversations through thought leadership.”

~ Sosthenes Kewe, FSDT Executive Director.

Once a Memorandum of Understanding was signed with the Warehouse Receipts Regulatory Board (WRRB), FSDT approached the FSPs in a bid to help them understand who the cashew nut farmers were, how they operated and lived, and the challenges they faced.

FSDT convened a meeting of over 20 FSPs and shared research on the agricultural sector as a potential financial market. FSDT also placed an advertisement in local papers, calling for FSPs to come and meet farmers at the farmers' fair Nanenane in Mtwara in August 2017.

“We asked the FSPs to come and pitch to the farmers like they had never done before. We asked them to talk to the farmers, get their feedback, ask for their help in developing products. I said to the farmers: You are actually the biggest market they have never had.”

~ Mwombeki Baregu, FSDT Head of Agriculture and Rural Finance.

Following this, consensus of the incentives and trade-offs of all the different stakeholders was built. FSDT's neutrality enabled it to make the engagement as constructive as possible. Pilots for aggregating the farmers and engaging the AMCOS were tested and support was secured from the Tanzanian government. A little while later, the BoT climbed on board and challenged the FSPs to innovate products and services.



Cashewnuts in Mtwara

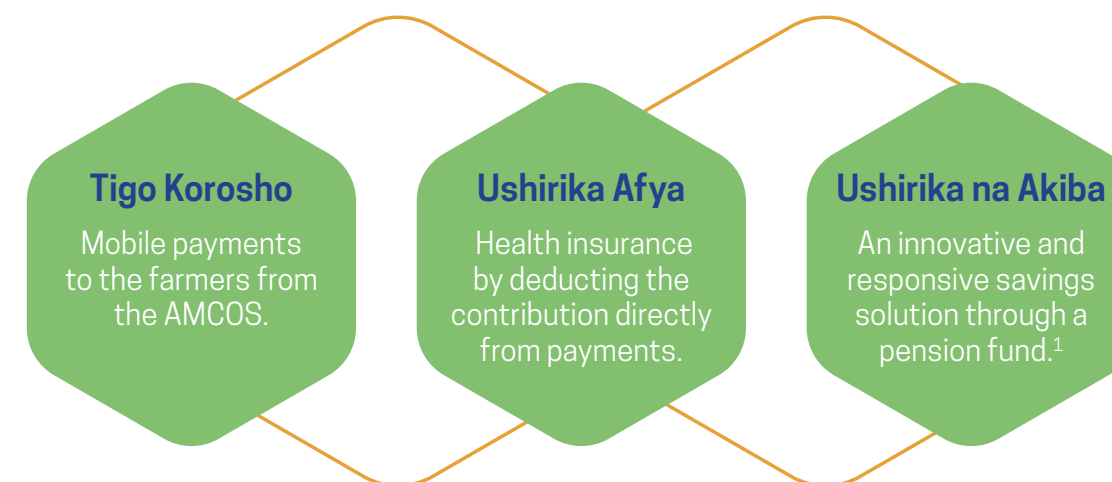
“Our key engagements were with the AMCOS – the natural place through which farmers conduct financial transactions.”

~ Mwombeki Baregu, FSDT Head of Agriculture and Rural Finance.

Meanwhile, mobile operator TIGO stepped in with e-money technology. TIGO's wide coverage of the Mtwara region meant it was an effective partner for the cashew farmers in the area. TIGO helped change what was a very heavy cash system into a more secure electronic mobile money system.

FSPs like NMB began working with TIGO, the AMCOS and the WRRB to convince farmers to open accounts or to start using their existing accounts once more.

Three core financial solutions were tested:



“Ministry of agriculture through WRRB, FSDT, TADB, TCDC, CRDB Bank, NMB Bank, NHC, and NHIF developed a linkage model to promote financial education for farmers.”

~ Hon. Innocent L. Bashungwa, Minister of Industry and Trade. MP.

Why the Mfumo Jumuishi model hit a nerve - the value to farmers and to financial inclusion

The model began to deliver substantive results once the FSPs and AMCOS found ways of working constructively together, various innovative approaches and services started being tested and launched, and regulators and local governments climbed onboard.

The key values for the farmers and for overall financial inclusion were:

Banking farmers

When farmers were at the mercy of an unregulated and informal payment system, it often resulted in missed payments, leakage and delays. This lack of stability impacted negatively on farmers' ability to manage their financial affairs efficiently. By leveraging the AMCOS and their access to farmers, FSPs succeeded in opening bank accounts for around 600,000 farmers and 350,000 of them registered for mobile money payments through Tigo Korosho. Following Mfumo Jumuishi, sums under three million shillings are paid by electronic money and those over three million shillings are paid into bank accounts.

“These days many Tanzanians own mobile phones, that is the same channel someone can use to receive their payment, but also banks should continue to look for better systems for a farmer to receive payment in his or her very own village without travelling or walking with bundles of cash.”

~ Prime Minister, Hon. Kassim Majaliwa.

Increased personal and financial security

The previous heavy cash system of earning meant that farmers would be forced to carry large amounts of cash on their person or keep in their homes. This made them potential target for attack and theft. Female farmers were particularly vulnerable. The electronic and mobile money payments now mean that this risk to farmers is significantly reduced.

Financial inclusion

Participating in a purely cash system meant farmers risked losing their earnings and spending unnecessarily instead of saving. The absence of formal bank accounts also made it impossible for farmers to apply for affordable loans which they could use to purchase agricultural inputs and limited their ability to establish a credit history which would improve future loan applications. Now, with bank accounts, farmers can save money and have gained the potential for loans. Furthermore, the formalized payment system allows for health insurance deductions to be made, ensuring farmers and their families are protected against illness and injury.

Transformation of AMCOS

AMCOS had typically had little dealings with FSPs. They had gathered crops, arranged their sale and distributed earnings to the farmers. They had been disconnected from each other, dealing only with their own farmer base. The leveraging of the AMCOS in this linkage model showed the co-operatives the role they could play if they improved their efficiencies. But Mfumo Jumuishi also showed regulators and policymakers what the AMCOS could achieve if empowered to act more effectively for the farmers. Since Mfumo Jumuishi, policy changes have begun and the AMCOS are starting to offer more financial services.

“Banks should start lending more to AMCOS and the AMCOS should become actual financial services providers. They know the farmers and can distribute the loans more fairly.”

~ Dimba Mark Momadi, a 47 year old farmer who says that his AMCO helps him farm more effectively by enabling him to buy pesticides to protect his cashew trees.

Mindset change

Mfumo Jumuishi clearly brought concrete benefits to farmers and rural communities but another of its impacts is the way in which farmers' mindsets have changed via financial inclusion. Having bank accounts, more financial security and health insurance allows farmers to see this as their right to improve their livelihoods. This can now open the way to aspirational thoughts, setting them and their children on new paths towards improving their livelihoods.

Sector transparency

Prior to Mfumo Jumuishi, the stakeholders had little awareness of the roles each of them could play. They acted in separateness to each other. The facilitation of open dialogue between all parties enabled them to share their experiences and knowledge. The Mfumo Jumuishi partners now understand how the markets are organized and who the key players are.

New value chains

Despite being a leading cashew producer, Tanzania has only very limited processing facilities, many of which are old and outdated, for processing the crop before it can be marketed worldwide. Mfumo Jumuishi allowed stakeholders to identify other value chains.



Coffee Farmer

Key drivers of early success for Mfumo Jumuishi

Mfumo Jumuishi, as a model and as an initiative coordinated by several partners, achieved almost all it set out to do. It was received positively by a wide range of stakeholders in the agriculture, regulatory, policy, and financial sectors, as well as by public and private actors. This response from market actors underpins the success of the model as it was able to be owned and adapted by farmers in different regions, with different stakeholders and across value chains.

But even the positive and enthusiastic response and adoption of the actors may still not be enough to fully explain why traction was so positive. The following are some of the key drivers that contributed to the success of the uptake and scaling of the model.

1 Successfully convening partners across different fields to pursue a common goal

Convening partners who know little about each other and to also expect them to work together can be a sure recipe for failure. However, if the partners quickly realize and appreciate that they need each other, then, the partnership may be on its way to success. It is key that such realizations happen quickly in the process. In such settings, it is perhaps more important "who" is being convened rather than "what" institution is present. Key to this is the quality of the personal relationships when it comes to trickling the same responses up.

FSDT's ambitious move to bring together such a diverse and broad alliance of partners was key to the success of Mfumo Jumuishi. All stakeholders were included and introduced to each other. The personal relationships and aspects were instrumental in garnering and maintaining institutional support and commitment during the early days of convening. Through this convening role, FSDT was able to point out the clear advantages and benefits for each party if they cooperated and collaborated. This was underpinned by FSDT's research and analytics, which enabled stakeholders to understand the demographics. As a neutral partner, FSDT could diffuse tensions when they arose.

Kagera Coffee



Kagera Coffee Farmers



2 Bridging communication gaps between farmers and FSPs

Farmers, particularly smallholder farmers, are a generally a challenging market segment for FSPs to deal with. They are very diverse, generally poor, have limited formal education, are largely located in rural areas where FSPs are not, and are not specifically eager to engage with FSPs that seem unconnected to their lives. Even when FSPs meet with farmers to discuss potential business and financial needs in general, a lot can get lost in translation as FSPs try to retrofit existing or familiar products to farmers and as farmers not connecting with FSPs and not seeing the FSP as an institution to build a relationship with. Overall, such engagements can quickly become tedious and unproductive. This was the situation at the time when the Mfumo Jumuishi initiative began.

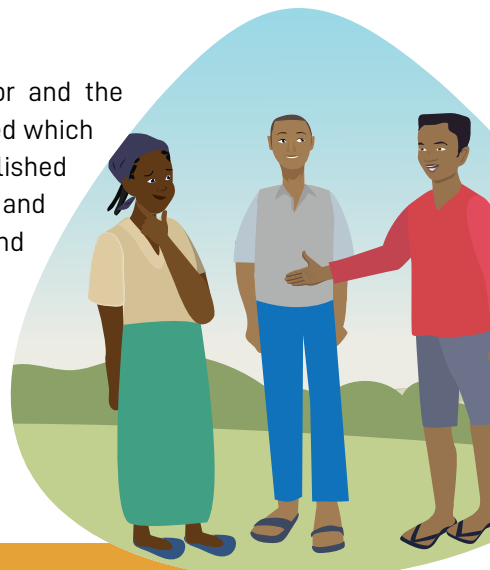
The opportunity for FSPs to communicate with farmers (and vice versa) through reliable and trusted intermediaries was one that was exciting for both parties: less would be lost in translation and there was potential for the engagements to be fruitful. By bringing farmers and FSPs together to meet each other and talk, Mfumo Jumuishi broke down these communication barriers. FSPs pitched their products and services to farmers and listened to what the farmers needed. FSDT played a key role in facilitating the communications and this helped FSPs address the more specific financial needs of farmers. By helping FSPs realize the full market potential of the farming community and the financial needs and constraints of farmers, FSDT encouraged FSPs and other partners to work on financially including farmers.

3 Leveraging AMCOS to deliver more to farmers and to FSPs

Tanzania has a long history of cooperative societies as economic engines, particularly in agriculture production and marketing through the AMCOS. This history has left thousands of active and dormant cooperative societies in villages and wards across Tanzania. As Tanzania shifted from a centrally-planned economy to a market economy, the role of the AMCOS remained uncertain. It was mostly left to specific agriculture sectors how to use AMCOS. This ambiguity remained despite the substantial physical presence of AMCOS in Tanzania's rural landscape.

Mfumo Jumuishi realized that given the complexity of the agricultural sector and the multiple points of contact, a single point of engagement needed to be established which would have broad impact. By aggregating the farmers through the already established AMCOS, this was achieved. The AMCOS were the bridge between the warehouse and the farmers. By professionalizing the AMCOS, the farmers were empowered and brought into the conversation.

The AMCOS are key to Mfumo Jumuishi's success because of their established experience with the farmers. Farmers had used the AMCOS for years, viewing them as friendly and approachable, not as foreign agents. They didn't have to worry about the way they dressed or spoke. The AMCOS were the natural bridge between the warehouses and farmers.



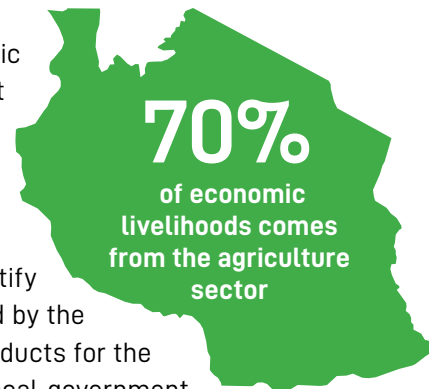
"A farmer is an investor. As an investor, whether it is a small, medium, or big investor, we have to walk them through a proper investment process. We have to eliminate barriers such as capital for a farmer to become an investor. We welcome financial service providers to collaborate with us in this process of making the farmer profitable and viable to access credit for investment."

~ Japhet Justine, TADB Managing Director

4 Valuable champions and thought leaders helping to drive the agenda

The agriculture sector and its related value chains represent 70% of economic livelihoods of Tanzanians. Given the very broad scope of the agriculture sector, it is no wonder that there is an equally broad, and often fragmented, number of actors. Choosing partners from such a range, especially when also integrating financial sector challenges, can be complex to say the least.

Within such a broad and diverse alliance of partners, it was important to identify champions and thought leaders. Mfumo Jumuishi quickly became championed by the BoT, which engaged with FSPs and challenged them to develop innovative products for the agricultural sector. FSDT also worked to establish thought leaders among local government officials, which could advocate for the linkage model on the ground and with local communities. This served to raise awareness and ensure that the interests and challenges specific to certain districts and areas were taken into account.



“The process of developing AMCOS must be demand-driven, and with high standards, farmers are in dire need of markets for their produce. Therefore, any model developed, must be of benefit to the farmer.”

~ Hon. Hussein Bashe, Deputy Minister of Agriculture

5 Riding on reforms that helped to make the context right

Reforms in agriculture and financial sectors had been ongoing in Tanzania for more than 30 years since the country transitioned from a centralized economy in the mid-1980s. The reforms that took place however between 2007 and 2015, particularly in the agriculture sector, proved to be quite instrumental to enabling Mfumo Jumuishi to take off.

The timing of the Mfumo Jumuishi program helped ensure the success of the pilot. Yet this was not a chance timing. FSDT and program coordinator Mwombeki Baregu were instrumental in selecting the timing of the launch of the linkage model. Any earlier and it may not have worked. Mfumo Jumuishi rode on a series of policy changes and reforms, including: the 2013 reforms to cooperatives; the restructuring of Tanzania Warehouse Licensing Board (TWLB) and emergence of Warehouse Receipts Regulatory Board (WRRB) in 2014; the establishment of Tanzania Cooperatives Development Commission (TCDC) 2015 following the passing of the Cooperatives Societies Act in 2013; the establishment of Tanzania Mercantile Exchange (TMX Plc) in 2015 following the passing of the Commodities Exchange Act of 2014. The TCDC was established to regulate the AMCOS. The reforms ensured that the required formal structures were in place to enable the aggregation of farmers and the introduction of financial products and services.



6 Right man, right time, and getting lucky

Too often when documenting the success of programs, we ignore the roles of the individuals who bring their experience, insight and networks to the table. Mwombeki Baregu, FSDT's Head of Agriculture and Rural Finance, is responsible for the design, implementation, and management of the projects and portfolio in this area.

Mwombeki's career has included working with NMB Bank in Tanzania as Head of Product Development and Research with a focus on Agribusiness and with the World Bank in Tanzania as a Consultant in the Poverty Reduction and Economic Management Unit (PREM), where he researched and consulted on agriculture and economic policies. In each of those roles he investigated how farmers sold their commodities using different marketing systems and how the financial sector can engage.

His experience cannot be ignored when exploring the reasons for the Mfumo Jumuishi success. For over a decade, Mwombeki had closely monitored the reforms that were taking place to regulate the co-operatives and restructure the operating environments of warehouses. He had assessed the potential opportunities for the financial sector to engage with farmers. He also understood what made banks resistant farmers as clients and thought of different products that banks could develop to engage with the farmers. Mwombeki also knew what economic potential lay within agriculture and that it was crucial all stakeholders started to speak to each other and explore the opportunities.

The alignment of reforms was a perfect opportunity for a model like Mfumo Jumuishi and it was lucky that the alignment happened as Mwombeki was at FSDT and heading a program that would be the perfect catalyst for the needed actions.

Once the alignment was in place it was relatively easy for Mwombeki to connect with the diverse set of individuals and institutions with whom he had either worked with at some point or had worked in a similar field to. He was able to explain the vision and opportunity in front of them from their relative perspectives and to convince them to combine efforts in pursuing the vision. Once the vision was shared and understood, the personal and professional connections established, then the institutional commitments followed.

Mtwara Farmer



Scaling and adapting Mfumo Jumuishi for coffee farmers and beyond

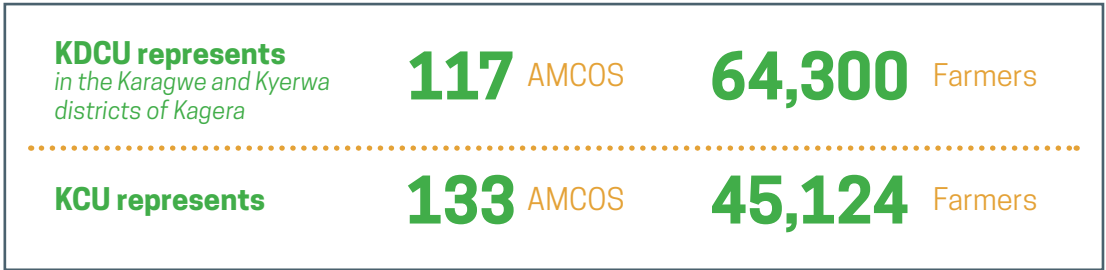
With evidence that the demonstration with cashew farmers worked, the next steps in the programme were replicating the model for other value chains and regions, seeing how best to strengthen the model so that it delivers more value to farmers. Coffee and cotton farmers are clear potential targets to benefit from Mfumo Jumuishi and the FSDT field trip visited Kagera to meet with coffee farmers there and hear how the model had been adapted to benefit them.

Tanzania's coffee sector employs about 400,000 households who rely on it as a cash crop. Coffee is a long-term crop and this poses cashflow challenges for smallholder farmers. It takes years for a new coffee bush to become productive. Many farmers cannot wait for the crop to mature and forward sell their coffee for whatever they can get to early buyers who approach them. This can cost them if their crop is worth more at harvest time than what the forward sold it for.

FSDT along with Mfumo Jumuishi partners, including TADB, led a field trip to Kagera, where there are about 200,000 coffee farmers who grow Robusta coffee. The coffee farming context in Kagera differs from that of cashew farming in Mtwara. In Mtwara, farmers had a stable and mostly beneficial bilateral relationship with their AMCOS. In Kagera, the cooperative unions – which are umbrella organizations grouping the AMCOS – play a major role in the coffee marketing process and in monitoring and guiding the AMCOS.

Most farmers belong to AMCOS. Most AMCOS belong to a coffee union. There are two coffee unions in the Karagwe and Kyerwa districts of Kagera: KDCU and KCU. The unions advance the interests of the coffee farmers and their product internationally, while also monitoring the AMCOS' behavior to ensure farmers receive what they are owed and don't fall victim to corruption and theft.

The unions provide technical support and training for farmers. They keep records of all interactions with farmers and have an audit department to ensure that the AMCOS behave responsibly.



How an adapted Mfumo Jumuishi helped coffee farmers

The Mfumo Jumuishi bank linkage system began in Kagera in 2018 when farmers were encouraged to accept electronic payments. The model leveraged the coffee unions and, through this, the AMCOS. Officials from the KDCU and KCU welcomed the Mfumo Jumuishi program in Kagera and said they were actively encouraging farmers to participate by opening up bank accounts and receiving their payments electronically.

KDCU and KCU officials invited FSPs to come to the district and tender. FSP representatives presented different products that the farmers could use. By the end of September 2019, farmers in the districts had opened 67,000 bank accounts.

The implementation of this adapted model of Mfumo Jumuishi had the following benefits:

Direct electronic payments

The AMCOS in Kagera would gather crops from the farmers, weigh and store them. Farmers would receive a receipt. The AMCOS would agree sale prices with buyers. The unions would collect the coffee from the AMCOS and advance a payment to the AMCO based on the agreed sale price. The AMCO was then supposed to share this among the farmers but, according to the unions, farmers were regularly cheated. AMCOS also insisted that farmers take cash payments, which also made them vulnerable to fraud and theft.

The opening of bank accounts and direct electronic payments to farmers removed this risk. By the end of September 2019:



“Previously, a lot of the cooperatives were misusing the farmers’ funds, but now the farmers are saying that they receive what they are owed because it happens electronically directly from the bank.”

~ Isaiah Tendega, Tanzanian Regional Trade Officer, Kagera Region

Access to loans

The financial linkage model, bank accounts and electronic payments make it easier for farmers to access loans. This is because there is a record of the payments being made to farmers and so banks have assurances. KDCU has applied for loans on behalf of its farmers and KCU says it would like to help AMCOS to form their own savings cooperatives (SACCOS), which could then extend loans to farmers.

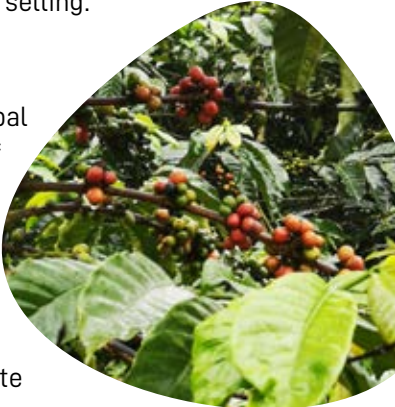
Purchasing power

By having access to loans, farmers are able to buy the necessary farming inputs they need and hire labor. Labor is the single biggest production expense for coffee farmers in Kagera. Farmers need to hire labor to assist them with clearing vegetation, pruning and stumping of the coffee plants. Farmers also need more efficient tools and instruments, such as moisture testers to monitor the moisture content of the beans. Having these tools would enable the growers improve the quality of the crop they are selling.

Pricing stability

Coffee is an internationally traded commodity and prices are determined on the global market. Tanzania supplies less than 1% of the global market but is still a victim of international price swings. The lack of price stability makes it difficult for farmers to get loans because banks are unable to project future income for assurance.

The unions, via the AMCOS, have helped educate the farmers against selling their crops too early in the growth period to forward buyers. They are also able to educate farmers about international prices and are working with government officials to promote the domestic consumption of coffee in Tanzania.



Coffee plants in Kagera

Life in the era of Mfumo Jumuishi - future outlook of rural financial linkages in Tanzania

The Mfumo Jumuishi demonstrations in Mtwara and Kagera showed how leveraging the AMCOS could bridge the gap between farmers and FSPs. The model showed how major benefits could be brought to smallholder farmers, including the opening of bank accounts, secure electronic payments, and access to loans and health insurance. All in all, some of the poorest people in Tanzania have been brought into the financial system.

Mfumo Jumuishi has encouraged FSPs to be more innovative when it comes to products and services they can offer farmers. But it has also showed policymakers and regulators what can be achieved if organizations like the AMCOS are leveraged. It has opened the door to rural transformation across Tanzania.

The future of the model should now be dealing with any constraints that could add more value to farmers, to the agriculture sector, and to rural transformation in general.



Coffee farmer in Kagera

The future role of FSPs and AMCOS to enable deeper financial and non-financial linkages:

- **Deepen relationships** - FSPs and AMCOS should build on their relationship to expand into other regions and value chains. They should also consider how FSPs can further leverage the relationships AMCOS have with the farmers. For example, if banks are short of banking agents in certain rural communities, banks should consider training AMCO officials to act as banking agents.
- **Financial literacy** - For the model to gain further traction, education is crucial. Farmers expressed a wish for more financial education in the form of training on budgeting, saving, borrowing and insurance. This financial literacy could be delivered by FSPs through the AMCOS. In tandem with this, more awareness raising could take place with FSPs. The AMCOS could further train FSP staff on agricultural matters so that specialists can be created for future product and service innovation.
- **Knowledge sharing** - To some extent, AMCOS still operate in silos without communicating regularly with each other. For example, not all AMCOS were considering applying for bank loans as a collective or acting as guarantors for farmers applying. In some cases, AMCOS were buying pesticide on behalf of their members and allowing them to repay after their crops were sold. Looking to the future, it would therefore be beneficial for AMCOS to regularly exchange experiences and share potential solutions to challenges that may be faced by many.

The future innovations to leverage the model to offer more value to ecosystem:

- **New products** - While bank accounts, savings, loans and health insurance products have brought thousands into the financial system, many farmers raised the concept of an insurance product that would protect against crop failure. They described their livelihoods as "up and down" and emphasized how useful it would be to achieve some stability. Even when it was pointed out that this would require deductions from earnings, farmers said they would be willing if this was clearly explained.

"Farming is a very unpredictable revenue stream. Some crops are good and some are bad. Farmers need insurance and would not resist paying into this kind of insurance as long as it was clearly explained to them why deductions are being made."

~ Ismail Hamisi Hamisi, who has farmed for more than 20 years and has always struggled to get a bank loan to help him buy pesticides and fertilizers.

- **Adapt loan terms** - The fluctuations in the international coffee price and the length of time it takes to harvest coffee make it difficult for farmers to obtain loans. FSPs should review and adapt loan payment terms for farmers who can't pay interest monthly because they only have income for part of the year.
- **TADB funding** - The TADB has the potential to fund new value chains. The TADB could be a key partner for AMCOS via the TCDC. AMCOS seeking to invest could apply for loans directly to the TADB or via the TCDC. The Mfumo Jumuishi model provides the structures to fund development because the TADB could effectively reach, service, and offer value to a wide number of smallholder farmers across different regions and value chains.

Mtwara Cashewnut Farmers



Through a partnership collaboration with cooperative societies through TCDC, TADB could leverage their zonal branches to reach smallholder farmers that are serviced by AMCOS in the respective zones. The pillar also has potential to be digitized and allow for a range of data creation and generation on the capital requirements, cash flows, payments, and investment potential of farmers, AMCOS, and related service providers and infrastructures. This pillar is key to driving financial innovations at the smallholder level with services that target smallholder farmers and their households.

The future role of policy and government to leverage the model to achieve economic development:

- **Extend model to new sectors** - Mfumo Jumuishi has shown how aggregating the farmers and leveraging the AMCOS can have a fast and deep impact. The success in cashew farming and the nascent success in coffee farming paves the way for further agricultural sectors, such as cotton.
- **Develop derivative industries** - In addition to expanding across sectors, value could be added to existing value chains in order to develop derivative industries such as cashew food products or ground coffee rather than coffee beans. This expansion would further empower communities financially and enable them to improve their livelihoods.

When considering value improvement for coffee in Tanzania, we should explore ways of promoting its internal consumption. Increasing the internal consumption of Tanzanian-grown coffee would provide some domestic price stability and prevent coffee farmers falling victim to global prices when they only produce a small amount of global supply.

- **Improve network coverage** - For mobile money payments to work effectively, reliable network coverage is required. The Kagera region is unique in that it shares borders with Rwanda, Burundi and Uganda. This means that each country's mobile network provider infiltrates the border regions and so Tanzanian cellular coverage is poor, making mobile money sometimes ineffective.

“The goal is to invest in AMCOS, and enable them to process cotton so that farmers can benefit from agriculture, and by collaborating with TADB, we will make sure farmers receive initial payments sooner, starting next phase.”

~ Hon. Hussein Bashe, Deputy Minister of Agriculture

Cotton Farmer



Enabling big plans, big visions and eagerness to grow

Establishing a successful rural financial linkage model requires innovative thinking of how to forge valuable partnerships with clear roles, leveraging these partnerships to tackle constraints and significant commitment from all partners to achieve success and to replicate the success in other regions and sectors.

In Tanzania, many of the pieces to enable rural financial linkages were already available and in place when the initiative for Mfumo Jumuishi model began. The missing link was how to put the pieces together to achieve a common objective, particularly in getting the partners together and identifying roles and responsibilities.

The Mfumo Jumuishi model benefited significantly from the commitment of the partners to see through success and to scale it to new regions and sectors. This is partly due to the fact that many of them were recently established (WRRB, TCDC, TMX, and TADB had all been formed since 2015). In some ways, the stars were well aligned for the intervention to kick off and succeed. It is crucial now that the momentum is sustained and the success replicated across regions and value chains again and again until all farmers are reached.

Mfumo Jumuishi reached Mudricat, the coffee farmer in Kagera and his household. In the future, the model should assist the family to access loans and to farm on a bigger scale. But there are many Mudricats and their children in Tanzania's rural landscape. Tanzania's farmers have big plans, big visions, and are eager to grow more. This is what Mfumo Jumuishi hopes to unlock far into their futures.

“For reliable healthcare coverage, farmers should seize the opportunity to enroll in NHIF’s affordable health insurance, Ushirika Afya, which is available through AMCOS.”

~ Hon. Hussein Bashe, Deputy Minister of Agriculture



Cashewnuts

“AMCOS leaders should make sure that every farmer selling their produce through AMCOS has a bank account.”

~ Hon. Hussein Bashe, Deputy Minister of Agriculture



Cashew Farmers in Mtwara

APPENDIX 1: TANZANIA’S FARMERS AND FINANCIAL EXCLUSION

Almost all farmers in Tanzania are smallholders (96%) and they make up 70% of the country's population. Yet many continue to live in poverty, excluded from the formal financial sector, and unable to increase their productivity or improve their livelihoods.

Tanzania's agriculture sector represents 30% of the economy and approximately 67% of the workforce. Yet, farm credit products represent only 1% of credit products. Banks, who make up 71.6% of the financial sector assets, have a 12% overall product target for farmers and only further 18% and 17% of credit and deposit products targeted at smallholder farmers.

By December 2018, the agriculture sector enjoyed a 5.6% of bank credit despite the sector representing 30% of GDP, 41% of incomes, and 67% of employment. Only 10% of smallholder and dedicated farmers say that they have a bank account.

Despite its size and diversity, the country's financial sector has thus far been unable to effectively address the financial needs of the farming community. Financial service providers (FSPs) have encountered difficulty in meeting farmers' needs due to the complexity and multiple layers within Tanzania's agricultural sector. FSPs have traditionally not known who to engage with because there are so many nodes of engagement with diverse and complex financial needs. Agricultural value chains involve a wide range of activities from availability and distribution of inputs, varying agronomical practices, marketing of commodities and the processing of raw materials for value addition to the distribution and consumption of the raw or finished products domestically or via exports. This broad range of nodes of engagement posed a major challenge to FSPs to develop a strategy to help to unlock the value and potential in the agriculture sector. Yet, to financially empower and include smallholder farmers would bring almost instant, large and sustainable economic benefits to the entire country and trigger a rural transformation that would benefit generations to come.

The main challenges to enabling a financial sector that is able to respond to the financial needs of the agriculture sector have includes:

- The lack of coordination of efforts, knowledge, and data that would enable valuable and accessible information and knowledge for the development of new and innovative financial products and solutions.
- The number of ministries, regulators, and promoters, and resulting silos of efforts across public and private institutions in the agriculture and financial services sector, which resulted in the prevailing and persistent fragmentation of information, knowledge, actors and efforts in the agriculture sector.¹

1. This was shelved after the pension funds were merged into a single provider for public pensions and a single provider for private pensions. For example, below are the ministries that have activities, efforts, and some levels of information in the agriculture sector:

1. Agriculture
2. Livestock and Fisheries
3. Land, Housing & Human Settlement Development
4. Water (and irrigation)
5. Industries , Trade and Investment
6. Prime Minister's Office Investments
7. Natural resources (environment)
8. Finance and Planning
9. Local Government and Regional Administration

APPENDIX 2: WIDE RANGE OF PARTNERS

The Mfumo Jumuishi program benefitted from a holistic network of partners with the knowledge and experience required. FSDT was the convener of this multi-partner collaboration which ranged from the grassroots Agricultural Marketing Co-operative Societies (AMCOs) representing small-holder farmers to the central bank (Bank of Tanzania) and commercial banks, such as NMB.

Ministry of Agriculture - There were agencies and units within the Ministry of Agriculture that provided supporting roles to the implementation. These agencies and units will be indirectly co-opted through the framework partners and included the Agriculture Sector Development Program (ASDP II) unit and crop boards (coffee, cotton, cashew, tobacco, cereals and produce, etc.).

The ministry facilitated the respective directives, guidelines, and instructions to relevant government institutions, ensured the alignment of activities with the objectives and targets of ASDP II, and facilitated the development of the framework.

The Bank of Tanzania (BoT) - The BoT is the country's central bank. It is committed to financial inclusion and is driving the National Financial Framework 2018-2022. The BoT called on financial service providers present in the zone/region to participate in the campaign and to give confidence on the value of the campaign. It also gave confidence to regional authorities and farmers on payment related issues and processes, particularly on worries related to delay of transfers.

Local and regional officials – These government officials played a key role in championing the rights of farmers to have access to banking products and services.

Agricultural Marketing Co-operative Societies (AMCOs) - The AMCOs group farmers together locally and support them with the production, processing, transporting and marketing of crops. The AMCOs were the central player in Mfumo Jumuishi's agricultural linkage model. (see more below.)

Tanzania Cooperative Development Commission (TCDC) - The Tanzania Cooperative Development Commission is established by the Cooperative Societies Act No. 6 of 2013 and is mandated to regulate and promote development of cooperative sector. TCDC is also currently the lead promoter of savings and credit cooperative societies (SACCOS) which are largely missing links in rural finance. TCDC took the lead in coordinating the schedule at regional levels, including arranging for parallel or supporting events and promotions where necessary. It also organized the farmers, respective cooperative societies and other key actors to be available for the mobilization events that will take on a ward or district level coverage. TCDC also gave guidance and mobilized the development of SACCOS by AMCOS and other cooperatives and other related bodies for the purpose to provide farmers with options for financial institutions to use that will address their financial needs. It encouraged capable SACCOS to develop savings financial tools that will help farmers by providing cover for inputs and inputs credit.

The Tanzania Mercantile Exchange (TMX) - TMX was incorporated on 25th August 2014 to perform the business of a commodity exchange in Tanzania. The Exchange has been established as a public private partnership company. The Exchange is regulated by the Capital Markets and Securities Authority (CMSA) under the Commodity Exchanges Act, 2015 and it's under the Ministry of Finance and Planning. (see WRRB for role played). Warehouse Receipt Regulatory Board (WRRB) – The Warehouse Receipts Regulatory Board is a government agency under the Ministry of Industry and Trade. The agency was established under the Warehouse Receipts Act No. 10 of year 2005 and Act No 3 of 2015 as amended and regulations 2016 to administer Warehouse Receipt System (WRS) in the country. It regulates and promotes the WRS to ensure fair and sustainable access to formal credit and commodity marketing systems. It licenses warehouse businesses, warehouse operators.

TMX and WRRB collaborated with TCDC on organizing the regional activities and events; educating farmers on how the warehouse receipt system and commodity exchange will work; and stressed the importance of financial inclusion in respect to using the warehouse receipt system and commodity exchange to market crops. Financial services providers (FSPs) – The FSPs include the commercial banks of Tanzania, especially NMB which has been actively banking cashew nut farmers for years.

TIGO – The mobile network provider's e-money technology was crucial in transforming the heavy cash payment system into a more secure electronic money system. TIGO's strong coverage of the Mtwara area made it a key partner.

Tanzania Agricultural Development Bank Limited (TADB) – The TADB is a state-owned development finance institution (DFI) launched in 2015 to help bring a focused approach to agricultural financing. It offers loans to groups already having land and engaging in agricultural activities.

Financial Sector Deepening Trust (FSDT) - The FSDT was incorporated as a Trust in Tanzania on 1st July 2004. The FSDT's overall aim is to help enable all Tanzanians to derive value from regular use of financial services which are delivered with dignity and fairness. FSDT facilitated the coordination of key implementers; provided thought leadership on the development of financial solutions and partnerships; and gave limited financial support for some partners and activities. FSDT also facilitated the innovation of financial solutions for farmers to promote uptake and gave advisory support for the institutionalization of the initiative. FSDT was influential in aligning the messages with all partners and persuading them to work together.

APPENDIX 3: VOICES FROM THE FARMS

No case study is complete without hearing from the real people impacted by the program – the farmers. FSDT bases its case studies on data gathered through the formal monitoring and evaluation components of its interventions but also places emphasis on what the target audience says about how they have or have not benefitted. As part of the research for this case study, we spoke to cashew farmers in Mtwara and coffee farmers in Kagera. Here are their testimonies:

The Cashew Nut Farmers

Dimba Mark Momadi

Dimba Mark Momadi is a 47 year old farmer and part-time plumber who says that his AMCO helps him farm more effectively by enabling him to buy pesticides to protect his cashew trees.

Momadi, who farms 15 acres with his wife and three children, shakes his head as he describes the constant challenge farmers face when it comes to preventing fungal infection attacking their cashew crops. His face turns grim as he details how mosquitoes drill into the kernels and suck out all the moisture leaving a desiccated nut.

Like other farmers, Momadi needs cash to buy pesticides and the Mfumo Jumuishi intervention enabled the members of Momadi's AMCO to apply collectively for a loan. They were able to secure a bank loan because they now have bank accounts, and are building credit history and assurance due to electronic payments.

Prior to Mfumo Jumuishi, the farmers would have to travel to the banks and apply individually for loans without success. The AMCO now also stands guarantor for their loans.

Momadi, had his own bank accounts prior to Mfumo Jumuishi, he knows of many farmers who got robbed on a regular basis when they received payment in cash for their cashew crops. Now, he says, more and more farmers are opening bank accounts and seeking electronic payments.

"Banks should start lending more to AMCOs and the AMCOs should become actual financial services provider. They know the farmers and can distribute the loans more fairly," says Momadi, whose family is also now participating in the Ushirika Afya health care payment system.

Juma Subiri

Juma Subiri is a 42-year-old father of six children and depends on his income from farming to pay for school fees. "Farming is a very volatile life," says Subiri, who farms 19 acres of cashews. Like most farmers, he needs money to purchase better quality pesticides and struggles to afford this on top of his other living costs.

After Mfumo Jumuishi alerted them to the benefits of formal banking, Subiri and other members of his AMCO (Rumana , Noala district) opened bank accounts. Subiri says the accounts make payments easier because the AMCOs handle the paperwork and the farmers get paid. He says some farmers find the process slower than the previous cash-in-hand, but he and many others prefer the security of the system. The accounts have also enabled farmers and their AMCOs to explore loan options.

Subira's AMCO has secured a bank loan and purchased pesticides for its members, charging them 50% of the cost with the remainder due after the crops have been sold. The AMCO has also applied for a loan to buy a tractor which would be available to all members.

Subiri, who is deputy chair of his AMCO, believes it is important to financially empower the AMCOs further so that they are not dependent on membership fees. "If the AMCOs had capital, then they would be sustainable.

AMCOs could become great institutions, employing people and owning assets," says Subiri.

Haruna Hamisi

When Haruna's husband left her 10 years ago, she was worried about her financial security as a woman alone and ageing. She saw how her friends were improving their lives through farming cashews and so she acquired 20 acres. She farms this with the help of her cousin.

She sees farming as providing her with security in her old age. "It is important that when you retire you still have a source of income. This is security for a woman. A woman must be independent because nobody can predict the future," says the 56-year-old Hamisi.

Hamisi sells her crop through a local AMCO, receiving payment electronically and she believes that banks should promote financial services through the AMCOs because of their close connection with the farmers. "Many farmers are intimidated by going into a bank. They don't know what to wear or how to talk. The AMCOs are much easier for them to deal with," says Hamisi.

She also believes firmly that the AMCOs should be providing financial education to the farmers.

Ismail Hamisi Hamisi

Former policeman Ismail Hamisi Hamisi has farmed for more than 20 years and has always struggled to get a bank loan to help him buy pesticides and fertilizers. The 66 year-old father of nine says the banks consider his government pension too small to be able to afford a loan and his cashew income to unpredictable.

Hamisi would like to see his AMCO become a more organized and efficient institution so that it could apply for a loan on behalf of the members or act as a guarantor for him and other farmers. Hamisi also believes that financial service providers should develop crop insurance programmes to protect farmers against bad harvests.

"Farming is a very unpredictable revenue stream. Some crops are good and some are bad. Farmers need insurance and would not resist paying into this kind of insurance as long as it was clearly explained to them why deductions are being made," says Hamisi.

The Coffee Farmers

Mudricat Hassan

Mudricat Hassan regularly discusses coffee farming with his seven children who have big ambitions for expanding the family's farm land. Mudricat is 74 and took over his parents' coffee farm 35 years ago when he retired from the civil service.

He says that the inability for farmers like himself to borrow money from banks is preventing them from increasing their income and improving their livelihoods. With 10 acres of coffee plants spread out over different plots, Mudricat needs to hire labor on a regular basis to help stump and prune the bushes. For him the cost of hiring is a major expense that he cannot afford.

"The life of a small farmer is hard and it hasn't changed much since I started. We still farm only for a little bit of cash. It could get better. We could farm on a bigger scale if we had loans."

"My children and I all sit down together to discuss how the farming is going. They have big plans, big visions and they are eager to grow more but without loans we can't buy the inputs we need, like modern tools and labor.

According to Mudricat, farmers have needed bank accounts for years but had earned too little for the banks to want to help. Now, with Mfumo Jumuishi more farmers are opening bank accounts and the opportunity to borrow collectively is emerging. Mudricat's AMCO has applied for a 5 million shilling loan on behalf of its members to help them modernize their farming methods.

Mdyamukama Wolfgang Libent

Mdyamukama Wolfgang Libent says the desperate need for cash during the coffee growing period puts such strain on farmers that they accept unfairly low prices from forward buyers before the coffee is ready for harvesting. He believes that Mfumo Jumuishi is starting to encourage banks to lend with more awareness to farmers but that more training for farmers and banking representatives is needed.

"Coffee is a long-term crop. When you plant a bush or a seedling, it can take 4-5 years for it to become a productive coffee bush. The people giving loans need to understand this. The right products need to be developed. Too often commercial banks offer loans with terms that are very difficult for a single farmer to meet, such as holding the right collateral to warrant a loan," says Libent, 63, who is a coffee farmer and a board member of the KDCU.

"Buyers come and estimate a value early on and the farmer gets tempted by having the cash in his hand because the crop is taking so long. Farmers need the loans so that they can wait out the growing time and get a better crop value at harvest."

Libent – who is teaching his two grandchildren how to farm -- would like to see the AMCOs expand the role that Mfumo Jumuishi has encouraged them to play. He would like the AMCOs to be trained to act as financial service providers because they know the farmers and the understand the coffee farming process in Kagera.

Abdul Adam Bushagama

Abdul Adam Bushagama, 58, and his father Ezekiah Kyakotoot, 86, say that the best thing about being a coffee farmer in Kagera is that you create employment for your neighbors and enable them to provide for their families. At the height of the season when it is crucial to cut back vegetation, Abdul can employ up to 10 people.

Ezekiah started the farm in the 1950s and Abdul joined him in 1994. Abdul farms five acres of his father's farm and produces 9-11 tons of coffee cherries each season.

Like many others in the region, he has sometimes been forced to forward sell his crop for a low price before harvest due to a lack of funds to buy necessities. He praises the Mfumo Jumuishi intervention because it has helped the AMCOs protect the farmers against these early buyers.

"The AMCOs or even the KDCU should become financial service providers so that loans they can offer can also help tide farmers over to the harvesting season," says Bushagama.



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