



Access to Finance for Agribusinesses in Tanzania

3rd Annual Agricultural Policy Conference

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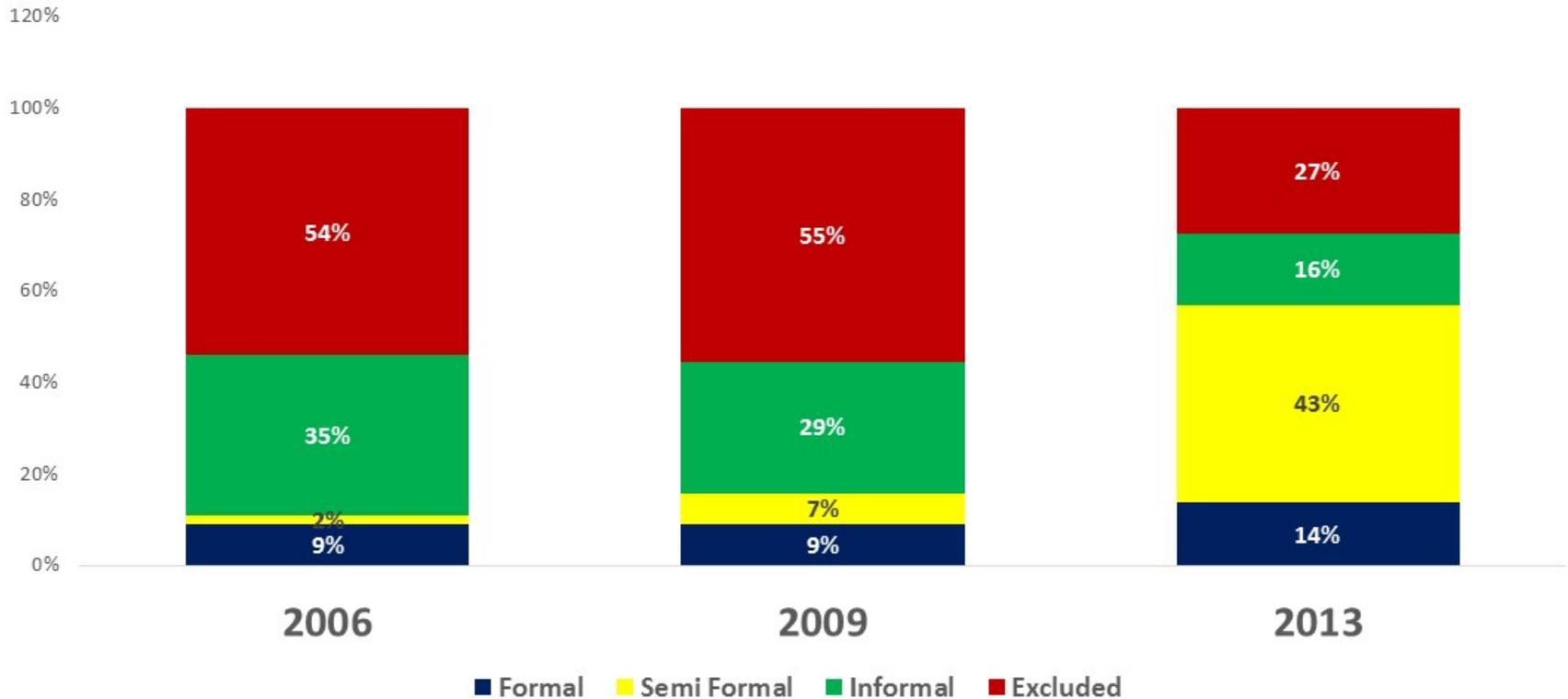


Importance of agriculture to growth and industrialization

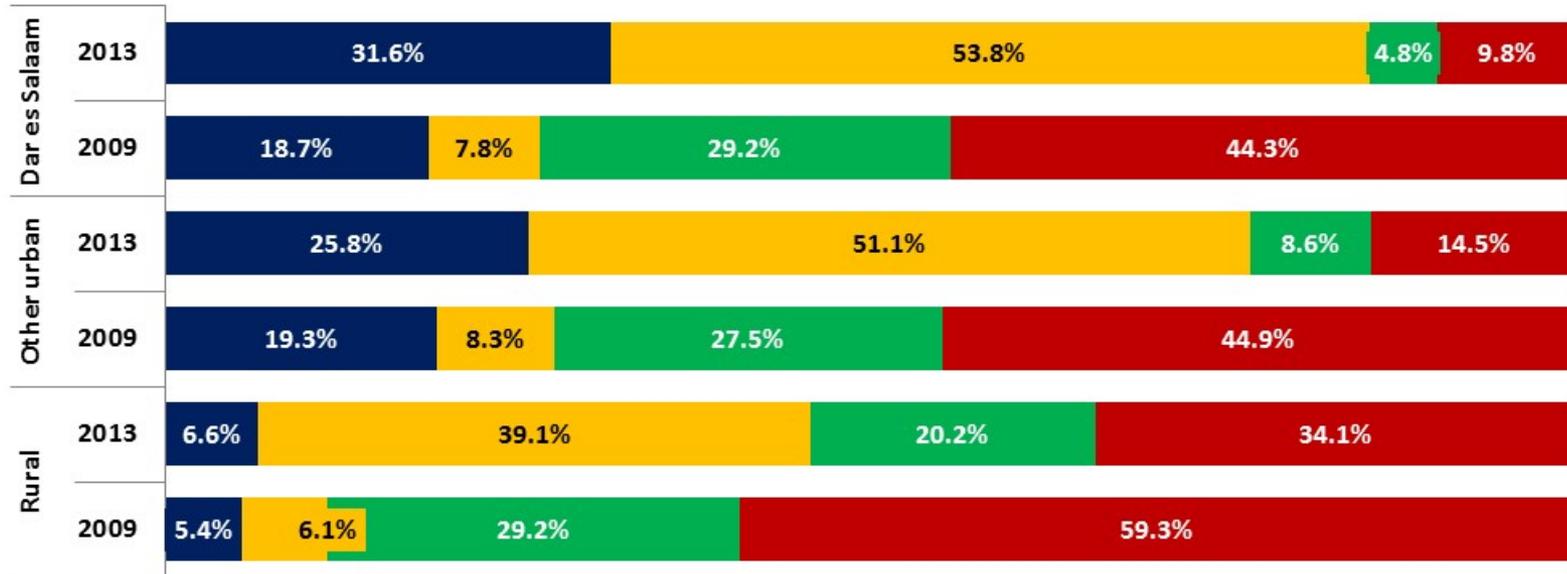
- *“Africa’s growth has not been sufficiently inclusive and broad-based, because it has continued to rely heavily on the exploitation of raw materials with limited value addition, thereby failing to maximize returns to Africans from the wealth created from the continent’s vast natural resources”.*

UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL ECONOMIC COMMISSION FOR AFRICA and AFRICAN UNION 2014

What is the inclusion story telling us



Access is growing but has it meant anything to agriculture and smallholder farmers?



■ Have/use bank product/service
■ Use informal mechanisms only

■ Have/use only non-bank formal products/services
■ Financially excluded



Despite the many access points across the country, rural adults face access challenges

Regions in the South and West are generally less well served than the rest of the country. Nearly 40% of adults are within a 5 km radius of a bank branch, an ATM, MFI or SACCOS or a mobile money agent.



Rural adults



Subsistence farmers



Agribusiness



**It is no longer just about
access to finance it is
about the kind of financial
products and services
accessible and used**



Why are financial products important to agriculture and agro processing in Tanzania?

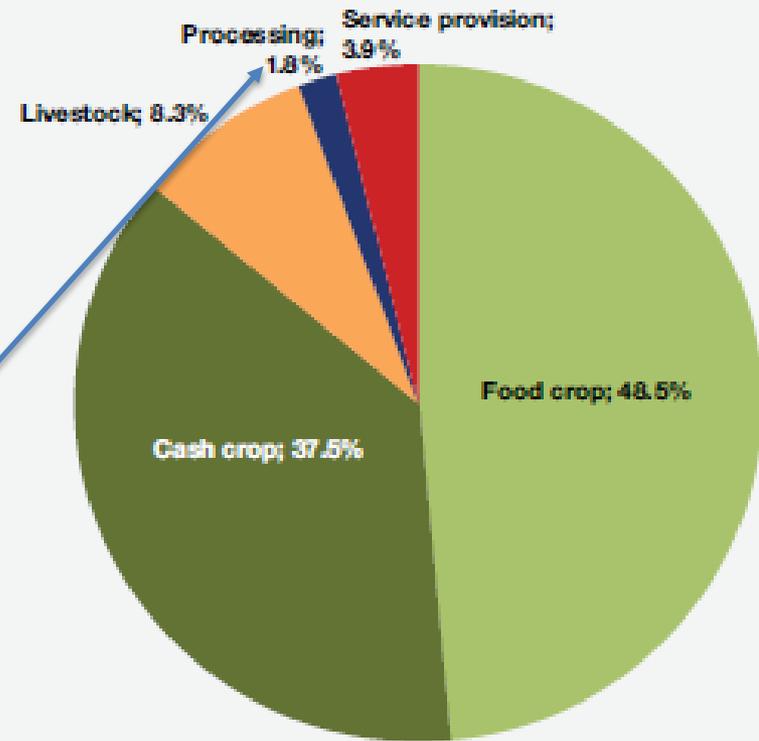
Agriculture employs 67% of the workforce

Agriculture accounts for 29% of GDP

Agriculture sector employs poor, women, and youth

Only **1.8%** of agribusinesses processed. Industrialization will require shifting, linking, and growing more agribusinesses to processing. The financial sector will need to generate appropriate products to assist with that shift.

In 2011 FSDT conducted an extensive survey on agribusinesses across Tanzania. Their activities are:



Access to capital in the form of credit is important for productivity and shifting to agro processing

Table 11. Credit mechanisms used by business owners in the AgFIMS market segment who borrowed

Credit mechanism	Food crop producers	Cash crop producers	Livestock producers	Processors	Service providers	All agribusinesses in AgFIMS market segment
Friends and family	44.9%	55.1%	51.4%	30.5%	44.0%	48.6%
SACCO	15.7%	16.2%	18.6%	21.5%	16.7%	16.5%
Bank	13.2%	10.7%	13.6%	33.2%	14.4%	13.1%
MFI	9.5%	8.8%	13.9%	15.4%	9.4%	9.9%
Customers	8.6%	9.0%	8.6%	4.2%	13.5%	8.9%
Money lender	9.5%	9.4%	4.6%	8.8%	6.1%	8.7%
VICOBA	5.3%	4.5%	8.9%	0.0%	1.8%	5.1%
VSLA	4.8%	5.1%	5.4%	2.4%	3.3%	4.8%
Savings group	6.1%	4.0%	2.8%	4.5%	1.4%	4.7%
UPATU	2.2%	0.7%	5.3%	2.1%	11.3%	2.6%

Significantly higher than total AgFIMS figure

*Note: Multiple responses per business owner possible

Friends and family are the predominant source of capital which is likely inadequate for increased productivity and shift to agro processing

Savings are important for mobilization of capital for transformation and agro processing

Table 10. Savings mechanisms used by business owners in the AgFiMS market segment who saved

Savings mechanism	Food crop producers	Cash crop producers	Livestock producers	Processors	Service providers	All agribusinesses in AgFiMS market segment
At home/with family member	83.5%	75.4%	72.6%	65.9%	87.7%	79.4%
Bank	26.4%	34.6%	41.6%	54.6%	41.7%	32.0%
Savings in livestock, assets, inputs, crops, business	25.2%	21.0%	22.6%	21.3%	15.7%	23.0%
Savings group	3.4%	1.5%	5.5%	3.4%	1.7%	2.8%
Microfinance institution (MFI)	1.9%	1.2%	0.4%	0.7%	1.4%	1.5%
Savings and credit co-op (SACCO)	0.9%	1.2%	0.0%	0.0%	0.3%	0.9%
Upatu	0.8%	0.1%	1.6%	0.4%	3.2%	0.7%
Village bank or co-operative	0.7%	0.3%	0.1%	0.0%	0.0%	0.5%
Shares	0.1%	0.0%	0.0%	1.1%	0.0%	0.1%

The savings here are very difficult to reach and to mobilize for transformation

Formal credit is important for growth and shift but accounted for only 10% of credit used

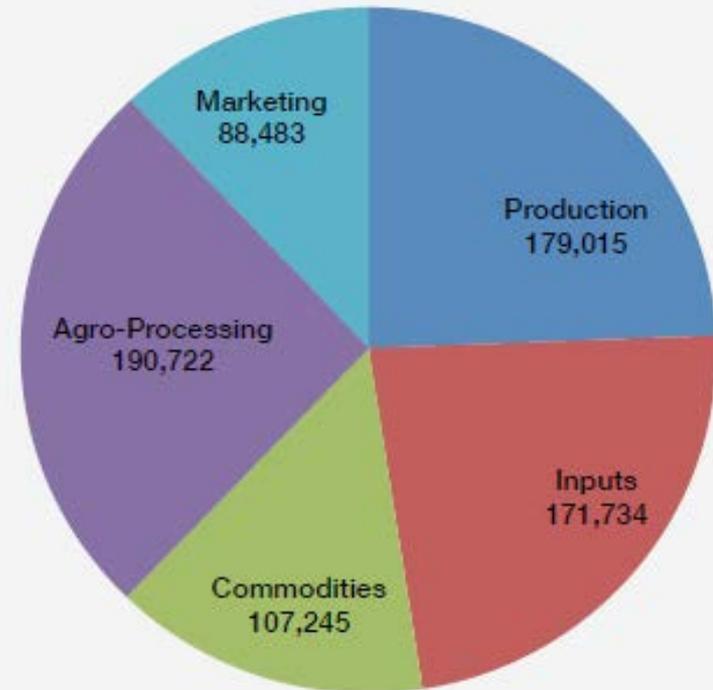
Credit to agriculture is typically aggregated through cooperatives or other formal or informal groups

There is limited individual credit for agriculture due to high cost to service individual farmer vs the capacity of farmer

Lack of records and formal collateral are barriers to individual credit to agriculture (personal loans are used)

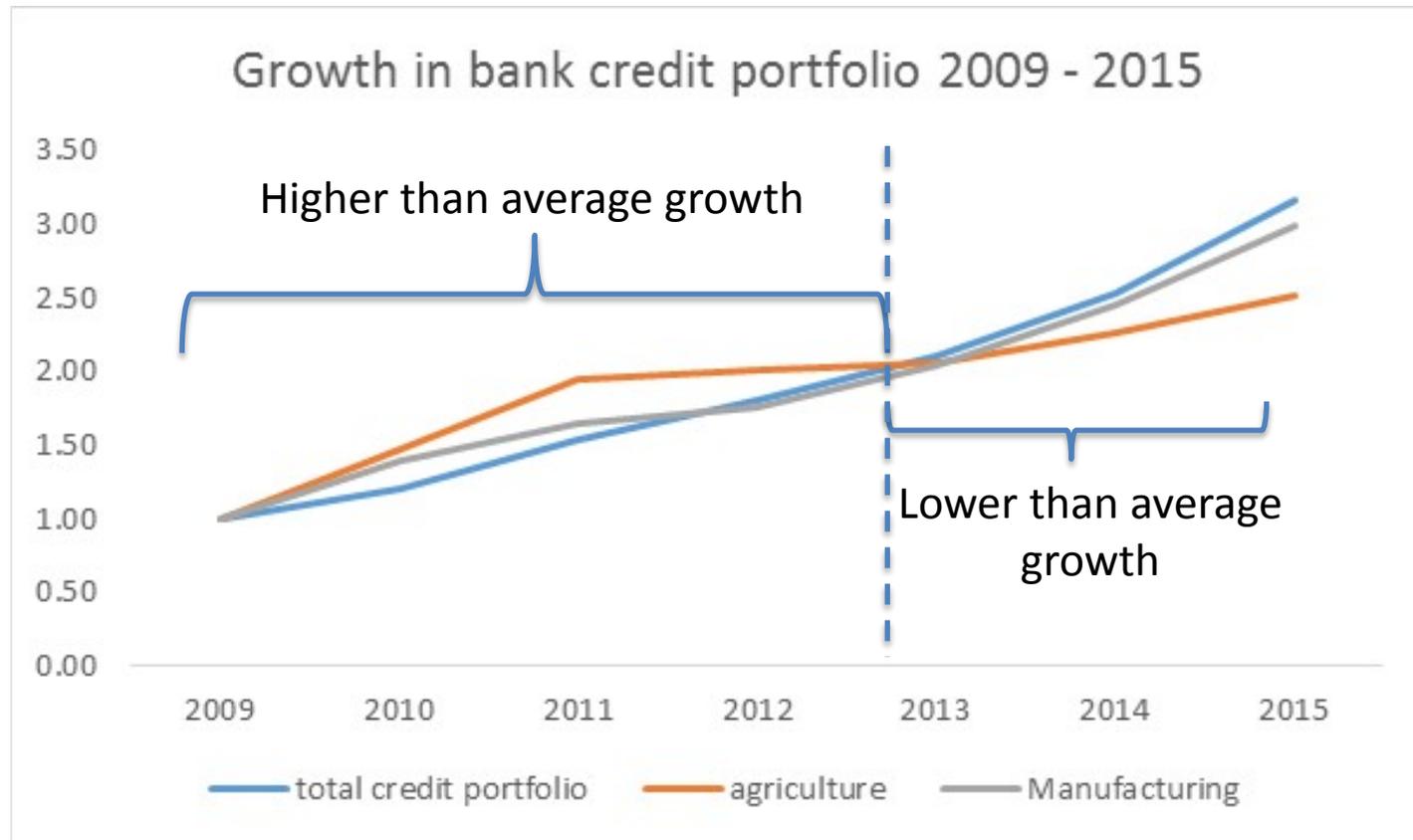
Guarantee schemes play an important role in facilitating credit

Distribution of agriculture credit in December 2010 (in millions)



Credit to primary production was reported by ACT to be as low as 9%

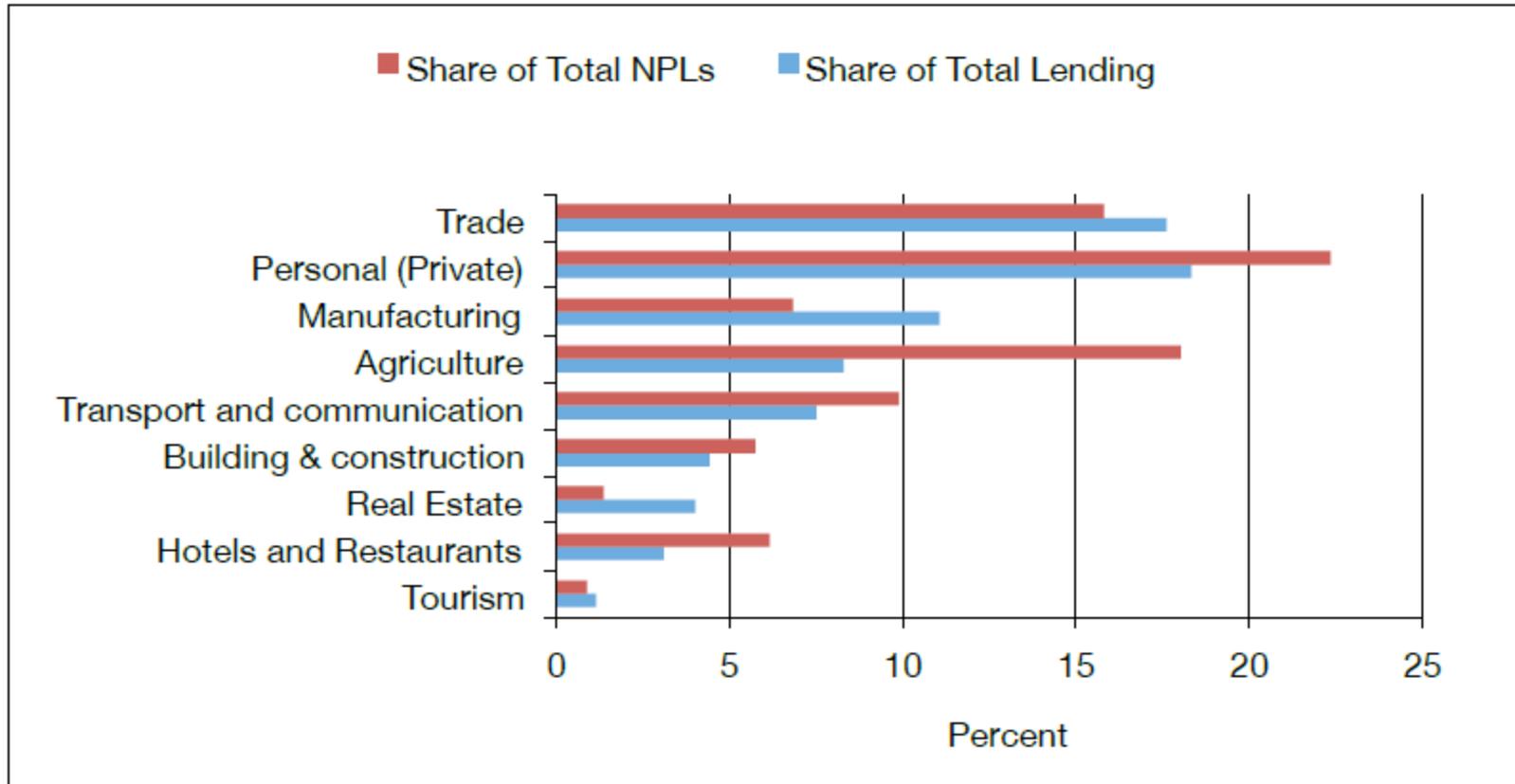
There was a period when flow to agriculture and manufacturing was high.... And then?



Does policy have a role to play in either the above average or below average growth?

Drop in credit is accompanied by losses

Chart 3.3: Credit and Non-Performing Loans to Selected Economic Activities at end of March 2016



Source: Bank of Tanzania

Policy has been active to promote access to finance for agribusinesses and industrialization

Policy initiatives

Kilimo Kwanza

Credit guarantees

Vouchers for agricultural inputs (subsidy scheme)

Warehouse Receipt System

Contract farming

Commodity exchange

Various reforms in government that set up new institutions

Gaps that remained

Governance and capacity challenges of cooperatives impacted realization of full benefits of capital and markets

Poor support services (extension, operations, market information, etc.)

Market access challenges

Cost and tenor of credit incompatible with sector needs

Credit focused approach was insufficient to ensure performance

Multiple levies became due



**So why are there not
enough financial
products?**



Illustration of agricultural finance dynamics in Tanzania

A growing and dynamic financial sector with many new institutions, risks, and opportunities

Limited and insufficient facilitators to facilitate appropriate products

A very complex and dynamic agriculture sector dominated by complex and dynamic smallholder farmers



The financial sector has limited size and range of products to provide appropriate financing

Banks make up **71%** and offer mostly short term finance

60% of cash is outside the formal system, leaving only 40% for systemic intermediation

Pension funds and insurance make up **26%** and 2% of financial sector

The credit guarantee scheme (CGS) is the dominant type of guarantee scheme in Tanzania.

TADB opened in August 2015 to great expectations

Long term capital is a challenge, particularly that can be accessed by mid and small scale farmers. Market capitalization on the DSE grew from 6 trillion shs in 2011 to 21.7 trillion in 2016 but this has not translated into availability of long term capital for agriculture sector.

Strong group organizations with good governance are a key to access to finance

The health of cooperatives is an important indicator on access of finance

- Cooperatives have been the main channels of farmer credit in Tanzania. They remain as very important vehicles to channel finance to smallholder farmers. However low capacity, poor governance, and inefficient arrangements that can add to operational costs (unions, etc.) have limited their ability to drive capital to smallholder farmers.

The link between group leaders and members is an important one

- Groups, including cooperatives, still remain as the most effective way to channel credit (and financial services) to smallholder farmers due to their operating structure. Group leaders (group admin) however can be an additional layer of distortion to the end user, the smallholder farmer, such that benefits of credit (or linkages) are missed.

Tools are needed to ensure group performance

- Banks, off takers, and development partners have engaged in capacity building for farmer groups (NMB Foundation, etc.). This support however has not been deep enough given some of the gaps and does not offer tools to ensure transparency, competency, and good performance.

To address the gap, policy can look at...

1. Capacity building and governance metrics to cooperatives, SACCOs, groups, etc. to complement credit and guarantees
2. Mobilization of rural savings and external savings for agro industries
3. Leveraging technology in provision of financial services to achieve operational efficiency, transparency, and to create economies of scale
4. Enabling and promoting business environment that allows for inclusive industrialization of agriculture (PPPs for rural markets)
5. Facilitate focused, dynamic, and responsive business environment for agricultural finance

Some of our efforts include working with partners to achieve....

Innovative financial products and services for agriculture sector

- Long term finance
- Productivity
- Savings mobilization
- Technology (DFS)

Research and Knowledge

- FinScope
- Market research
- Capacity building for FSPs
- Dissemination

Coordination and Collaborations

- Working Groups
- Forums
- Policy

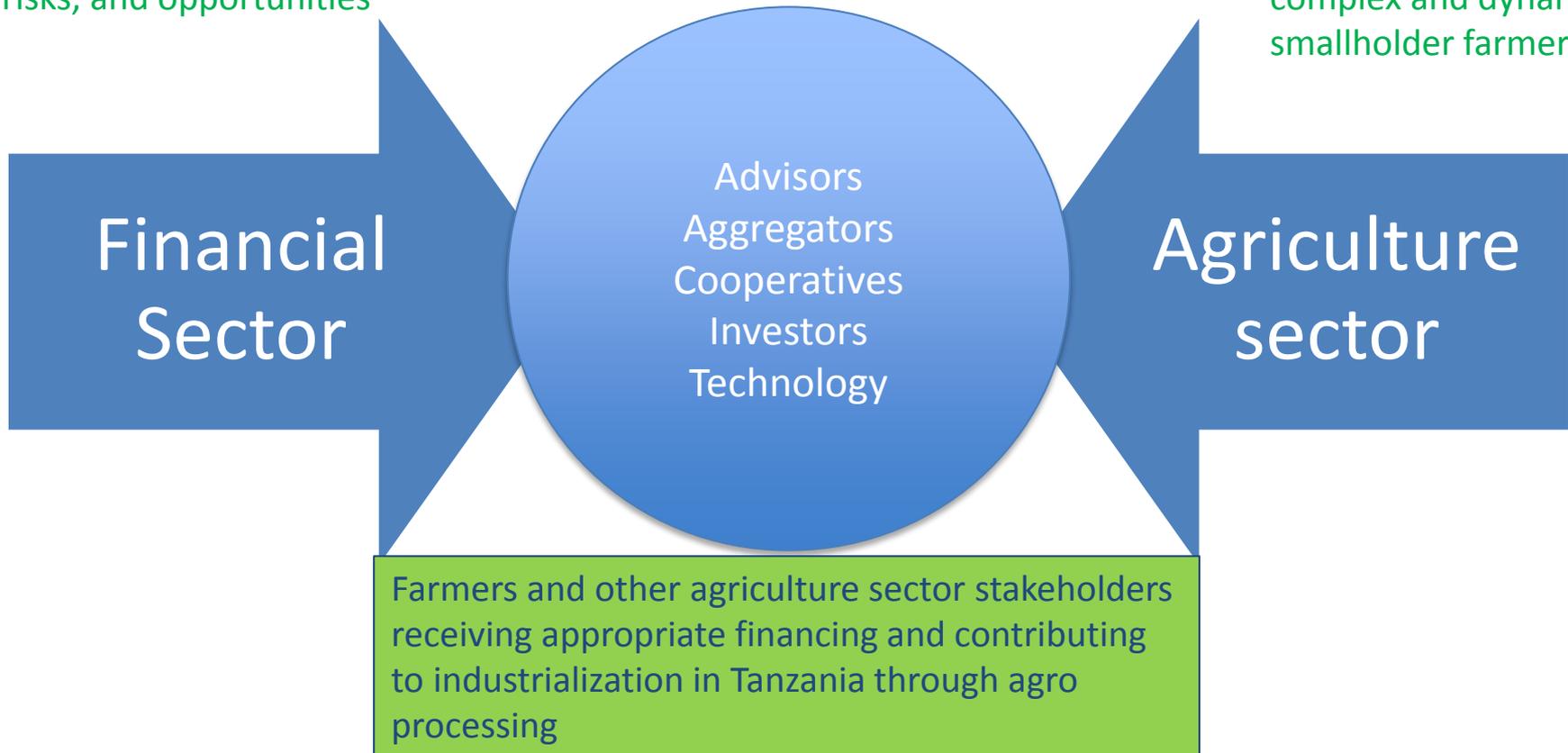


Vision of agricultural finance dynamics in Tanzania

A growing and dynamic financial sector with many new institutions, risks, and opportunities

Available and sufficient facilitators to facilitate appropriate products

A very complex and dynamic agriculture sector dominated by complex and dynamic smallholder farmers





THANK YOU

Mwombeki Baregu
FSDT

