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Agriculture Sector Lead Ministries

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Integrating Food and Nutrition Security into Economic Transformation and Industrialization Agenda:

How can agriculture be the driver rather than follower of economic transformation in Tanzania?



New Dodoma Hotel, Dodoma

14th - 16th February, 2018



MICHIGAN STATE
UNIVERSITY

ANSAP
Agricultural Non-State Actors Forum

AGRA
Growing Africa's Agriculture

AMDT
Agricultural Modernization Development Trust

TAHA
TANZANIA HORTICULTURAL ASSOCIATION

MAFAP
Ministry of Agriculture, Food and Fisheries

TRADE MARK
EAST AFRICA
Growing Prosperity Through Trade

iesc

ReSAKSS

Dalberg

FSDT
Food Security Development Trust

ACT
Agricultural Council of Tanzania

tpsf

EAGC
EASTERN AFRICA GRAIN COUNCIL

ILRI
International Livestock Research Institute

REPOA
Rural Enterprise Promotion Organization

SAGCOT
Sustainable Agricultural Growth Company of Tanzania



AfricaLead
Scaling up for food security in Africa



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Access to Financial Services in Tanzania

**MWOMBEKI BAREGU, HEAD OF AGRICULTURE AND RURAL
FINANCE, FINANCIAL SECTOR DEEPENING TRUST (FSDT)**



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OUTLINE

1. Access to Finance for Smallholder Farmers in Tanzania– Demand Side
2. The Financial Sector in Tanzania – Supply Side
3. The Gaps
4. How do we realize improved financial inclusion in agriculture for purpose of modernization, commercialization, and industrialization?
5. Recommendations for Policy





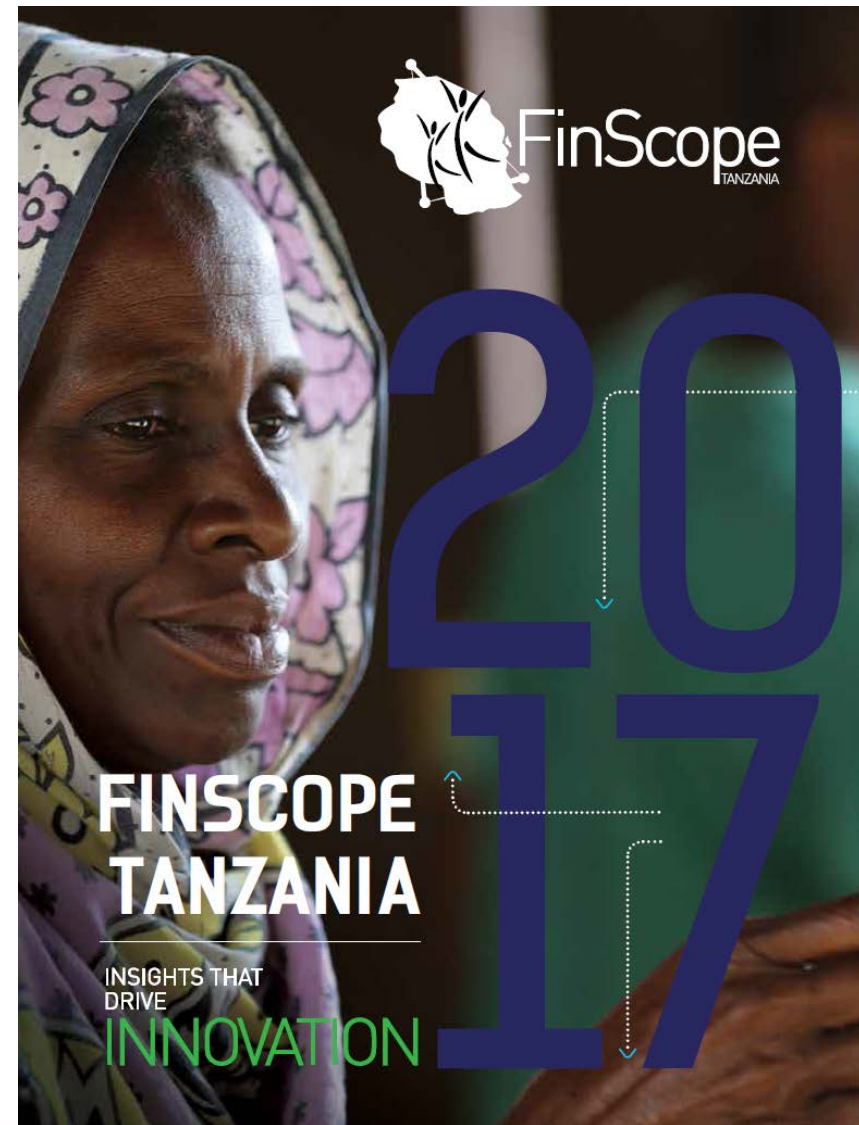
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About FSDT

FSDT adopts a market development approach toward addressing systemic constraints in the market and to contribute toward achieving pro-poor growth in the financial sector.

FinScope Tanzania is a measure for demand and usage of financial services by population and offers insights into the barriers to financial inclusion.





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About FINSCOPE 2017

Finscope survey has five main objectives:

1. To understand financial behaviour (cash flow management, investing, saving etc.) and define needs of consumers (individuals, farmers, business owners)
2. To establish credible benchmarks and measure the effectiveness of financial inclusion
3. To provide insights into policy, regulatory and market obstacles to access and usage of financial services
4. To provide insights which will feed into innovation within the financial and real sectors
5. To highlight opportunities for policy review needed to drive financial sector development





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28 KEY SAMPLING STATISTICS

Targeted EAs: 1,000 Enumeration Areas, 10 Interviews per EA

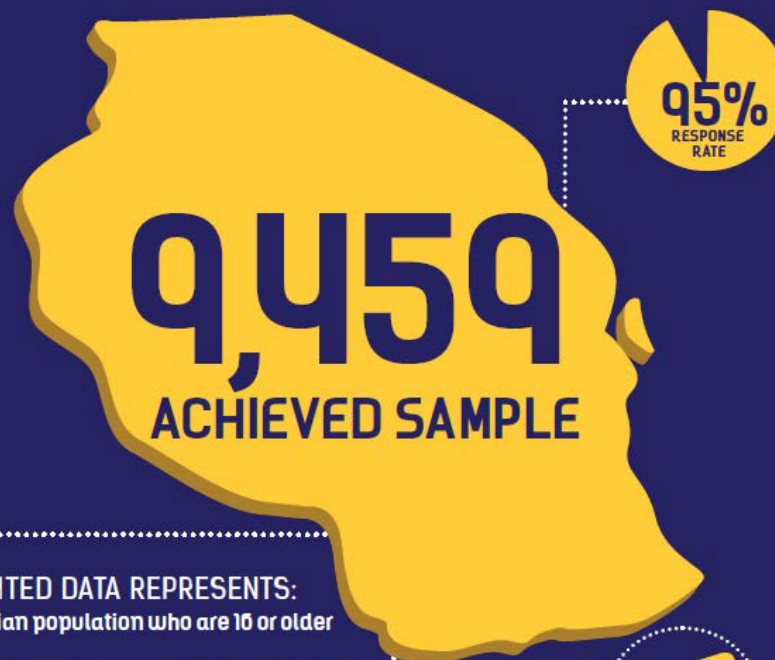
Achieved EAs: 998 EAs

Targeted Sample: 10,000 Respondents

Margin of error: Maximum 5%³

Confidence Interval: 95%⁴

Data collection period: April to July 2017



WEIGHTED DATA REPRESENTS:
Tanzanian population who are 16 or older

2017: 27,864,302

2013: 24,231,763



Increase in population
from 2013 (Percentage)



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Finscope 2017 Highlights

Chart 1: Urban – Rural Split

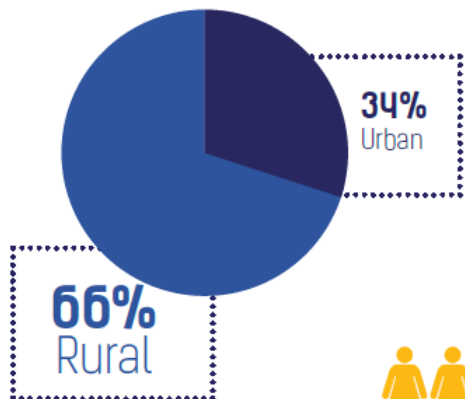


Chart 2: Gender Split

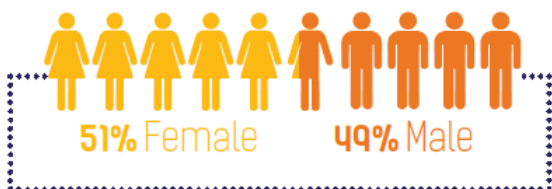


Chart 3: Age Distribution

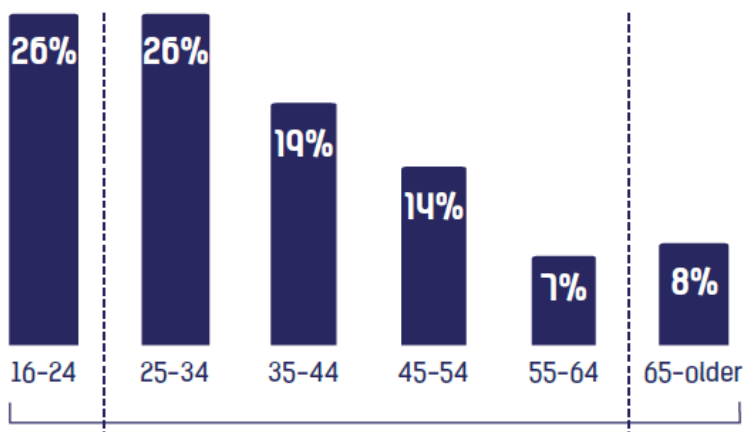
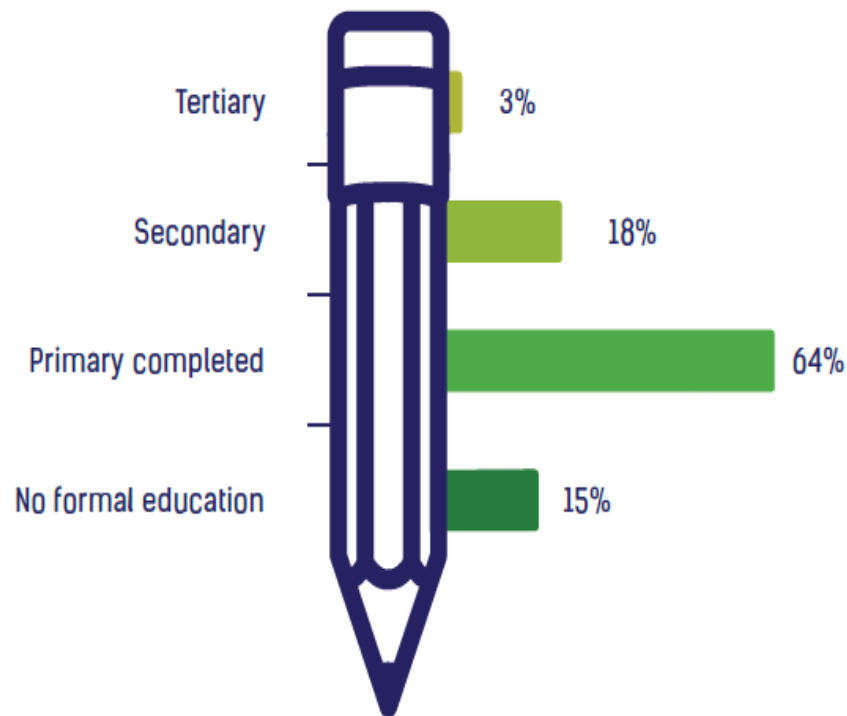


Chart 4: Highest Level of Education





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Finscope 2017 Highlights

Chart 5: Main Revenue – Generating Activity

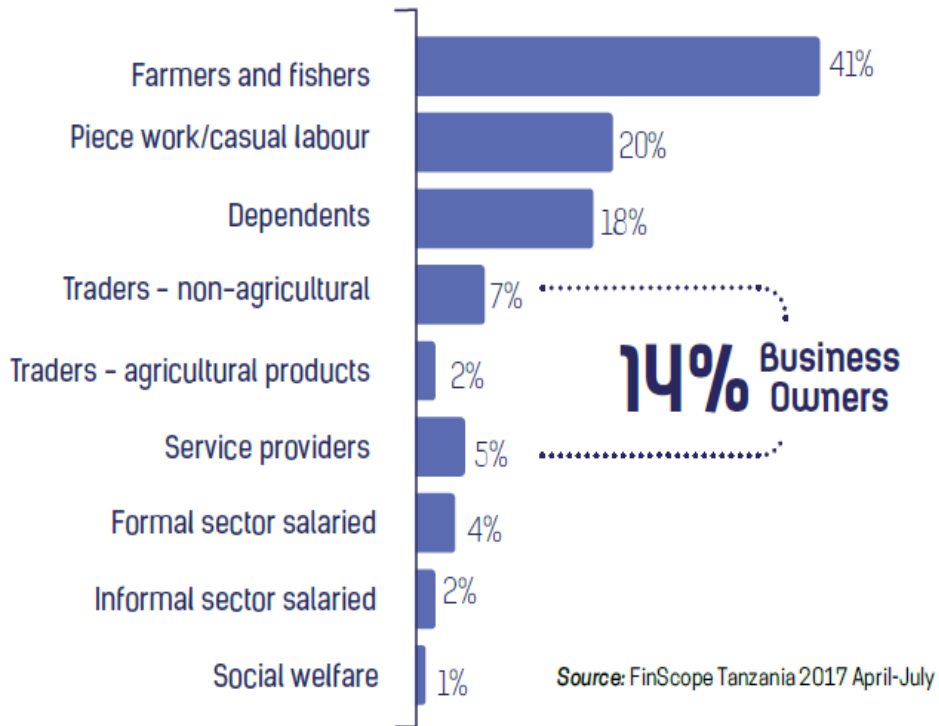
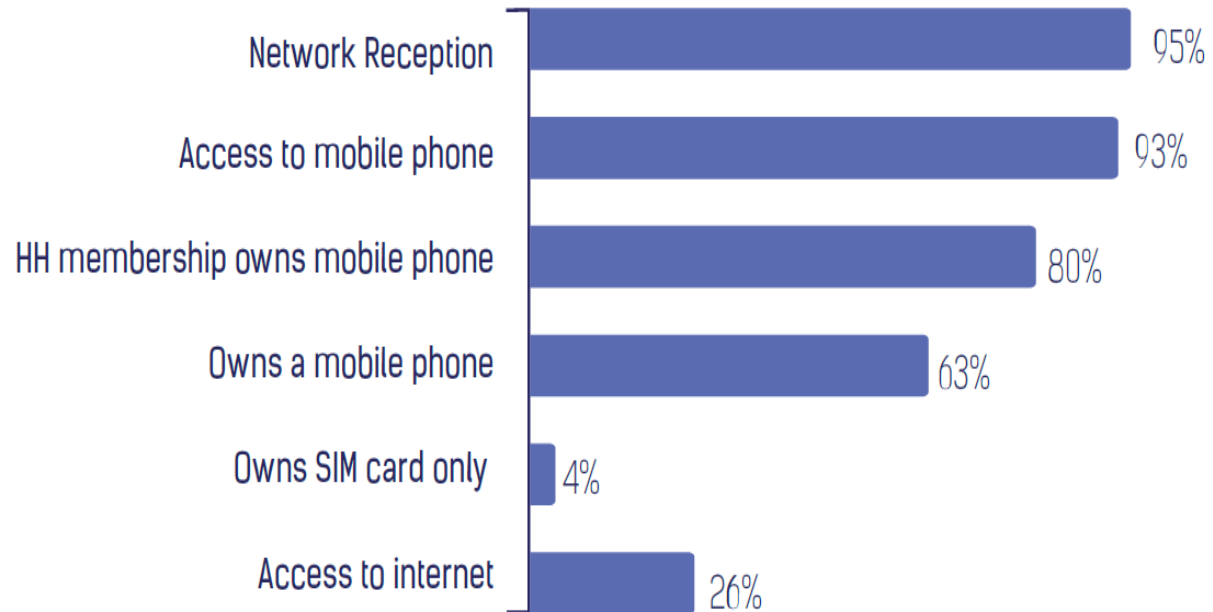


Chart 14: Do you have access to?

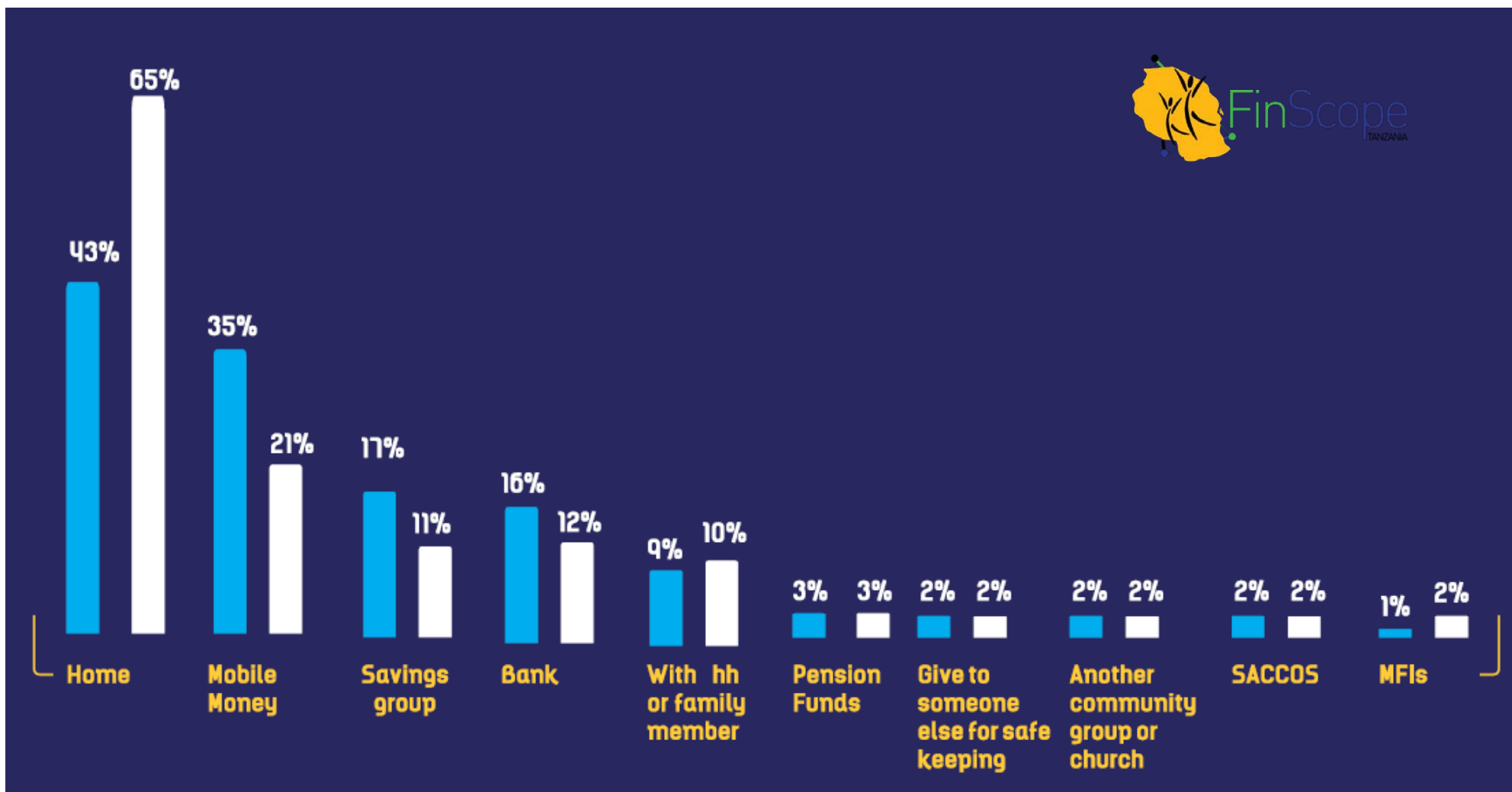




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Where Tanzanians save

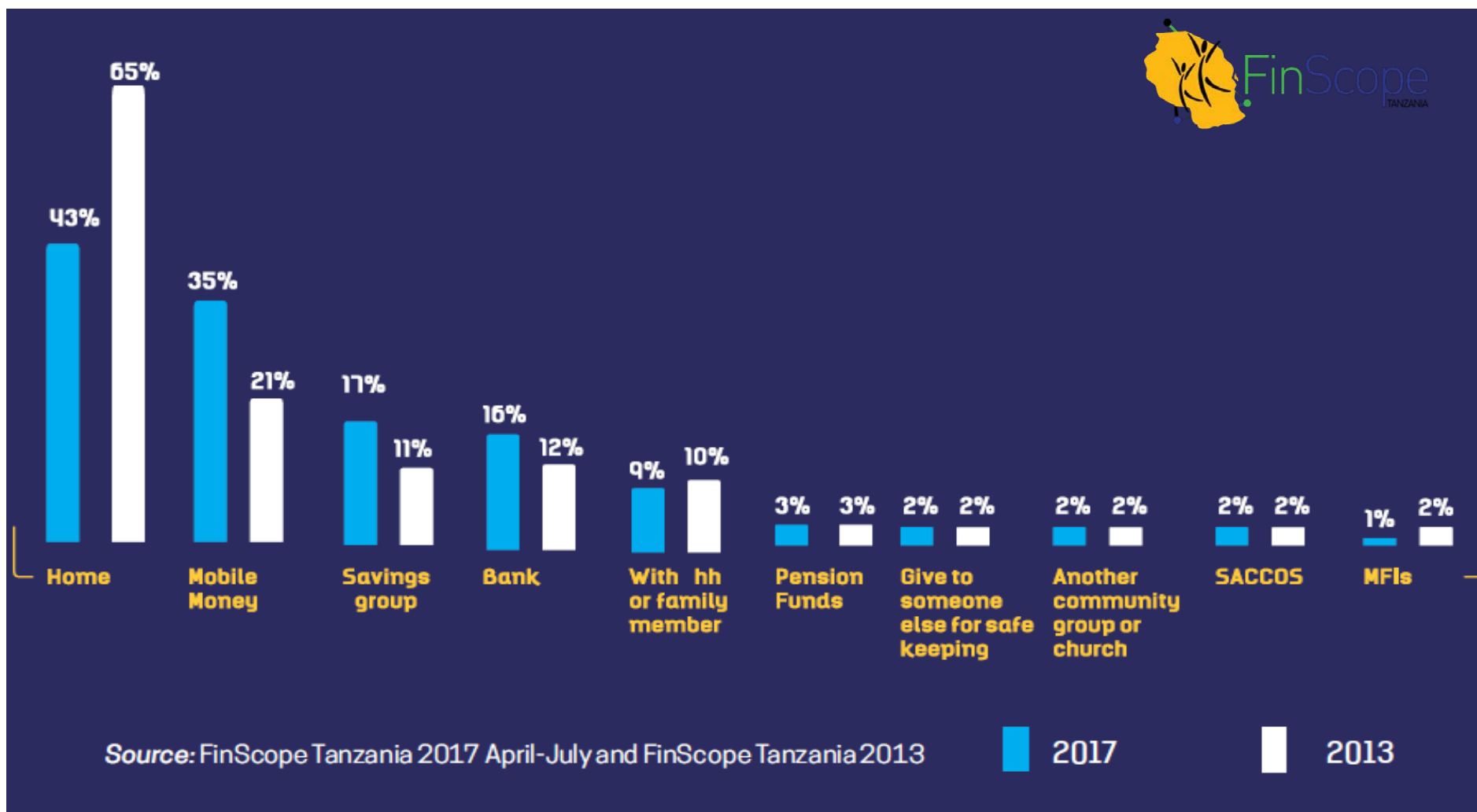




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Where Tanzanians borrow





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Analysis of farmers from Finscope 2017

The data analysis exercise is an attempt to give insights on the financial services profiles and needs of farmers in Tanzania.

The following are some of the preliminary findings. The complete findings will be launched in a report in April, 2018

AgriFin Accelerate Data
Analytics: FinScope 2017

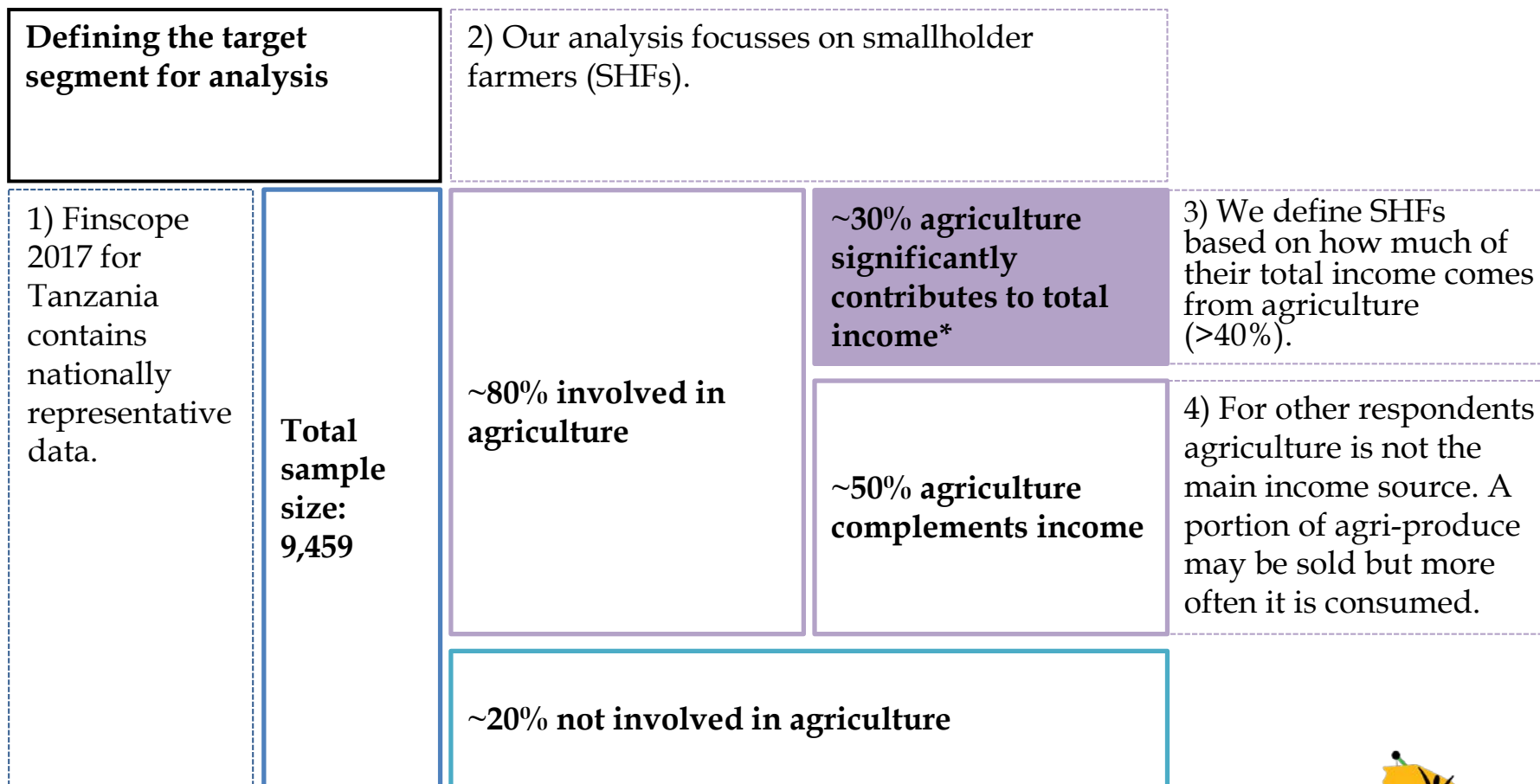
NATHAN
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 **MERCY CORPS** | **AGRIFIN ACCELERATE**

 **FSDT**
FINANCIAL SERVICES DELIVERY TRUST



Segmentation of FinScope Tanzania 2017 data



* These are households for which income from selling their agricultural produce (crops or livestock) contributes more than 40% to overall household income.





Segmentation of farmers

FinScope 2017 Tanzania sample (9,459)

Off-farm laborers (26%)

- Live predominately in rural areas.
- Selling agricultural produce is not the main income source.
- Some produce might be sold to complement income but more often it is consumed by the HH.
- Often income is complemented through casual labor.
- Incomes are often low.
- Uptake of financial services is slightly higher compared to SHFs.

- Condition 1:** Household is involved in agriculture
Condition 2: Agriculture does not contribute a significant amount to overall income
Condition 3: The HH is not fully employed and the farm is not large

Smallholder farmers (32%)

- Almost all live in rural areas.
- Selling agricultural produce is the main income source.
- Incomes are often low although there is a segment that more successful and regards farming as their business.
- SHFs have the lowest levels of formal financial service uptake.
- SHFs save more often than small scale farmers.

- Condition 1:** Agriculture contributes a significant amount to overall income (>40%)
Condition 2: HH sells predominantly what it grows.
Condition 3: The HH does not own large farm (<10 acres)

Diversified entrepreneurs and formal employees (42%)

- More often live in urban or peri-urban areas.
- More often have a full-employment contract or are self-employed traders or service providers.
- About half are not involved in agriculture at all but some of those who are own large farms.
- Financial inclusion and income levels are high for this segment.

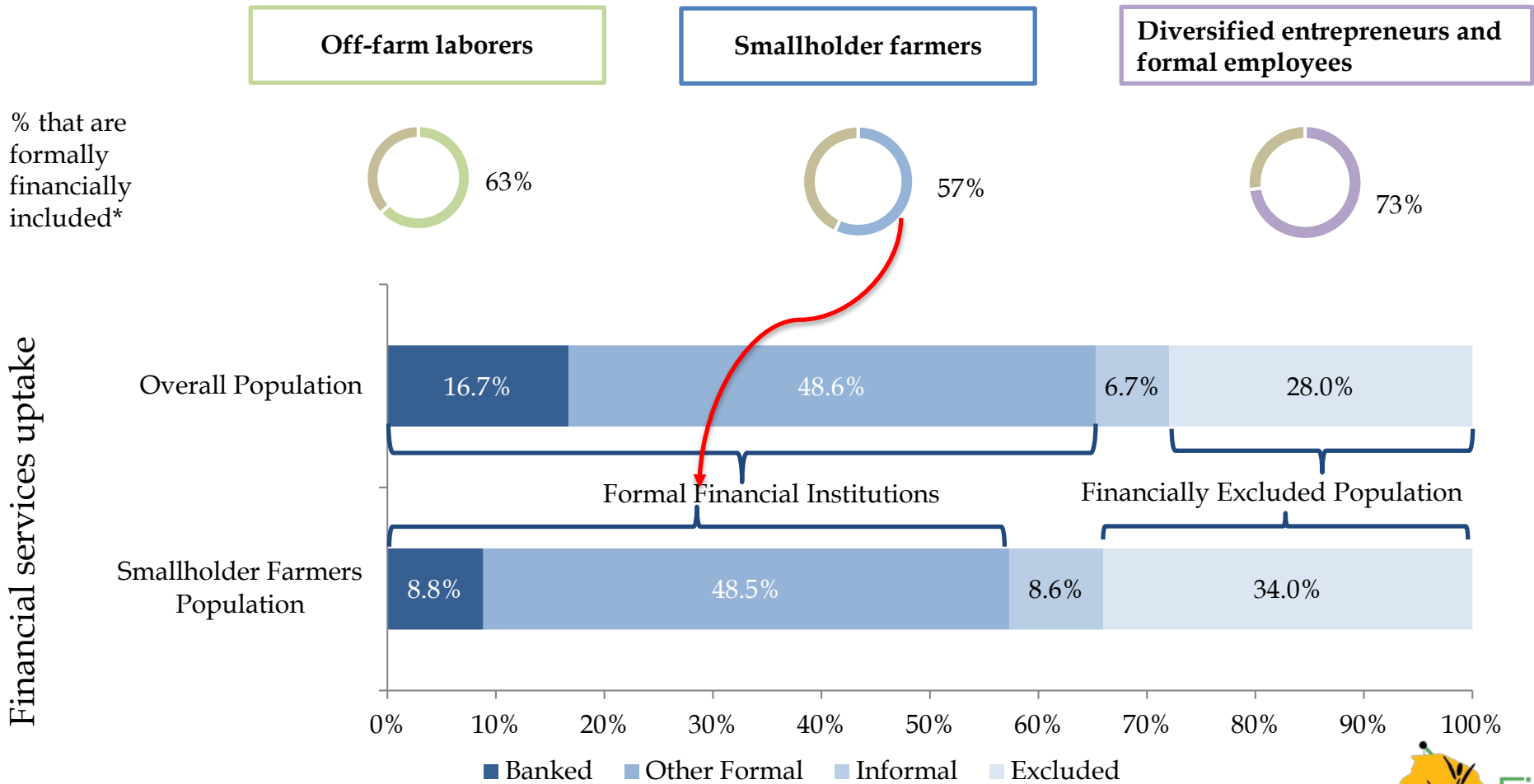
- Condition 1:** Does not have to be involved in agriculture
Condition 2: Can be involved in regular employment
Condition 3: Can own large farm



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Financial inclusion of farmers

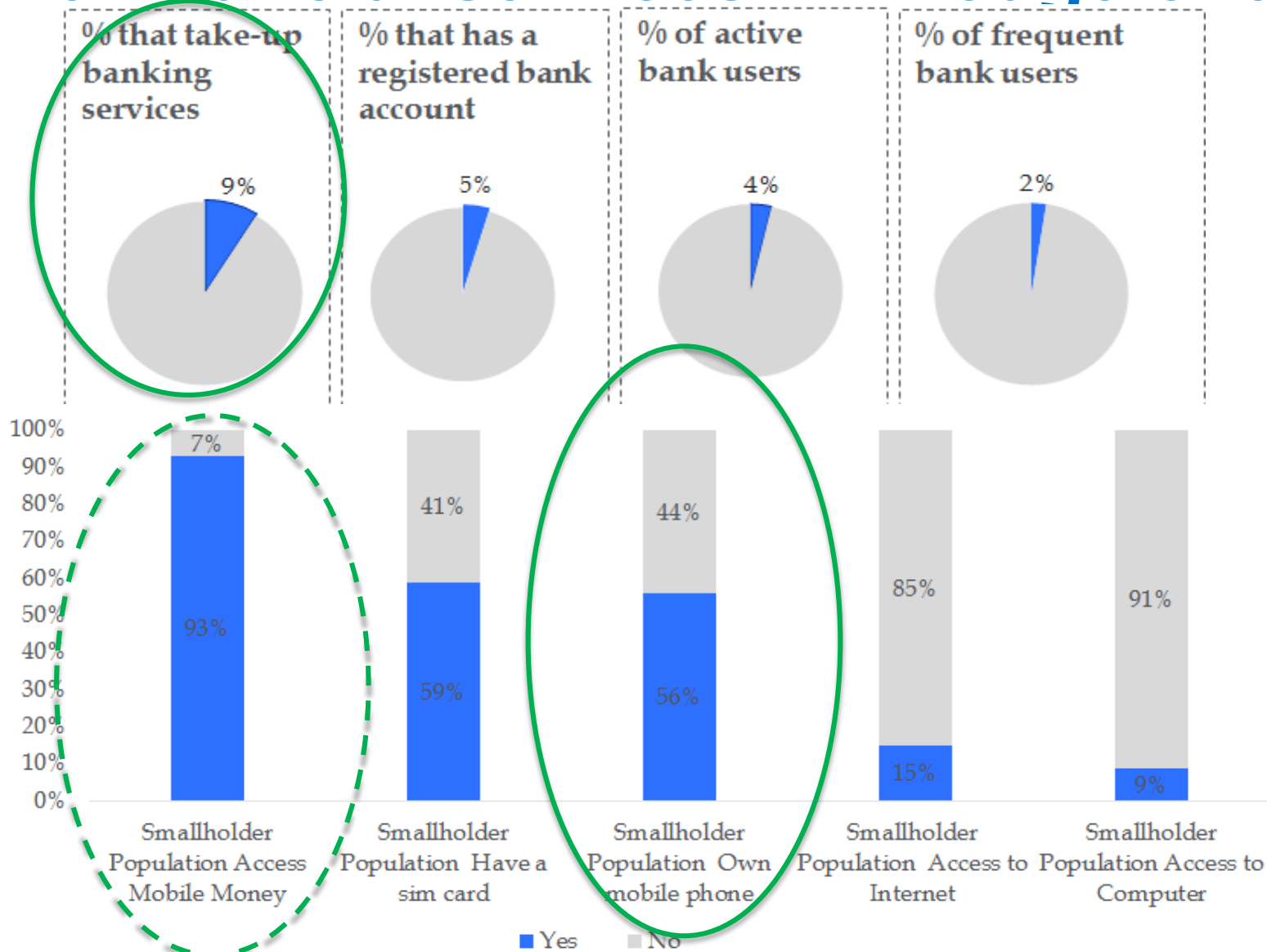




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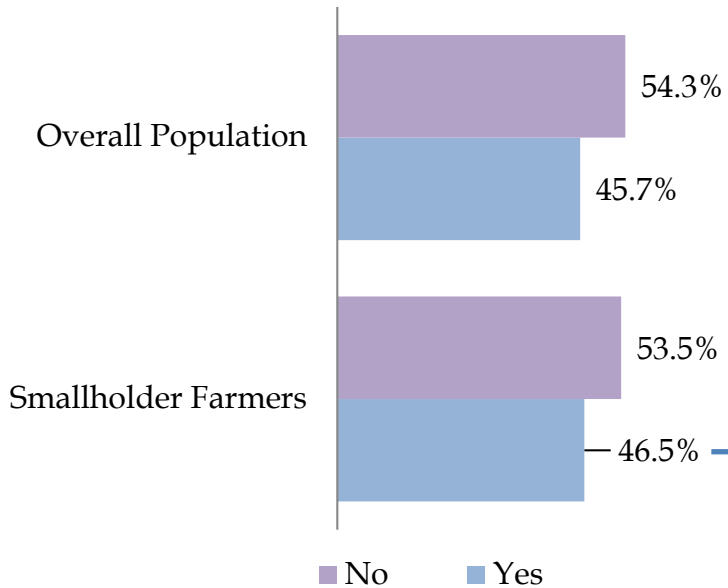
Mobile financial services with edge over banks



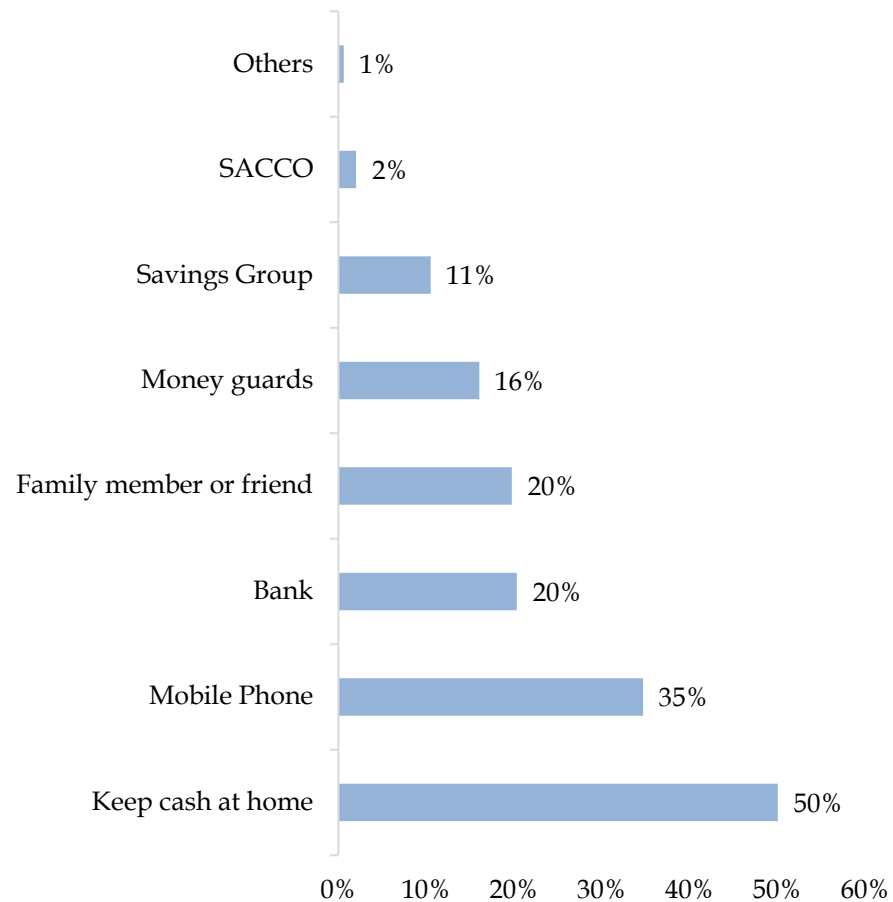


Savings behavior of smallholder farmers

Saving Behavior



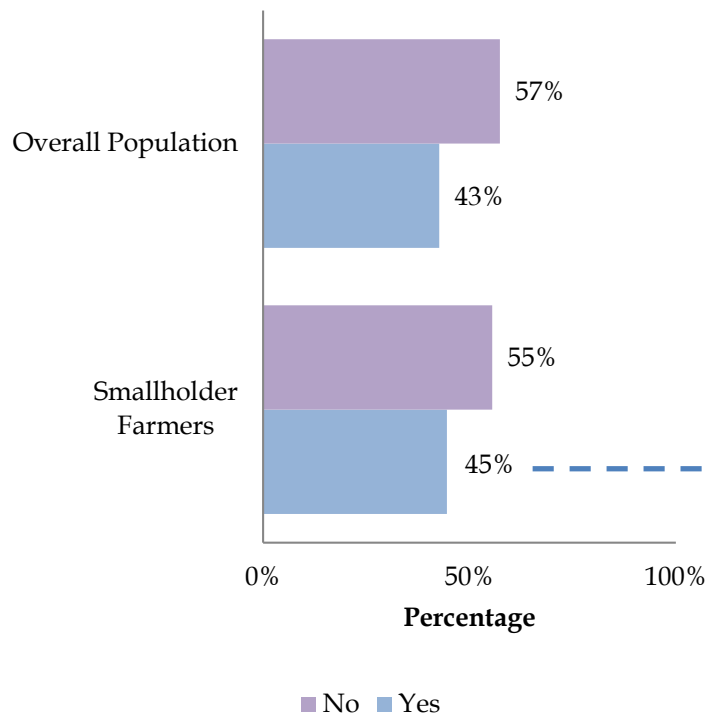
Savings Channels Used By SHFs



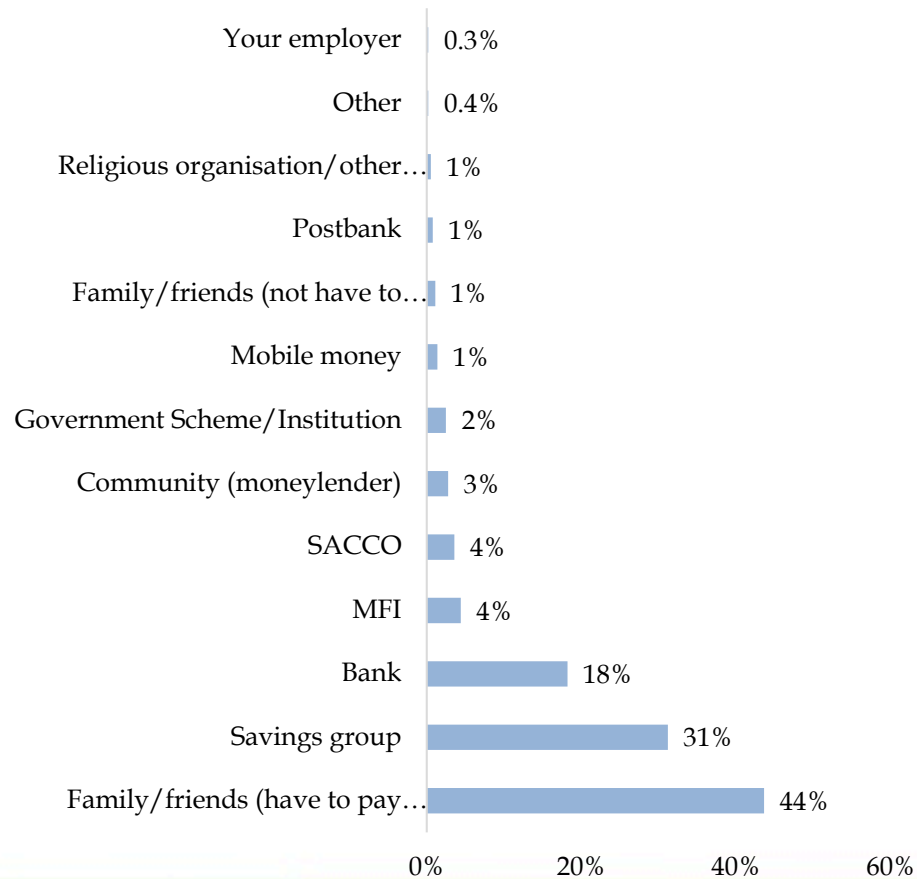


Borrowing behavior of smallholders

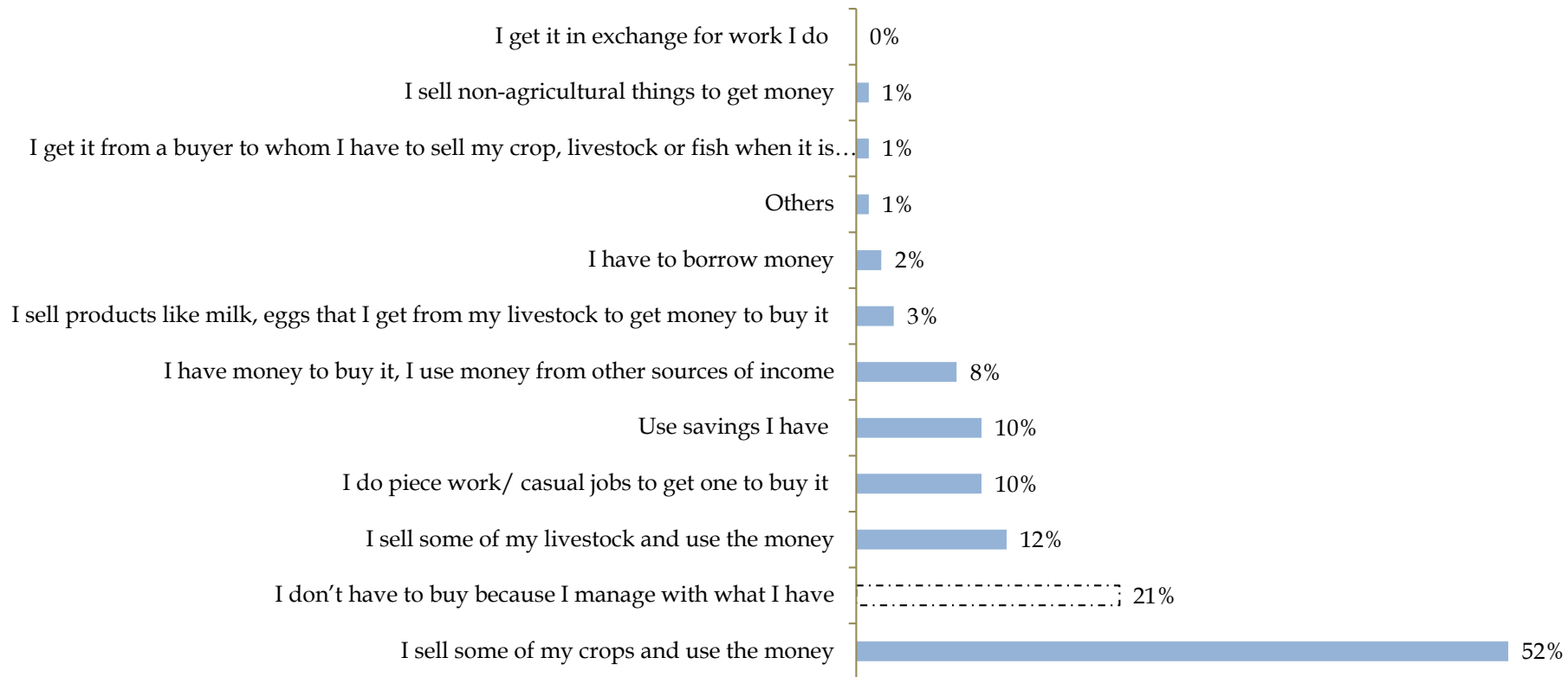
Borrowing Behavior



Borrowing Channels Used By SHFs



Source of funds needed for farming activities





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Data portal on FSDT website can be used for analysis: i2ifacility.org/data-portal/TZA/2017

🔗 i2ifacility.org/data-portal/TZA/2017



Data portal

Insights

Initiatives

Tools

About



← GO TO THE TANZANIA DATA PORTAL

Tanzania

Customise indicators

BASED ON ADULT POPULATION OF

27.86 million

All jurisdictions in 2017

Showing data about Credit Financial services uptake Savings

Sources of income and Level of education



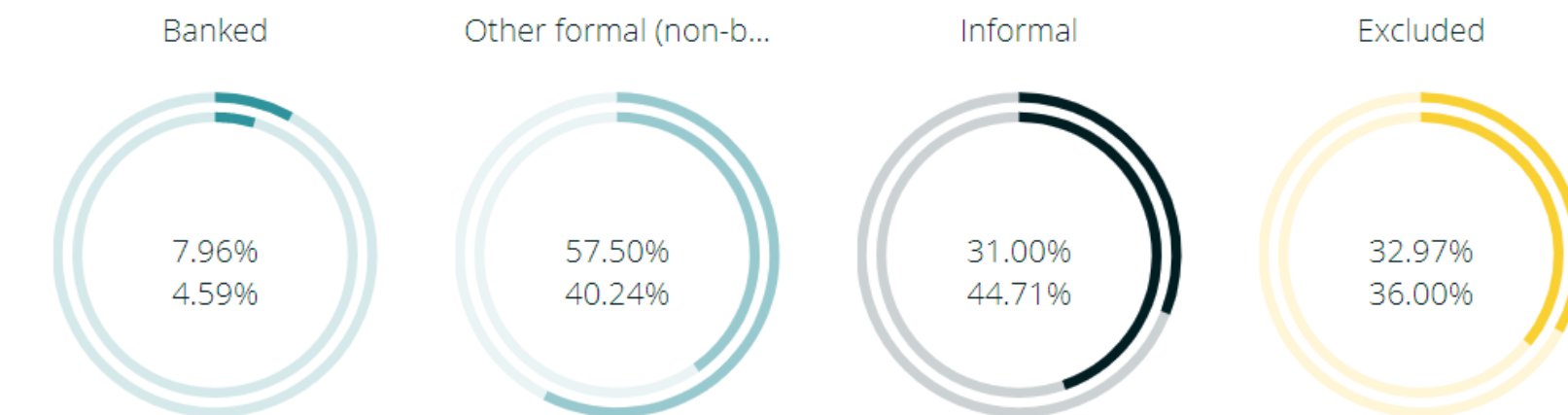
Graphics

Table



Portal analysis: Uptake of services by farmers 2013 -2017

Financial services uptake



Outer ring: Tanzania 2017

Inner ring: Tanzania 2013





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Key takeaways for demand side

1. Financial inclusion for farmers is growing, boosted by mobile financial services which has much greater access than banks.
2. Credit used by farmers is still mostly informal which is a challenge for their enterprise growth.
3. Prevalence of cash savings remains an untapped opportunity for the financial sector in Tanzania.
4. There is still a challenge for access to transformative capital for farmers



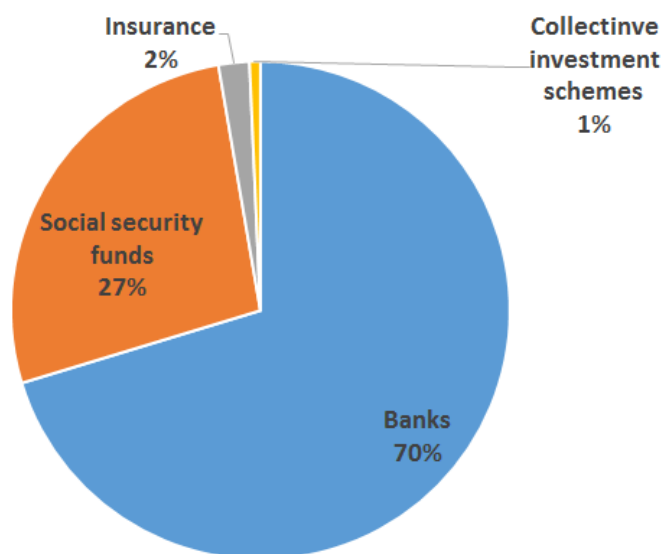
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The Financial Sector in Tanzania



Snapshot of the financial sector in Tanzania



The financial sector is dominated by banks (70%) of which 94% of them are commercial banks.

The dominance of commercial banks means that their health and appetite is a determinant to credit flows to agriculture

Table 3.1: Structure of Banking Sector Assets

Types of institution	(Percent)						
	Mar-15	Jun-15	Sep-15	Mar-16	Jun-16	Sep-16	Mar-17
Commercial banks	94.9	95.4	94.7	94.3	94.3	94.2	94.0
Community banks	2.1	2.1	2.2	2.2	2.2	2.3	2.3
DFI	2.5	2.0	2.7	3.1	2.9	2.9	3.1
MFB	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Total Assets (TZS Bn)	23,602.0	25,267.0	26,505.3	27,659.9	26,312.0	27,714.9	28,314.3

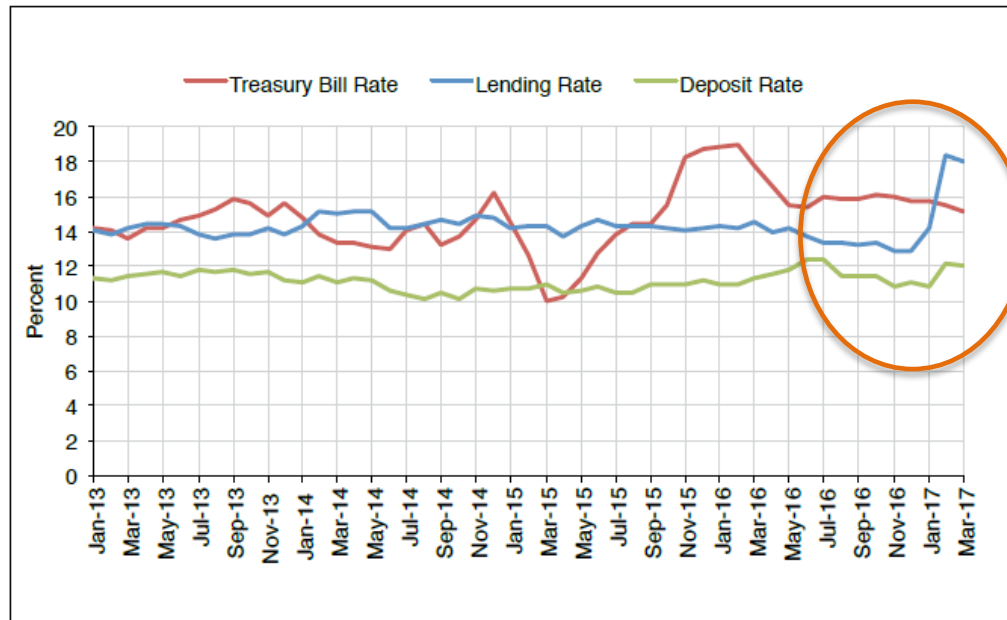
Source: Bank of Tanzania





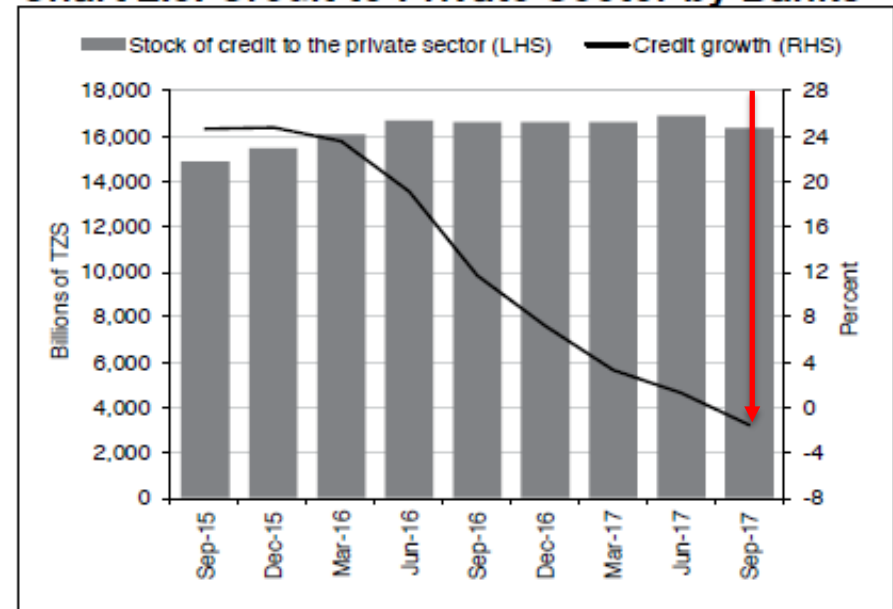
2017 was a tough year with negative credit growth and spike in lending rates

Chart 1.5: One Year Interest Rate Movements January 2013 to March 2017



Source: Bank of Tanzania.

Chart 2.3: Credit to Private Sector by Banks

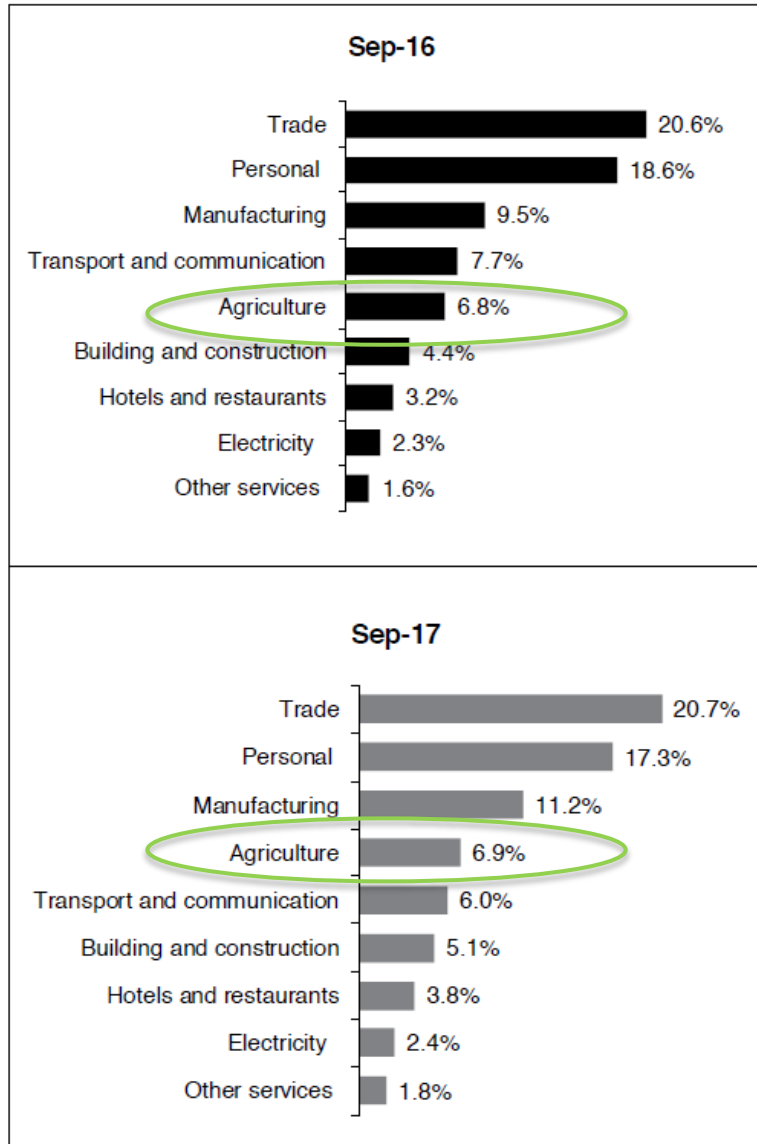


Source: Commercial banks, Bank of Tanzania calculations
Note: LHS denotes left hand scale and RHS, right hand scale





Chart 2.5: Shares of Banks' Credit to Selected Economic Activities

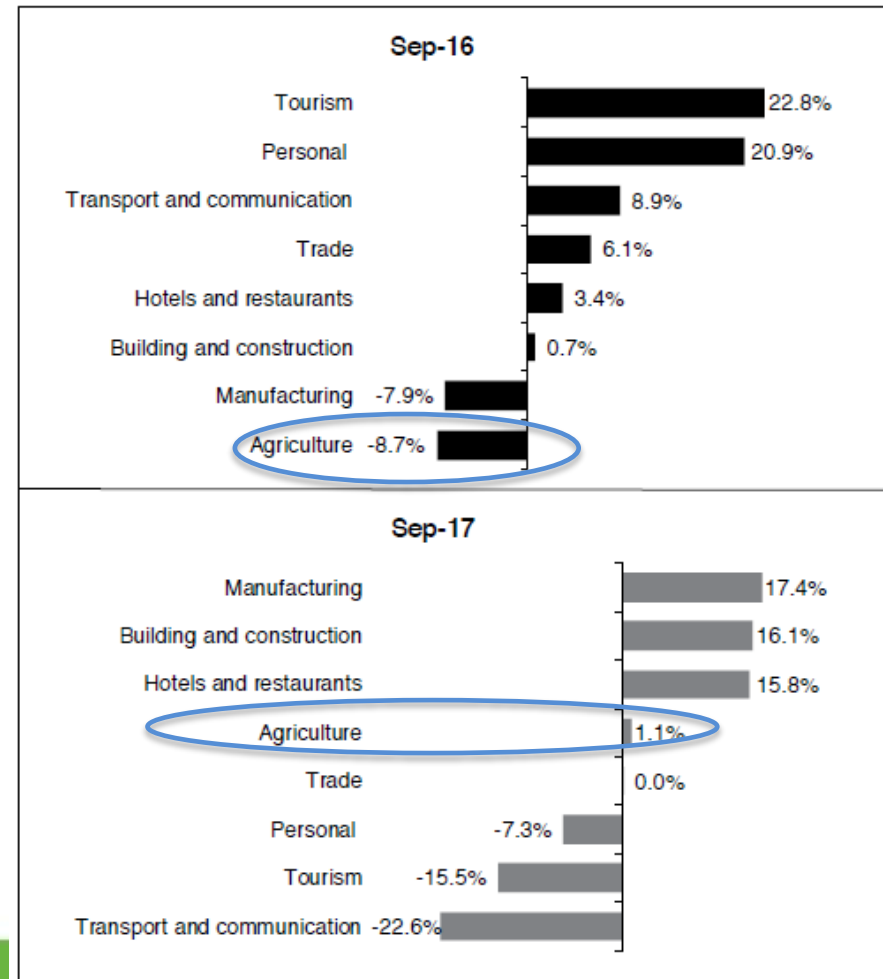


Source: Commercial banks and Bank of Tanzania calculations

Lending to agriculture stalled

Between 2016 and 2017 there was only 1.1% growth in lending to agriculture sector and exposure was 6.9%

Chart 2.4: Annual Growth of Banks' Credit to Selected Economic Activities

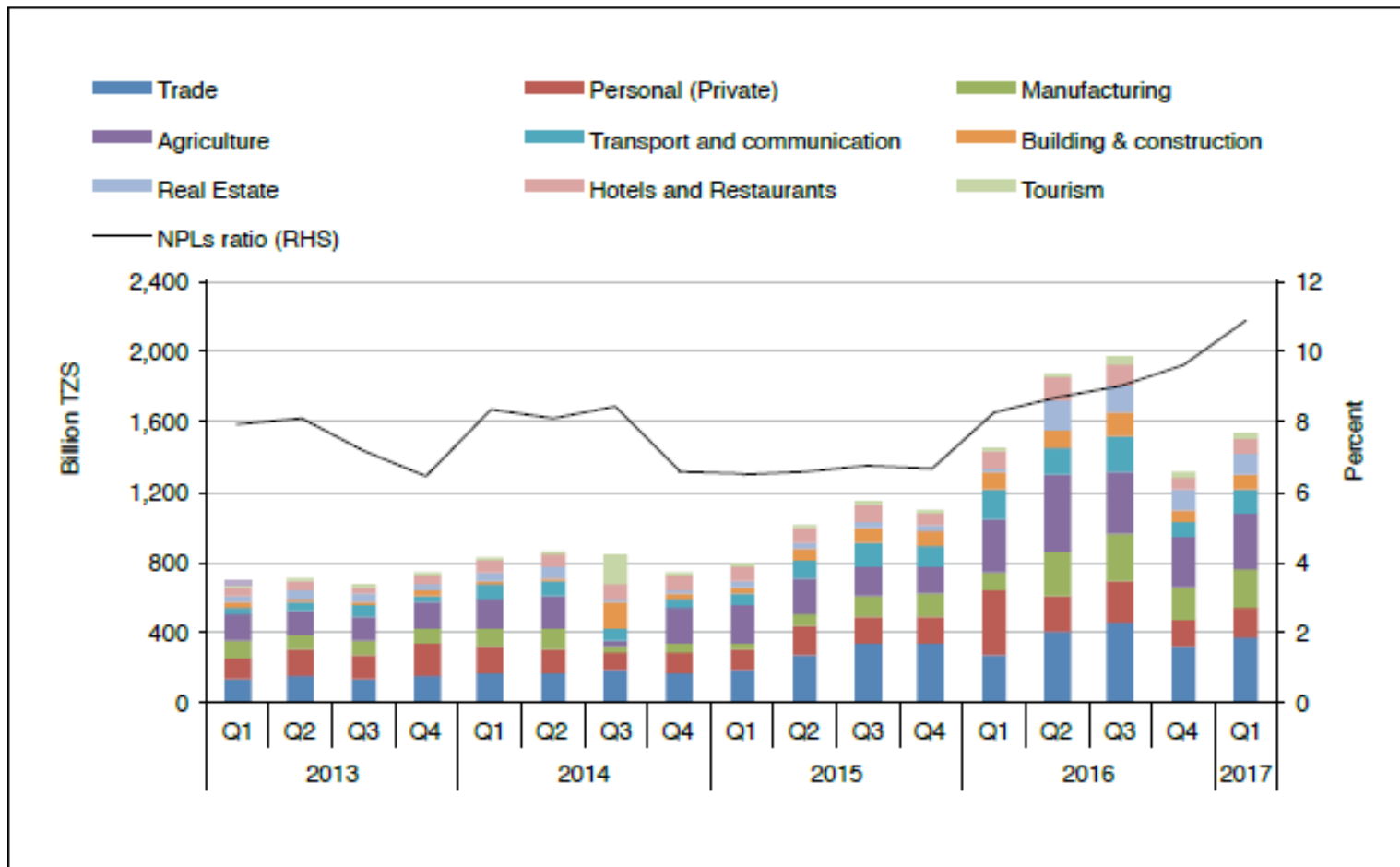


Source: Commercial banks and Bank of Tanzania calculations





Rising NPLs in banking sector hindering credit



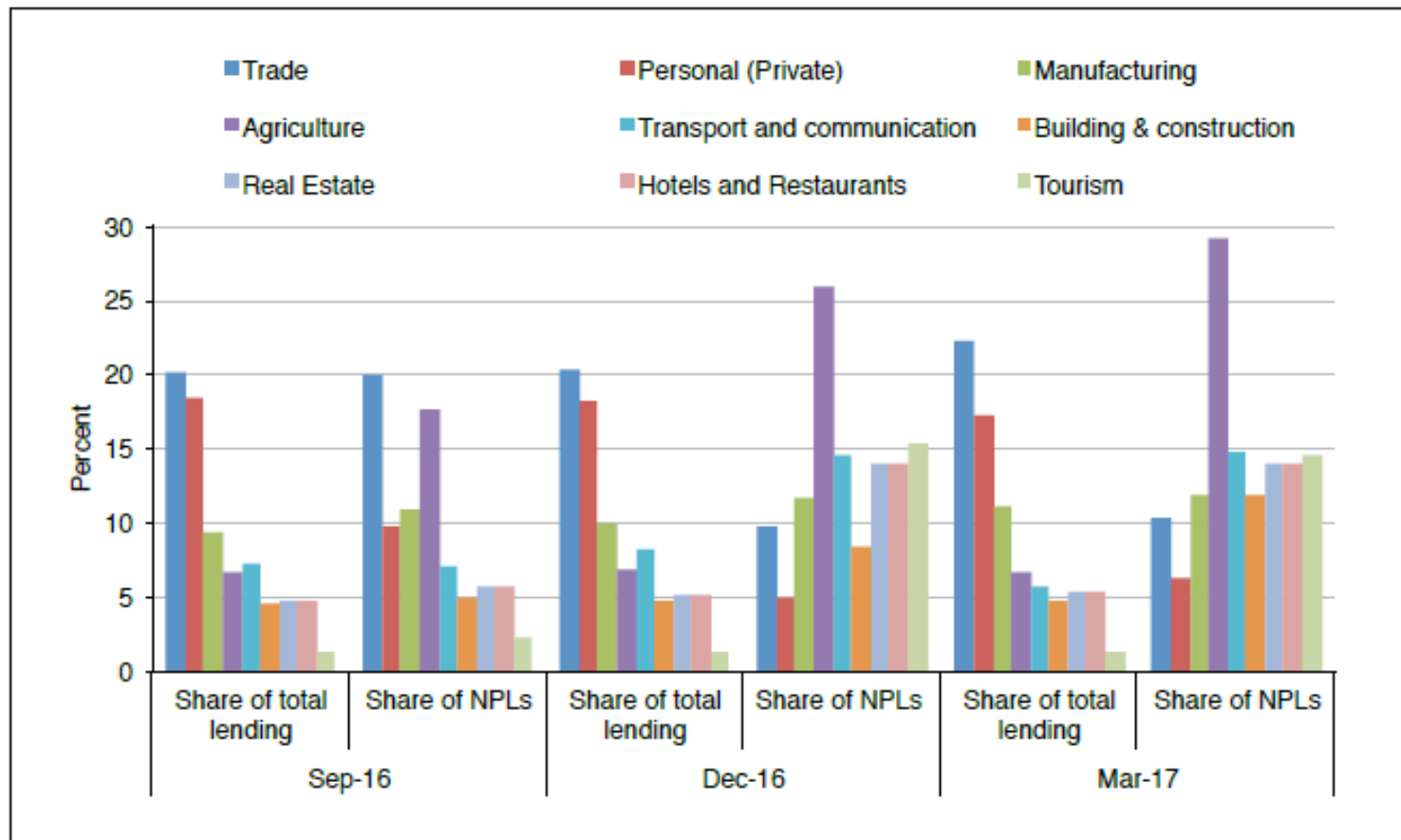
Source: Bank of Tanzania





Disproportionate share of agriculture in NPLs can impact credit trend to agriculture

Chart 3.4: Credit and Non-Performing Loans for Selected Economic Activities



Source: Bank of Tanzania





Key takeaways on the financial sector

1. Commercial banks are still very key to enabling financial inclusion to agriculture
2. The NPLs have risen in the banking sector which can impact credit flow.
3. The high concentration of NPLs from agriculture may limit the appetite for banks to lend to agriculture.
4. Capital for agriculture will likely remain a challenge



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The gaps and opportunities



Why the gaps...these are not new....

1. Information asymmetries on farmers and farming activities by banks (lack of data, collaterals, etc.)
2. Knowledge gaps on agricultural sector opportunities, risks, markets, etc.
3. High cost of outreach to smallholder farmers relative to size of transactions.
4. Addressability challenges in financial education and awareness to service rural markets
5. Low product innovation due to capacity factors above and regulatory constraints



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How do we realize improved financial inclusion in agriculture (farmers and agribusinesses) for purpose of modernization, commercialization, and industrialization?



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The way forward.

1. We need to create new business models for assessing and investing in agriculture sector in order to effectively fill knowledge gaps and to spark innovations. The models need to be collaborative within the financial sector. Institutions such as TADB, SAGCOT CTF, with a long term investment horizon and high risk appetite, provide opportunities to change how the financial sector engages in agriculture and how risk is allocated and managed.
2. We need to diversify from an enterprise approach to lending to farmers and agribusinesses to a sectoral (value chain, sub sector, etc.) approach in assessing the opportunities, risks, and performance. This will help to grow opportunities and address some of the information asymmetries, unlock long term opportunities, and change existing risk profiles.



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The way forward.

3. We need to continue strengthening aggregation models for the benefit of economies of scale. The strengthening and growth of membership of cooperatives provides a great opportunity to reach and to service smallholder farmers at scale and with potential impact to improve livelihoods.
4. The availability of mobile networks in rural Tanzania provides an opportunity to introduce more data devices that can bring more efficiency and innovation to financing smallholder farmers







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Priority value chains were selected based on :

- Partners' Resource Commitment for Technical Assistance Programs in Priority Value Chains –** FIT4Ag Partners have supported farmer training and promotion of soya, potato, sunflower and dairy value chains
- Industrial-Based Demand** –Prioritizing off-take demand ensures we create guaranteed market for produce and create employment in agro-processing.

CRITERIA	 SOYA	 POTATOES	 SUNFLOWER	 DAIRY
INDUSTRIAL BASED DEMAND	Production of 5,000MT – 10,000MT with high demand of 120,000MT from animal feed processors.	Significant production of 1,200,000MT produced by 426,000+ farmers distributed through a fragmented value chain	Production of 65,000MT of sunflower with installed capacity of 181,000MT	Production of 4,000 Litres daily with 10,000 Litres processing capacity in Njombe
FINANCING GAP	TZS 28bn ¹ Est. TZS 14bn for quality inputs, TZS 8bn for storage and processing and TZS 6bn for dry extruder	TZS 396bn ² Est. TZS 130bn input financing, TZS 250bn for cold storage and TZS 16bn for processing and logistics	TZS 27bn ³ Est. TZS 400m input financing through contract farming and TZS 26.6bn for crushing and refined oil processing	TZS 110bn ⁴ Est TZS 110bn to 8,000 farmers for new breeds, animal feeds and genetics technology

An opportunity based approach to mobilizing financing.

Fit4Ag initiative identified over 500bn shillings in opportunities



For policy recommendations

Promote platforms and collaborations that can address knowledge and opportunity gaps

- A long term focus on value chains and sub-sectors rather than enterprises will require collaborations across institutions so that we more effectively leverage strength of institutions.

Continue with reforms and strengthening of cooperatives

- Cooperatives can be key drivers of financial inclusion to smallholder farmers and to rural households. Cooperatives can be main agents for banks in rural markets.

Incentivize rural and agriculture investment schemes

- Investment schemes that work for rural markets and agriculture sector will incentive more participation of farmers into mechanization and industrialization.

Crowd in technology to capture data for financing and to enable other services

- Delivery, quantity, quality, sales, prices, payments

THANK YOU



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