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
Access to Financial Services in Tanzania

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

2B 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%
Confidence Interval: 95%
Data collection period: April to July 2017

9,459
ACHIEVED SAMPLE

WEIGHTED DATA REPRESENTS:
Tanzanian population who are 10 or older
2017: 27,864,302
2013: 24,231,763
Increase in population from 2013 (Percentage)
Finscope 2017 Highlights

Chart 1: Urban – Rural Split
- 34% Urban
- 66% Rural

Chart 2: Gender Split
- 51% Female
- 49% Male

Chart 3: Age Distribution
- 16-24: 26%
- 25-34: 26%
- 35-44: 19%
- 45-54: 14%
- 55-64: 7%
- 65+ older: 8%

Chart 4: Highest Level of Education
- Tertiary: 3%
- Secondary: 18%
- Primary completed: 64%
- No formal education: 15%
Finscope 2017 Highlights

Chart 5: Main Revenue - Generating Activity

- Farmers and fishers: 41%
- Piece work/casual labour: 20%
- Dependents: 18%
- Traders - non-agricultural: 7%
- Traders - agricultural products: 2%
- Service providers: 5%
- Formal sector salaried: 4%
- Informal sector salaried: 2%
- Social welfare: 1%

14% Business Owners

Source: FinScope Tanzania 2017 April-July

Chart 14: Do you have access to?

- Network Reception: 95%
- Access to mobile phone: 93%
- HH membership owns mobile phone: 80%
- Owns a mobile phone: 63%
- Owns SIM card only: 4%
- Access to internet: 26%

Source: FinScope Tanzania 2017 April-July
Where Tanzanians save

- 65% Home
- 43% Mobile Money
- 35% Savings group
- 21% Bank
- 17% With hh or family member
- 12% Pension Funds
- 10% Give to someone else for safe keeping
- 9% Another community group or church
- 3% SACCOS
- 3% MFIs
- 2% Others
Where Tanzanians borrow

- **Home**: 65% in 2017, 43% in 2013
- **Mobile Money**: 35% in 2017, 21% in 2013
- **Savings group**: 21% in 2017, 17% in 2013
- **Bank**: 17% in 2017, 16% in 2013
- **With hh or family member**: 16% in 2017, 12% in 2013
- **Pension Funds**: 9% in 2017, 10% in 2013
- **Give to someone else for safe keeping**: 3% in 2017, 3% in 2013
- **Another community group or church**: 3% in 2017, 3% in 2013
- **SACCOS**: 2% in 2017, 2% in 2013
- **MFIs**: 1% in 2017, 2% in 2013

*Source: FinScope Tanzania 2017 April-July and FinScope Tanzania 2013*
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.
## Segmentation of FinScope Tanzania 2017 data

<table>
<thead>
<tr>
<th>Defining the target segment for analysis</th>
<th>2) Our analysis focusses on smallholder farmers (SHFs).</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Finscope 2017 for Tanzania contains nationally representative data.</td>
<td>~80% involved in agriculture</td>
</tr>
<tr>
<td>Total sample size: 9,459</td>
<td>~30% agriculture significantly contributes to total income*</td>
</tr>
<tr>
<td>~20% not involved in agriculture</td>
<td>~50% agriculture complements income</td>
</tr>
<tr>
<td></td>
<td>3) We define SHFs based on how much of their total income comes from agriculture (&gt;40%).</td>
</tr>
<tr>
<td></td>
<td>4) For other respondents agriculture is not the main income source. A portion of agri-produce may be sold but more often it is consumed.</td>
</tr>
</tbody>
</table>

*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

#### 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.

#### 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.

#### 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.

### Conditions

**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

**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)

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

% that are formally financially included:
- Off-farm laborers: 63%
- Smallholder farmers: 57%
- Diversified entrepreneurs and formal employees: 73%

Financial services uptake:
- Overall Population:
  - Banked: 16.7%
  - Other Formal: 48.6%
  - Informal: 6.7%
  - Excluded: 28.0%
- Smallholder Farmers Population:
  - Banked: 8.8%
  - Other Formal: 48.5%
  - Informal: 8.6%
  - Excluded: 34.0%
Mobile financial services with edge over banks
Savings behavior of smallholder farmers

<table>
<thead>
<tr>
<th>Saving Behavior</th>
<th>Overall Population</th>
<th>Smallholder Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>45.7%</td>
<td>46.5%</td>
</tr>
<tr>
<td>Yes</td>
<td>54.3%</td>
<td>53.5%</td>
</tr>
</tbody>
</table>

Savings Channels Used By SHFs

- Others: 1%
- SACCO: 2%
- Savings Group: 11%
- Money guards: 16%
- Family member or friend: 20%
- Bank: 20%
- Mobile Phone: 35%
- Keep cash at home: 50%
Borrowing behavior of smallholders

**Borrowing Behavior**

<table>
<thead>
<tr>
<th>Overall Population</th>
<th>Smallholder Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>43%</td>
<td>45%</td>
</tr>
<tr>
<td>57%</td>
<td>55%</td>
</tr>
</tbody>
</table>

**Borrowing Channels Used By SHFs**

- Your employer: 0.3%
- Other: 0.4%
- Religious organisation/other: 1%
- Postbank: 1%
- Family/friends (not have to pay): 1%
- Mobile money: 1%
- Government Scheme/Institution: 2%
- Community (moneylender): 3%
- SACCO: 4%
- MFI: 4%
- Bank: 18%
- Savings group: 31%
- Family/friends (have to pay): 44%
I sell some of my crops and use the money

I don't have to buy because I manage with what I have

I sell some of my livestock and use the money

I do piece work/ casual jobs to get one to buy it

I have money to buy it, I use money from other sources of income

Use savings I have

I have to borrow money

I sell products like milk, eggs that I get from my livestock to get money to buy it

I have money to buy it, I use money from other sources of income

I sell non-agricultural things to get money

I get it from a buyer to whom I have to sell my crop, livestock or fish when it is...
Data portal on FSDT website can be used for analysis: i2ifacility.org/data-portal/TZA/2017
Portal analysis: Uptake of services by farmers 2013 -2017

Financial services uptake

- Banked: 7.96% (Excluded: 4.59%)
- Other formal (non-b...): 57.50% (Excluded: 40.24%)
- Informal: 31.00% (Excluded: 44.71%)
- Excluded: 32.97% (Excluded: 36.00%)

Outer ring: Tanzania 2017
Inner ring: Tanzania 2013
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.
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.
2017 was a tough year with negative credit growth and spike in lending rates
Between 2016 and 2017 there was only 1.1% growth in lending to agriculture sector and exposure was 6.9%.
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
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
How do we realize improved financial inclusion in agriculture (farmers and agribusinesses) for purpose of modernization, commercialization, and industrialization?
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.
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.
Priority value chains were selected based on:

1. **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.

2. **Industrial-Based Demand** – Prioritizing off-take demand ensures we create a guaranteed market for produce and create employment in agro-processing.

### Criteria

#### Industrial Based Demand

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Soya</th>
<th>Potatoes</th>
<th>Sunflower</th>
<th>Dairy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>Production of 5,000MT – 10,000MT with high demand of 120,000MT from animal feed processors.</td>
<td>Significant production of 1,200,000MT produced by 426,000+ farmers distributed through a fragmented value chain</td>
<td>Production of 65,000MT of sunflower with installed capacity of 181,000MT</td>
<td>Production of 4,000 Litres daily with 10,000 Litres processing capacity in Njombe</td>
</tr>
</tbody>
</table>

### Financing Gap

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Soya</th>
<th>Potatoes</th>
<th>Sunflower</th>
<th>Dairy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Est. Financing</td>
<td>TZS 28bn¹ for quality inputs, TZS 8bn for storage and processing and TZS 6bn for dry extruder</td>
<td>TZS 396bn² for cold storage and TZS 16bn for processing and logistics</td>
<td>TZS 27bn³ for input financing through contract farming and TZS 400m for crushing and refined oil processing</td>
<td>Est. TZS 110bn for 8,000 farmers for new breeds, animal feeds and genetics technology</td>
</tr>
</tbody>
</table>

**An opportunity based approach to mobilizing financing.**

Fit4Ag initiative identified over 500bn shillings in opportunities.
# For policy recommendations

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote platforms and collaborations that can address knowledge and opportunity gaps</td>
<td>- 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.</td>
</tr>
<tr>
<td>Continue with reforms and strengthening of cooperatives</td>
<td>- 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.</td>
</tr>
<tr>
<td>Incentivize rural and agriculture investment schemes</td>
<td>- Investment schemes that work for rural markets and agriculture sector will incentive more participation of farmers into mechanization and industrialization.</td>
</tr>
<tr>
<td>Crowd in technology to capture data for financing and to enable other services</td>
<td>- Delivery, quantity, quality, sales, prices, payments</td>
</tr>
</tbody>
</table>
THANK YOU