OUTLINE

1. Objective & Approach
2. The “AgFiMS” market
3. Understanding access to finance
4. Exploring the data further
5. Next steps: Tanzania and beyond
1. OBJECTIVE & APPROACH

WHAT IS AGFIMS?

AgFiMS = Agricultural Finance Markets Scoping

- “To collect, interpret and disseminate information on the need for financial services among agricultural businesses and the factors that prohibit their access to financial services; and to facilitate interventions to overcome the gap”

- AgFiMS has two complementary research components:
  - Demand side component identifies commercially viable agribusinesses and their financial services needs
  - Supply side component quantifies current finance provision to the agricultural sector

- The first AgFiMS was developed and funded in Tanzania in 2011 by a consortium of the Gatsby Foundation and the Financial Sector Deepening Trust Tanzania, with financial support from the Rockefeller Foundation
1. OBJECTIVE & APPROACH
AGFIMS FOCUSES ON THE NEXT BANKABLE FRONTIER

- Philosophy: a private sector-oriented survey to profile the next bankable market
- Need: find a sub-set of agribusinesses – farmers and businesses in agricultural value chains – who offer a “quick win” for expanding the access frontier

- Approach: Use cut-off criteria to identify the commercially viable segment of the Tanzanian agricultural economy:

“Do you farm more than 5 acres, or earn more than $600 per year?”
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2. THE AGFIMS MARKET
THE SURVEY FOUND HALF A MILLION BANKABLE AGribusinesses

- 4,094 face-to-face interviews were conducted with agribusiness owners, representing a total population of over half a million qualifying agribusinesses: farmers & businesses
- The survey is representative at national, urban-rural, and agricultural zonal levels

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Total</th>
<th>AgFiMS qualifiers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td># of qualifiers</td>
</tr>
<tr>
<td>Producers (farmers)</td>
<td>1 932 222</td>
<td>492 980</td>
</tr>
<tr>
<td>Processors</td>
<td>21 017</td>
<td>8 199</td>
</tr>
<tr>
<td>Service Providers</td>
<td>62 502</td>
<td>18 793</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2 015 742</td>
<td>519 972</td>
</tr>
</tbody>
</table>
2. THE AGFIMS MARKET
AGFIMS AGRIBUSINESS OWNERS SHOULD BE ATTRACTIVE TO THE FINANCIAL SECTOR...

- Qualifying agribusiness owners are mostly experienced, sophisticated entrepreneurs
  - Nearly 3 in 5 see agriculture as a business opportunity
  - 7 in 10 have extensive experience in agribusiness
  - 80-90% would like to access credit for their business
2. THE AGFIMS MARKET

...BUT ONLY HALF HAVE SECURE ACCESS TO MARKETS

- Over half of AgFiMS agribusinesses sell informally, either locally or to traders; such farmers are aware that this is not their ideal market

- Transport and distance cited equally as key barriers to accessing preferred markets

![Diagram showing market access breakdown and barriers]

- Market access not a problem: 29.7%
- Not preferred market - village-based: 28.9%
- Transport to market: 19.7%
- Distance to preferred market: 17.5%
- Don't sell to preferred market: 44.0%
- Distance to village: 18.2%
- Transport to village: 14.0%
- Sell mainly in village or to public: 32.1%
- Sell mainly to middle-men: 19.5%
- Sell to a co-op, wholesaler, trading company or government: 48.3%

Of which:
- 12% sell some produce on contract
- 10% sell all produce on contract
2. THE AGFIMS MARKET
AGFIMS FARMERS ARE CONCENTRATED IN WELL-DEVELOPED VALUE CHAINS

- Among food producers, rice farmers are disproportionately well-represented.
- Within cash crops, tobacco is over-represented in AgFiMS; by contrast, less than 25% of farmers of cashew, cotton and coffee qualify for AgFiMS.
2. THE AGFIMS MARKET
AGFIMS BUSINESSES ARE MAINLY TRADERS

- Reflecting the inefficient nature of rural value chains, the vast majority of service providers are traders or retailers of some sort.
- The survey exposes a large market of reasonably prosperous middle-men with working capital and other financial needs.

**Main Activity, Service Providers**

- Buy/get agricultural products from farmers/processers and sell it: 82.9%
- Sell something to farmers for the purpose of farming eg. Seeds: 11.9%
- Provide a service to farmers or processors of farming products eg. Renting ploughs: 2.7%
- Sell something to processors of farming products for the purpose of processing eg. Processing machinery: 1.9%
- Rent land to farmers for farming purposes: 1.4%

**Main Activity, Processors**

- Crops: 72.8%
- By-products of animals/poultry: 5.3%
- Fruit: 4.2%
- Honey: 1.5%
- Vegetables: 0.4%
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ON A SIMPLE ACCESS STRAND, AGFIMS AGRIBUSINESSES ARE QUITE WELL-SERVED

- Because AgFiMS selects only commercial agribusinesses to qualify, access to finance is high compared to FinScope’s survey of the whole population
- However, levels of financial inclusion are still not high

Access to...

<table>
<thead>
<tr>
<th>Access Type</th>
<th>Formal financial services</th>
<th>Informal or semi-formal financial services</th>
<th>Saving in kind only</th>
<th>Family &amp; friends</th>
<th>Service providers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food crops</td>
<td>22.8%</td>
<td>17.6%</td>
<td>37.6%</td>
<td>20.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash crops</td>
<td>29.3%</td>
<td>11.0%</td>
<td>12.1%</td>
<td>33.9%</td>
<td>22.7%</td>
<td></td>
</tr>
<tr>
<td>Livestock</td>
<td>37.1%</td>
<td>10.0%</td>
<td>9.1%</td>
<td>31.5%</td>
<td>17.4%</td>
<td></td>
</tr>
<tr>
<td>Processors</td>
<td>53.9%</td>
<td>2.2%</td>
<td>10.6%</td>
<td>30.6%</td>
<td>2.6%</td>
<td></td>
</tr>
<tr>
<td>Service providers</td>
<td>39.0%</td>
<td>113.7%</td>
<td>9.1%</td>
<td>37.5%</td>
<td>9.6%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>27.6%</td>
<td>12.4%</td>
<td>35.6%</td>
<td>20.2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. UNDERSTANDING ACCESS TO FINANCE

AT PRESENT, MOST CREDIT IS INFORMAL...

- SACCOs & Microfinance are the main sources of informal credit
- Nearly half of borrowers turn to friends & family for their financial needs

What is your *main* source of credit?
3. UNDERSTANDING ACCESS TO FINANCE

...BUT BANKS HAVE A REAL OPPORTUNITY TO SERVE THIS MARKET

- Although 29% of agribusinesses are formally banked, less than 12% have access to credit from banks; others rely for credit on informal or semi-formal sources of finance.
- This is a huge opportunity to offer credit to customers the banks already reach & know.
3. UNDERSTANDING ACCESS TO FINANCE

EVEN ON CONSERVATIVE ASSUMPTIONS, THIS IS A MAJOR OPPORTUNITY

Current supply estimates

<table>
<thead>
<tr>
<th>Category</th>
<th>Business Owners</th>
<th>Credit</th>
<th>Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>4%</td>
<td>USD 36m</td>
<td>12% of borrowers</td>
</tr>
<tr>
<td>Semi-formal</td>
<td>7%</td>
<td>USD 6m</td>
<td>21% of borrowers</td>
</tr>
<tr>
<td>Informal</td>
<td>27%</td>
<td>USD 8m</td>
<td>79% of borrowers</td>
</tr>
<tr>
<td>Family</td>
<td>14%</td>
<td>USD 2m</td>
<td>40% of borrowers</td>
</tr>
</tbody>
</table>

Assumptions: Ts 3m Bank; Ts300k SACCO/MFI; Ts100k Informal; Ts50k Friends/family

... and potential demand is much higher than this – perhaps up to $300m
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4. EXPLORING THE DATA FURTHER
GEOGRAPHIC ANALYSIS

- The sampled agribusinesses can be mapped spacially, to inform regional policymaking or corporate strategies.

Food crop producers  Cash crop producers  Livestock farmers
4. EXPLORING THE DATA FURTHER
VALUE CHAIN ANALYSIS - 1

- Individual value chains can be analysed and compared with each other
- A comparison of cotton and rice farmers provides an example of the possibilities

**Where do you sell your produce?**

<table>
<thead>
<tr>
<th></th>
<th>Rice</th>
<th>Cotton</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell to coop, wholesaler, gvt, trade company</td>
<td>27.5%</td>
<td>32.1%</td>
<td>48.9%</td>
</tr>
<tr>
<td>Sell to middlemen/Processor</td>
<td>6.5%</td>
<td>22.2%</td>
<td>32.1%</td>
</tr>
<tr>
<td>Sell to public, village, local retailer</td>
<td>10.8%</td>
<td>40.4%</td>
<td>51.2%</td>
</tr>
</tbody>
</table>

**What problems do you face in marketing?**

<table>
<thead>
<tr>
<th></th>
<th>Rice</th>
<th>Cotton</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No problems</td>
<td>6.3%</td>
<td>13.3%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Other problems</td>
<td>1.3%</td>
<td>3.2%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Distance</td>
<td>13.0%</td>
<td>19.0%</td>
<td>32.1%</td>
</tr>
<tr>
<td>Transport</td>
<td>20.4%</td>
<td>20.3%</td>
<td>40.7%</td>
</tr>
<tr>
<td>Don't sell to preferred market</td>
<td>39.2%</td>
<td>47.7%</td>
<td>53.0%</td>
</tr>
</tbody>
</table>
- Twice as many rice farmers as cotton farmers access formal finance, including credit; but overall access is similar, as cotton farmers tap informal and family sources instead.
Analysis of agribusiness capacities – access to information, markets and networks – highlights three clusters of agribusiness within the financially unserved AgFiMS market:

- “Intensive care” agribusinesses with no access to information or networks at all
- “Development” agribusinesses who lack financial advice, and have limited access to other sorts of support
- “Opportunity” agribusinesses with good access to supporting services, who should be a prime target for financial institutions
4. EXPLORING THE DATA FURTHER

CLUSTER ANALYSIS - 2

- Access to information and infrastructure is a key differentiator between clusters

What access do you have to infrastructure?

- Electricity when needed
  - Financially served: 28.0%
  - “Opportunity”: 9.5%
  - “Development”: 8.8%
  - “Intensive care”: 6.7%

- Tarmac access
  - Financially served: 21.9%
  - “Opportunity”: 10.9%
  - “Development”: 10.4%
  - “Intensive care”: 9.0%

- Own mobile phone
  - Financially served: 85.0%
  - “Opportunity”: 68.1%
  - “Development”: 57.6%
  - “Intensive care”: 54.5%

- Internet access
  - Financially served: 4.9%
  - “Opportunity”: 0.3%
  - “Development”: 0.9%
  - “Intensive care”: 0.2%

What access do you have to technical assistance?

- Access to appropriate agri information
  - Financially served: 57.9%
  - “Opportunity”: 25.9%
  - “Development”: 21.3%
  - “Intensive care”: 8.1%

- Use credible business info sources
  - Financially served: 93.0%
  - “Opportunity”: 58.5%
  - “Development”: 43.1%
  - “Intensive care”: 38.6%

- Use credible financial info sources
  - Financially served: 0.0%
  - “Opportunity”: 4.6%
  - “Development”: 0.0%
  - “Intensive care”: 0.0%

- Network with other agribusiness owners
  - Financially served: 0.0%
  - “Opportunity”: 0.0%
  - “Development”: 0.0%
  - “Intensive care”: 0.0%

- Membership of appropriate groups
  - Financially served: 0.6%
  - “Opportunity”: 16.0%
  - “Development”: 36.1%
  - “Intensive care”: 0.0%
Formal market access is a second major differentiator between groups: those who are financially included tend to work within contracts, or sell to formal end buyers.

**How do you sell your produce?**

- **Sell to Coop/wholesaler/gvt/trading company**
  - Financially served: 58.9%
  - “Opportunity”: 45.0%
  - “Development”: 45.2%
  - “Intensive care”: 39.8%

- **Sell to middlemen/processors**
  - Financially served: 15.2%
  - “Opportunity”: 20.2%
  - “Development”: 25.5%
  - “Intensive care”: 21.3%

- **Sell to public, in village, retailer**
  - Financially served: 25.9%
  - “Opportunity”: 34.7%
  - “Development”: 29.3%
  - “Intensive care”: 38.9%

**Do you use contract marketing structures?**

- **Sell on contract - all produce**
  - Financially served: 20.1%
  - “Opportunity”: 7.3%
  - “Development”: 7.6%
  - “Intensive care”: 0.2%

- **Sell on contract - part of produce**
  - Financially served: 4.7%
  - “Opportunity”: 3.6%
  - “Development”: 1.2%
  - “Intensive care”: 0.4%
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5. NEXT STEPS: TANZANIA AND BEYOND

NEXT STEPS IN TANZANIA

- Launched in Tanzania 1st week of November by the Minister of Agriculture
- Currently disseminating research through workshops and individual meetings with banks & MFIs, businesses, donors and government
- The Financial Sector Deepening Trust Tanzania and the Gatsby Foundation will support further analysis and use of the results throughout 2012
- All data is open source and available to any interested parties – see www.agfims.org
AGFIMS BEYOND TANZANIA

- Like FinScope, AgFiMS can be replicated across Africa to promote the development of financial markets in other countries
- The development of a set of multi-country studies would bring a range of benefits
  - Learning across countries
  - Policy benchmarking
  - Cross-market analysis for multinational banks
- AgFiMS technical team have already approached donors in Malawi, Zambia, Zimbabwe and Ghana with view to replicating the study