

MARCH 2012

# SCOPING AGRICULTURAL FINANCE MARKETS

EXTENDING THE ACCESS FRONTIER FOR AGRICULTURAL FINANCE IN TANZANIA



- 
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?

---

3

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

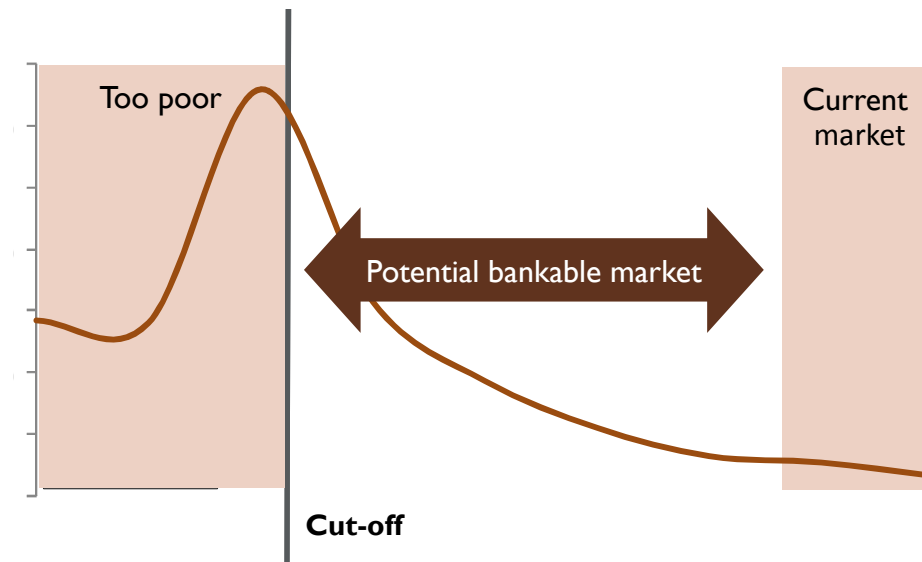


# 1. OBJECTIVE & APPROACH

## 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?”*

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

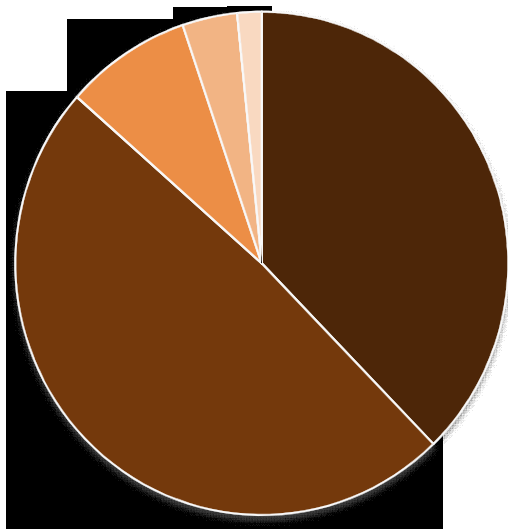


## 2. THE AGFIMS MARKET

### 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



| Market Segment             | Total            | AgFiMS qualifiers |              |
|----------------------------|------------------|-------------------|--------------|
|                            |                  | # of qualifiers   | % of Total   |
| <b>Producers (farmers)</b> | 1 932 222        | 492 980           | 25.5%        |
| <b>Processors</b>          | 21 017           | 8 199             | 39.0%        |
| <b>Service Providers</b>   | 62 502           | 18 793            | 30.1%        |
| <b>TOTAL</b>               | <b>2 015 742</b> | <b>519 972</b>    | <b>25.8%</b> |



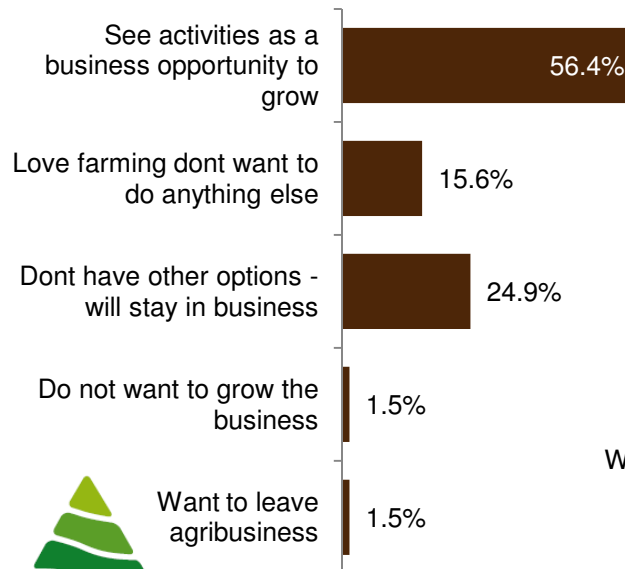
## 2. THE AGFIMS MARKET

7

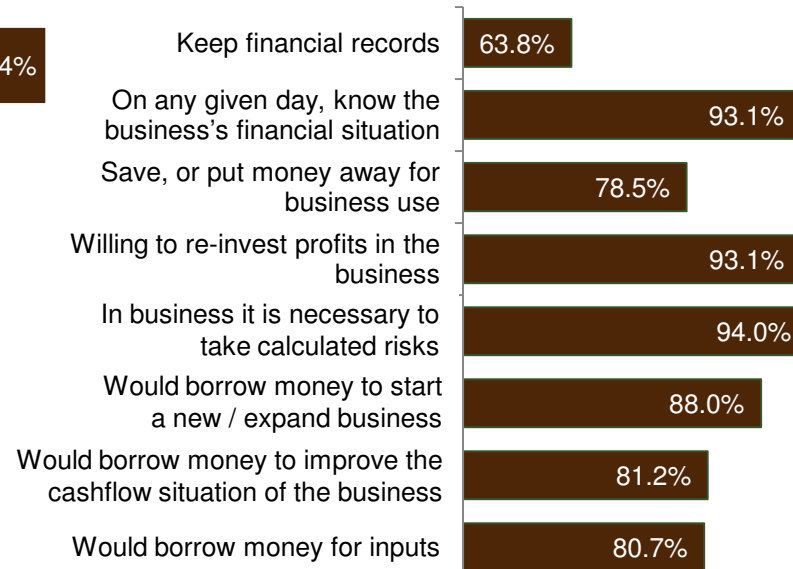
### AGFIMS AGRIBUSINESS OWNERS SHOULD BE ATTRACTIVE TO THE FINANCIAL SECTOR...

- 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

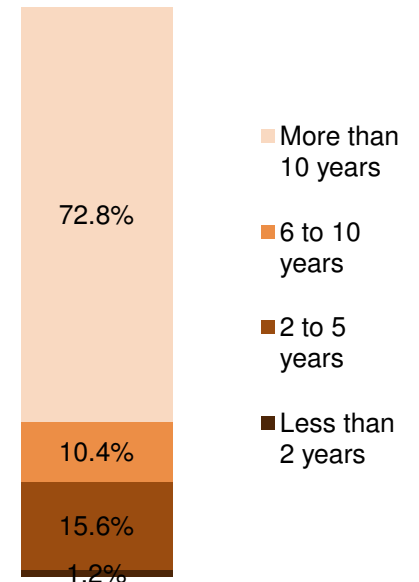
#### Why are you running your current business?



#### How do you manage your business' finances?



#### How many years have you been in business?

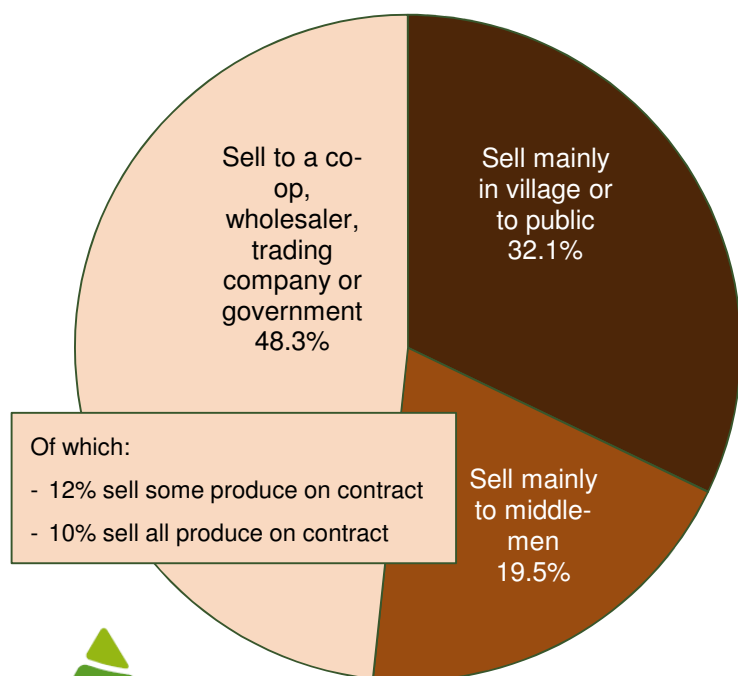


## 2. THE AGFIMS MARKET

### ...BUT ONLY HALF HAVE SECURE ACCESS TO MARKETS

8

- 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



|  |   |       |
|--|---|-------|
| Sell to a co-op, wholesaler, trading company or government | Market access not a problem                 | 29.7% |
|  | Not preferred market - village-based        | 28.9% |
|  | Transport to market                         | 19.7% |
|  | Distance market                             | 17.5% |
| Sell mainly to middle-men                                  | Not preferred market - middlemen to village | 56.9% |
|  | Distance to preferred market                | 18.2% |
|  | Transport to preferred market               | 14.0% |
| Sell mainly in village or to public                        | Dont sell to preferred market               | 44.0% |
|  | Distance to preferred market                | 23.7% |
|  | Transport to preferred market               | 18.2% |



## 2. THE AGFIMS MARKET

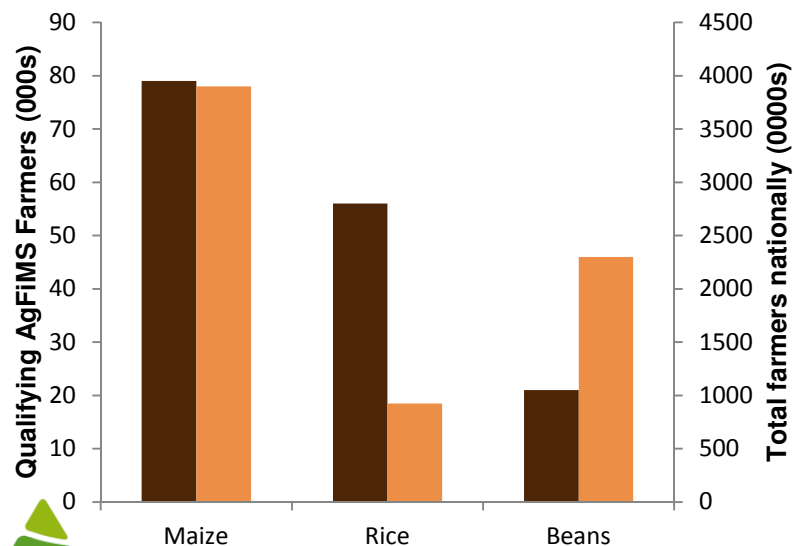
9

### AGFIMS FARMERS ARE CONCENTRATED IN WELL-DEVELOPED VALUE CHAINS

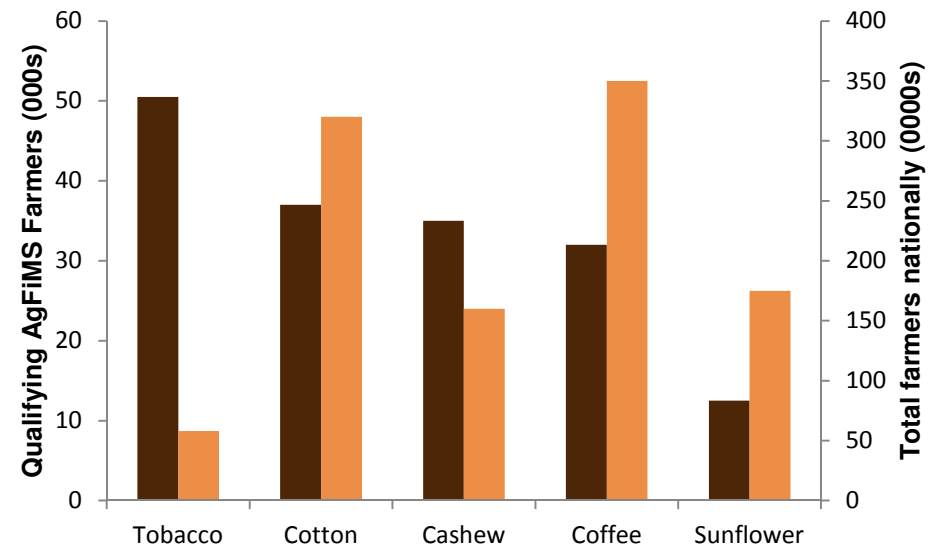
- Among food producers, rice farmers are disproportionately well-represented.
- Within cash crops, tobacco is over-represented in AgFiMS; by contrast, less than 25% of farmers of cashew, cotton and coffee qualify for AgFiMS

■ Qualifying AgFiMS farmers  
■ Total farmers nationally

Main Crop, Food Crop Producers



Main Crop, Cash Crop Producers



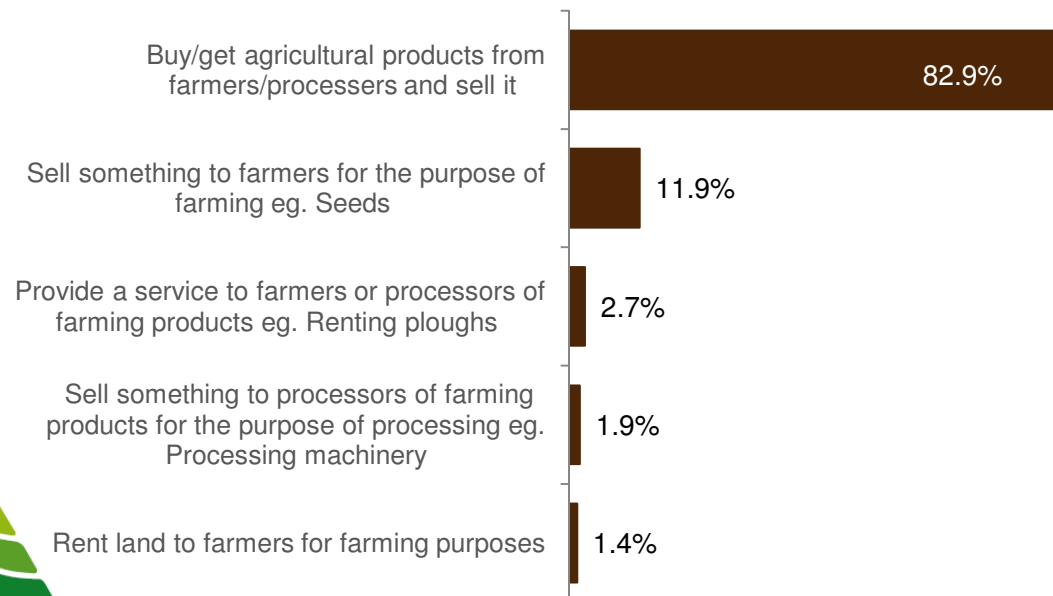
## 2. THE AGFIMS MARKET

### AGFIMS BUSINESSES ARE MAINLY TRADERS

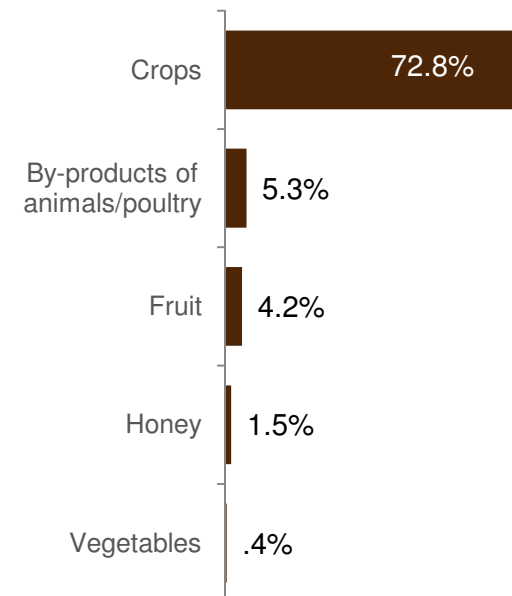
10

- 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



Main Activity, Processors



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

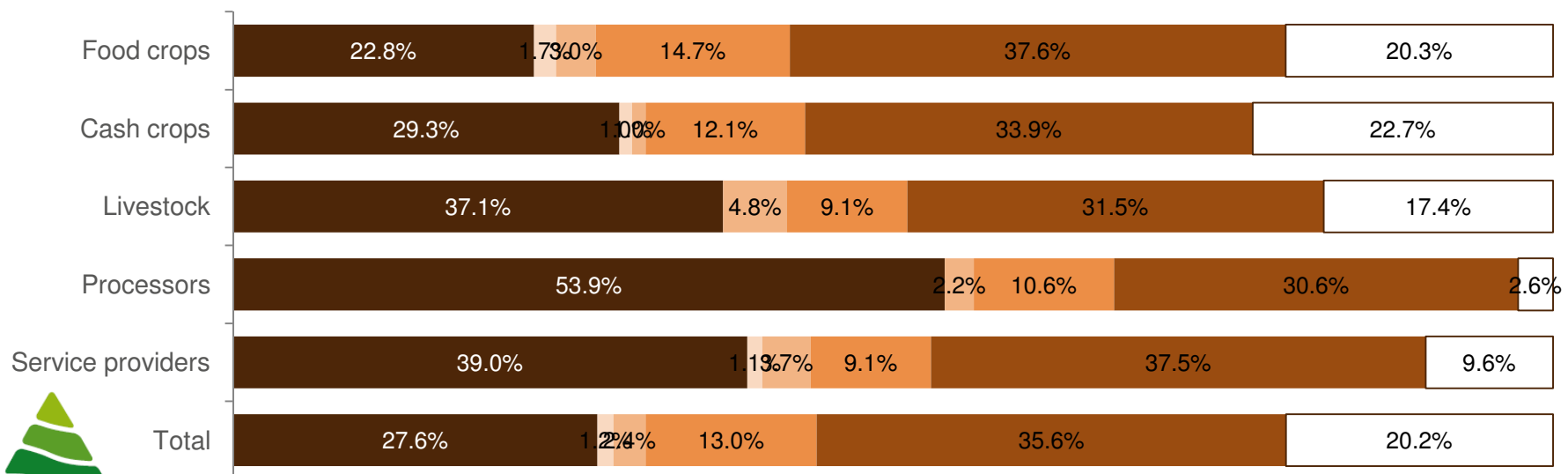
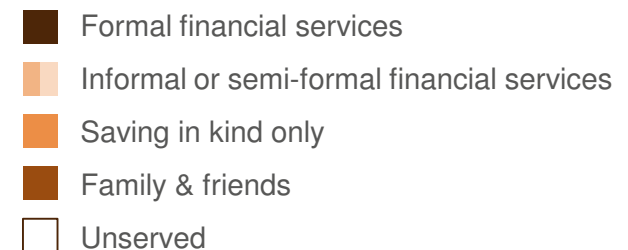


### 3. UNDERSTANDING ACCESS TO FINANCE ON A SIMPLE ACCESS STRAND, AGFIMS AGRIBUSINESSES ARE QUITE WELL-SERVED

12

- 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...

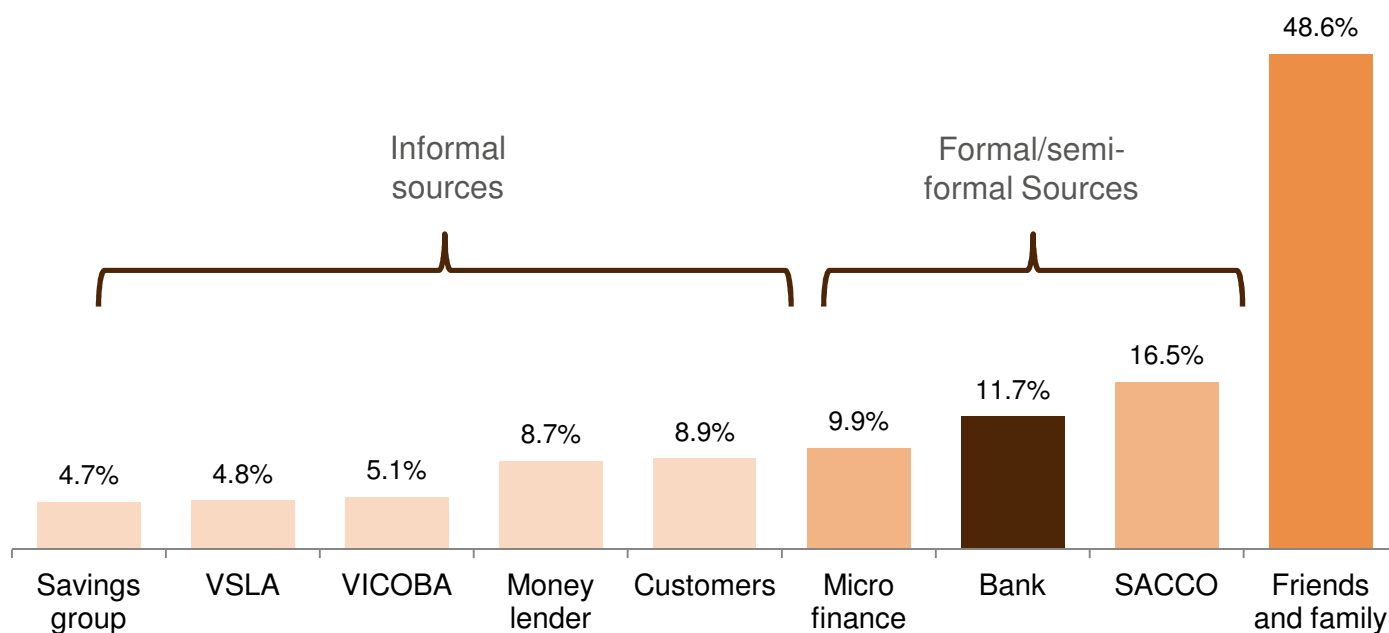


### 3. UNDERSTANDING ACCESS TO FINANCE AT PRESENT, MOST CREDIT IS INFORMAL...

13

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

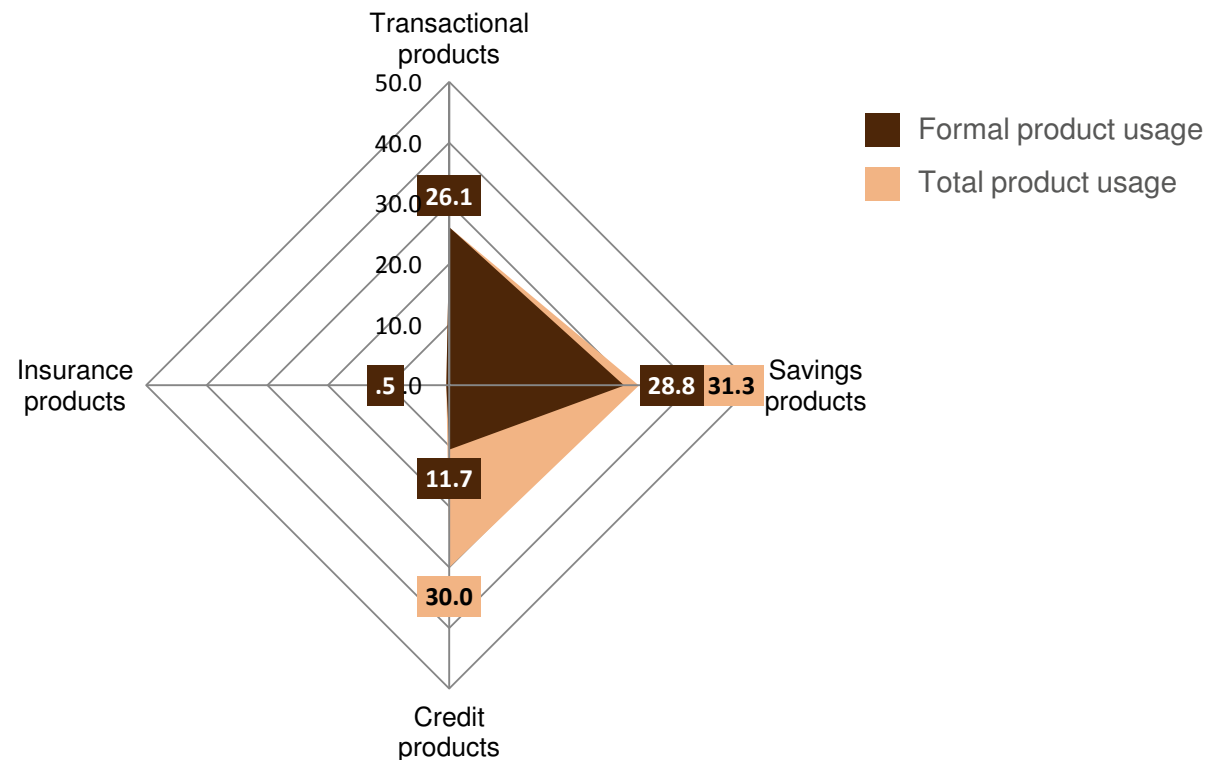
What is your *main* source of credit?



### 3. UNDERSTANDING ACCESS TO FINANCE 14

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

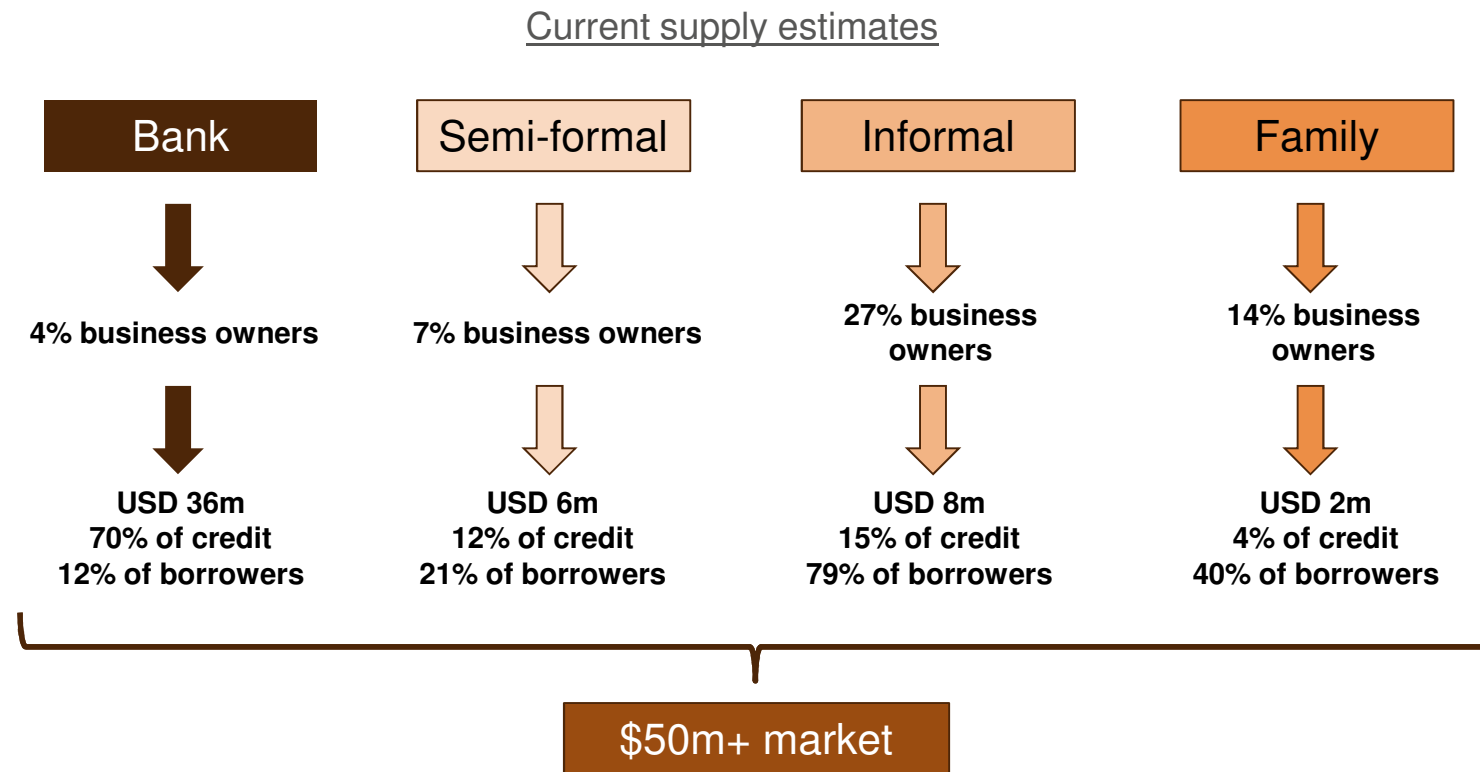
- Although 29% of agribusinesses are formally banked, less than 12% have access to credit from banks; others rely for credit on informal or semi-formal sources of finance
- This is a huge opportunity to offer credit to customers the banks already reach & know



### 3. UNDERSTANDING ACCESS TO FINANCE 15

EVEN ON CONSERVATIVE ASSUMPTIONS, THIS IS A MAJOR OPPORTUNITY

---



*... and potential demand is much higher than this – perhaps up to \$300m*



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

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



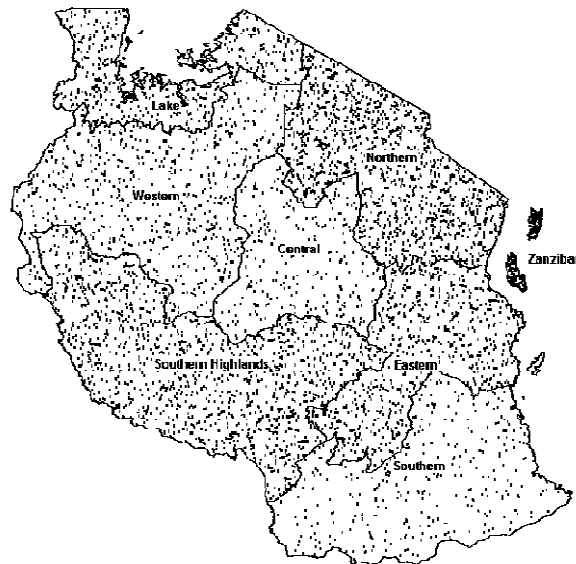


## 4. EXPLORING THE DATA FURTHER GEOGRAPHIC ANALYSIS

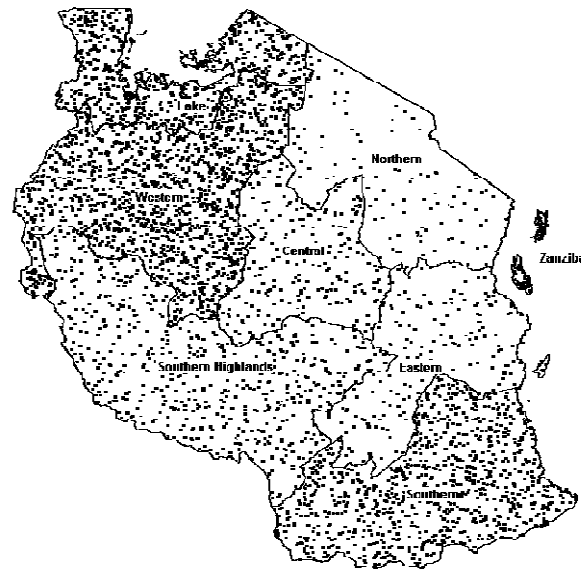
17

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

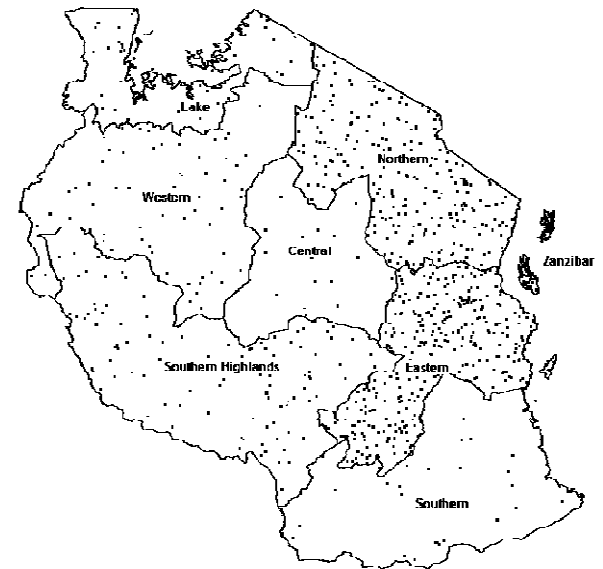
Food crop producers



Cash crop producers



Livestock farmers



• 50 farmers

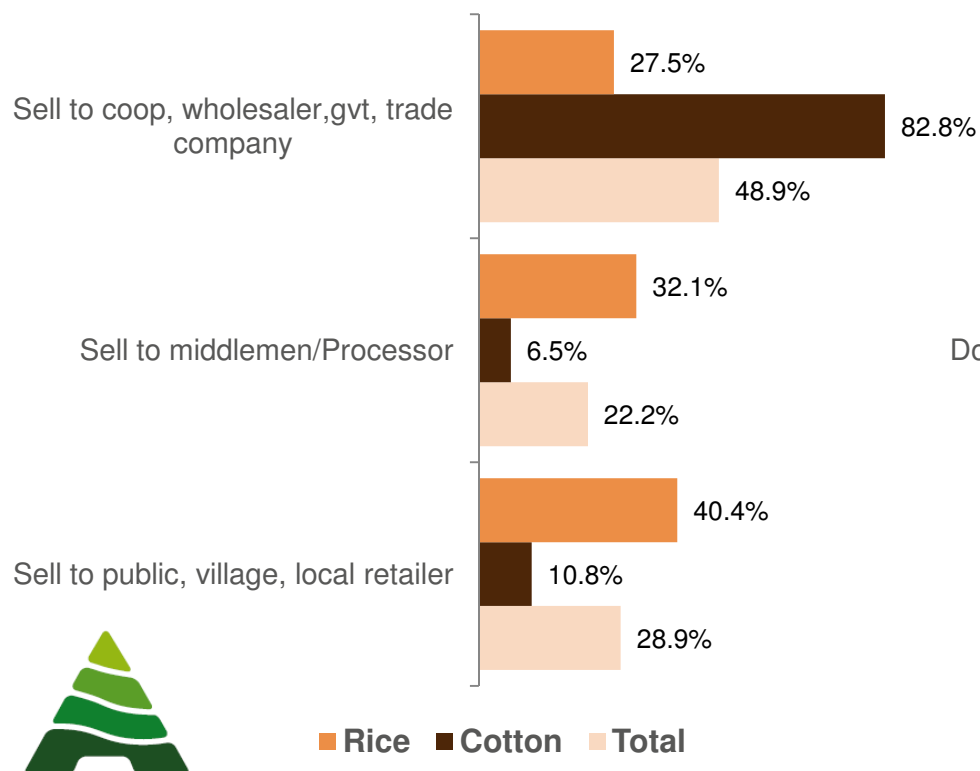


## 4. EXPLORING THE DATA FURTHER VALUE CHAIN ANALYSIS - 1

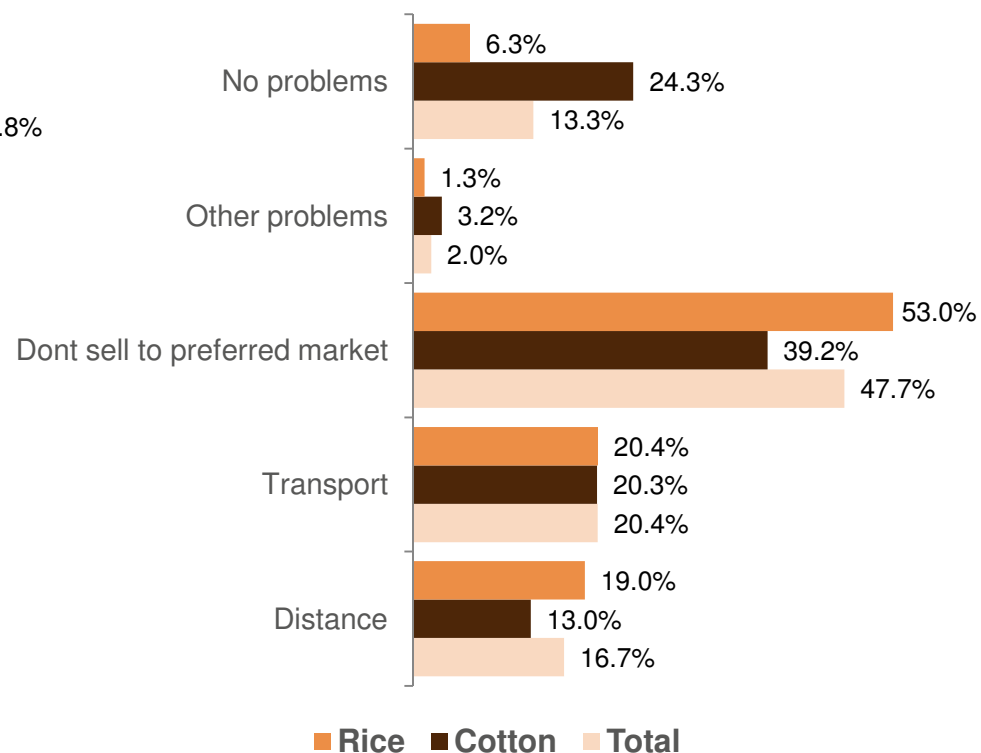
18

- 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?



What problems do you face in marketing?

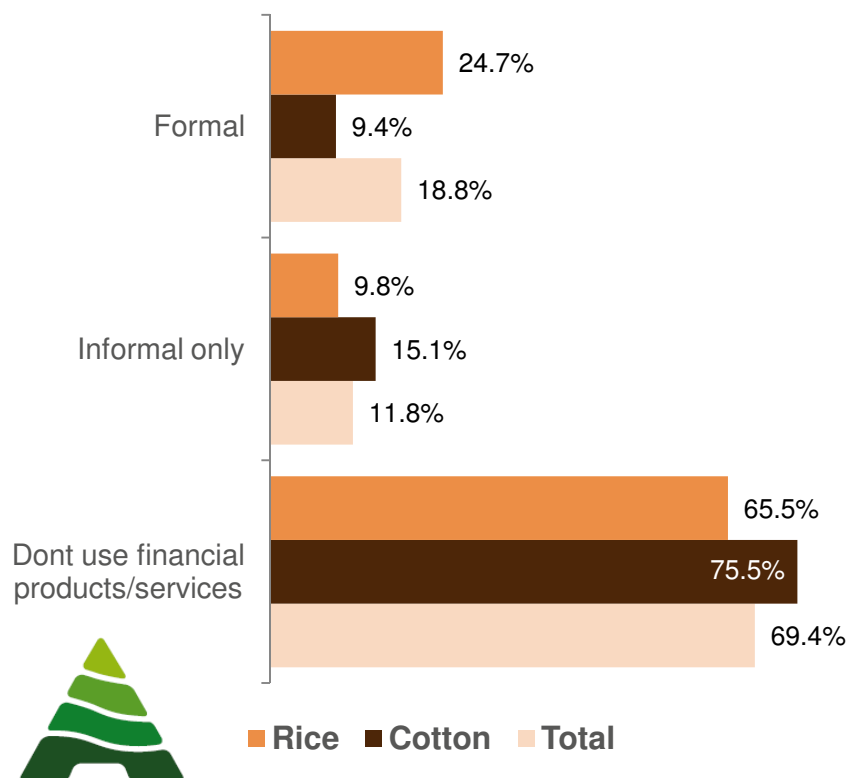


## 4. EXPLORING THE DATA FURTHER VALUE CHAIN ANALYSIS - 2

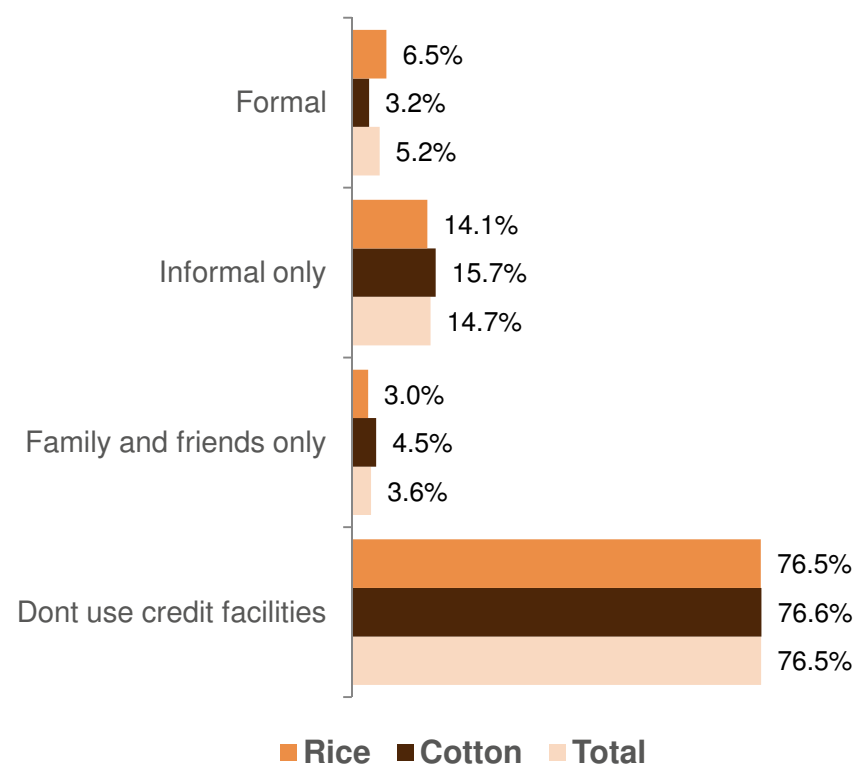
19

- 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

What access do you have to financial services?



What access do you have to credit?



## 4. EXPLORING THE DATA FURTHER CLUSTER ANALYSIS - 1

20

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

| Cluster               | Size    | Infrastructure | Markets | Financial advice | Business advice | Social capital |
|-----------------------|---------|----------------|---------|------------------|-----------------|----------------|
| <i>Intensive care</i> | 133,000 |                |         |                  |                 |                |
| <i>Development</i>    | 110,000 |                |         |                  |                 |                |
| <i>Opportunity</i>    | 95,000  |                |         |                  |                 |                |

■ No access

■ Limited access

■ Good access



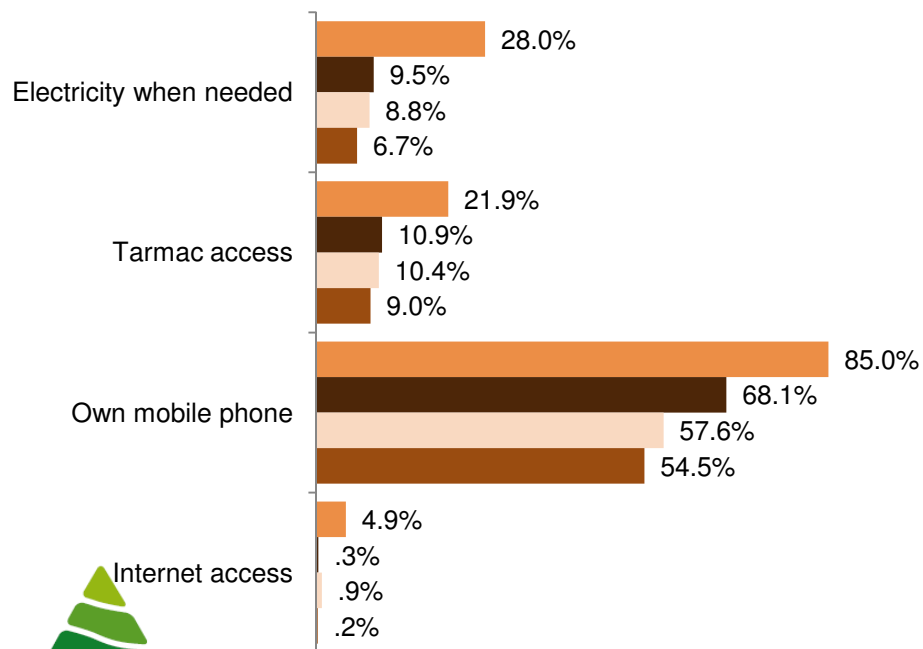
## 4. EXPLORING THE DATA FURTHER CLUSTER ANALYSIS - 2

21

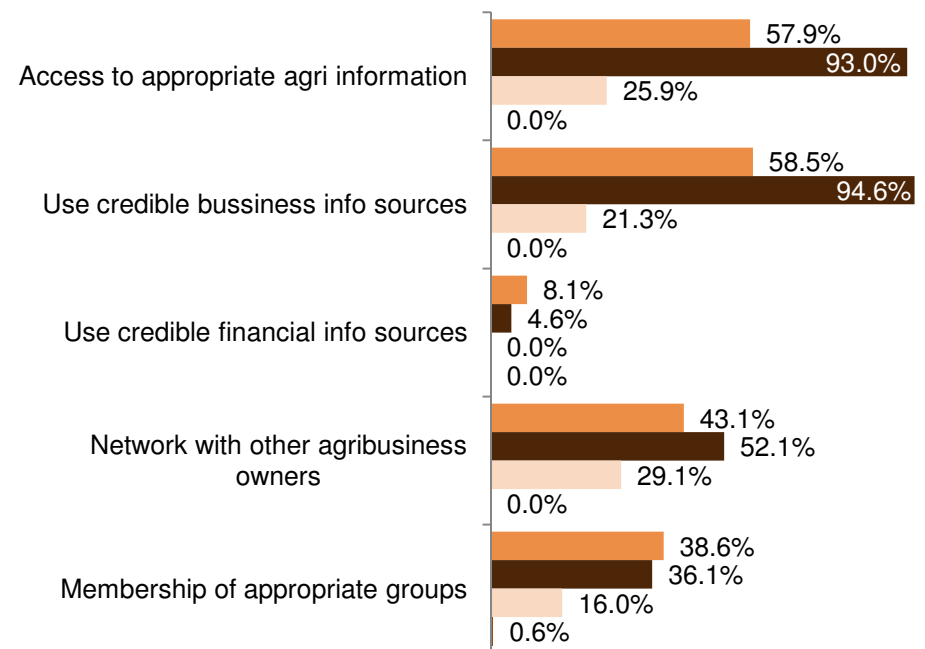
- Access to information and infrastructure is a key differentiator between clusters



What access do you have to infrastructure?



What access do you have to technical assistance?



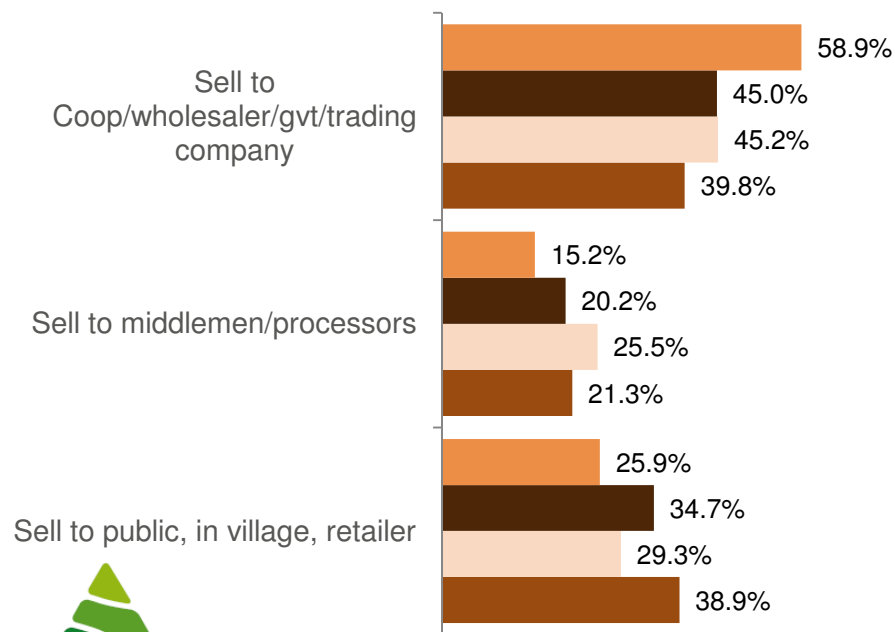
## 4. EXPLORING THE DATA FURTHER CLUSTER ANALYSIS - 3

22

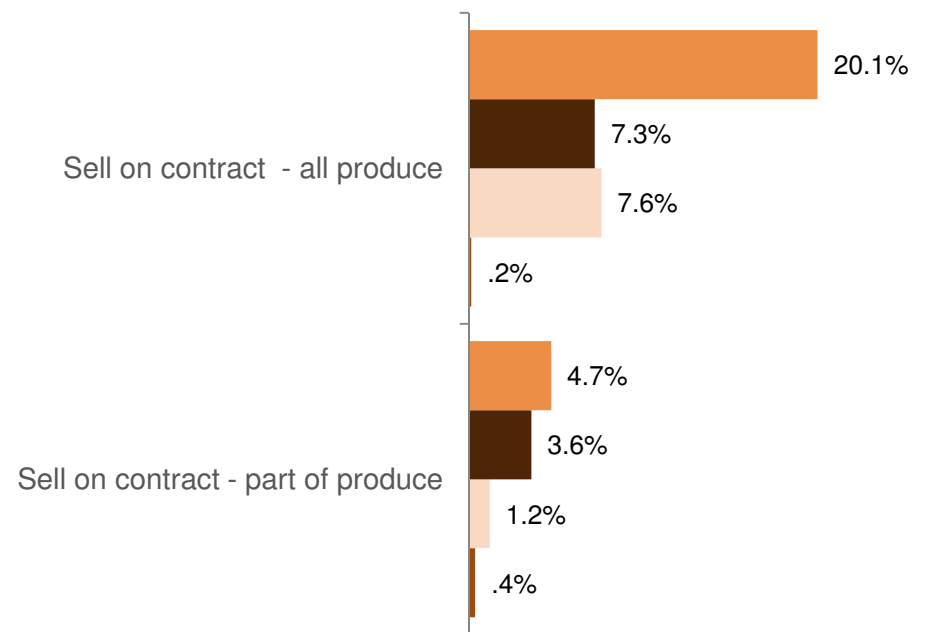
- Formal market access is a second major differentiator between groups: those who are financially included tend to work within contracts, or sell to formal end buyers



How do you sell your produce?



Do you use contract marketing structures?



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



## 5. NEXT STEPS: TANZANIA AND BEYOND

### NEXT STEPS IN TANZANIA

---

24

- 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](http://www.agfims.org)





## 5. NEXT STEPS: TANZANIA AND BEYOND

### AGFIMS BEYOND TANZANIA

---

25

- 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

