



# **SCALING ACCESS TO DFS SERVICES FOR SMALLHOLDERS IN TANZANIA**

## **INSIGHTS FROM CASHEW NUT VALUE CHAIN**

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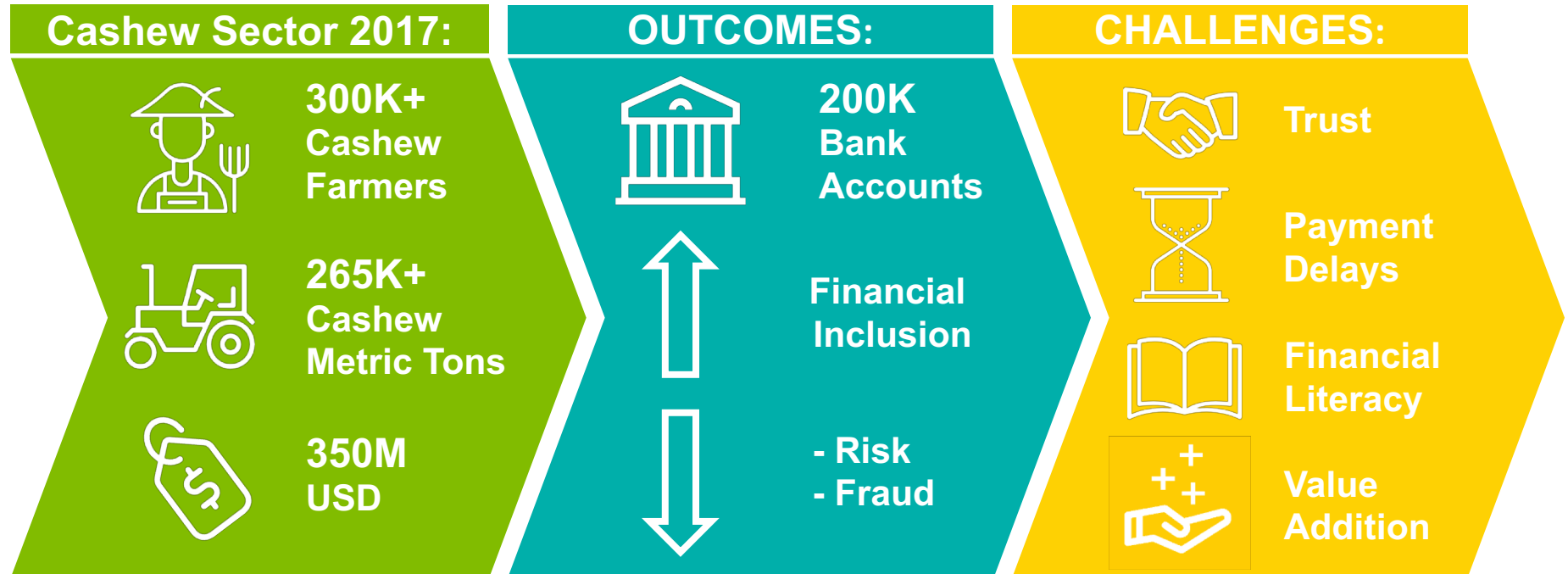
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# Executive Summary



**Cashew Nut Act (2017-18):** All cashew nut farmers to sell through Agriculture Marketing Cooperatives (**AMCOS**) and receive payments through a **bank account**



## Farmers' Spending and Borrowing Behaviours

### Income

- Cashew (main)
- Others (Maize, Sesame)
- Different seasons

### Expenses

- Daily household expenses
- Agricultural inputs
- House improvement

### Borrowing

- Family and friends
- Savings groups
- Local money lenders

## Strategic Levers for Engaging Farmers with DFS

- Enhance **FSP Value proposition**:
  - Input and emergency loans
  - Targeted savings for inputs - staple
  - Insurance- risk mitigation
- Build **sustainable agent networks** using varying models
  - Expand access points
  - Increase liquidity in rural areas
- Improve **payment options and service points** to allow digital transactions and reduce cash out



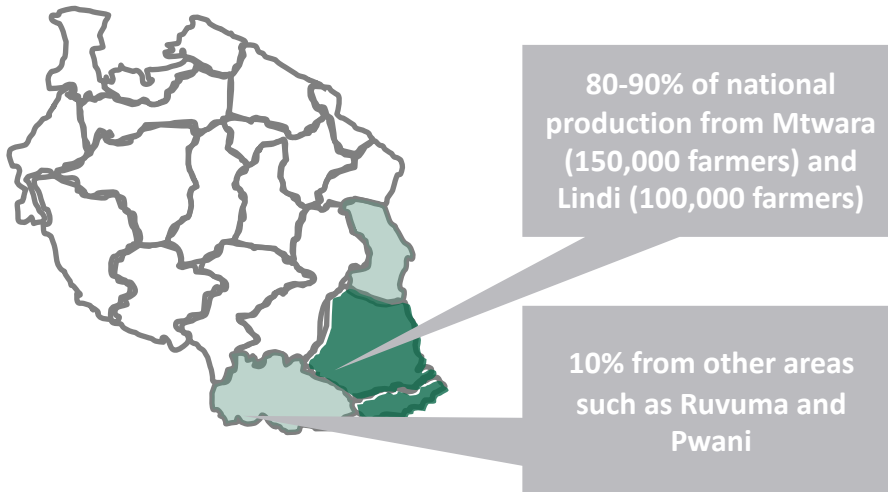
# Cashew Context and Background

## Overview

- **World's 8<sup>th</sup> largest producer** and the fourth largest producer in Africa
- **3<sup>rd</sup> largest export crop in Tanzania** after coffee and cotton accounting for over 10% of agricultural exports in 2013
- **The value chain is dominated by smallholder farmers** primarily in the Southern Regions of the Country

## PRODUCTION REGIONS

*Cashew is produced in the southern regions of Tanzania*



## Market Size

**265,000 MT**

Total cashew nut production in 2016/2017

**300,000**

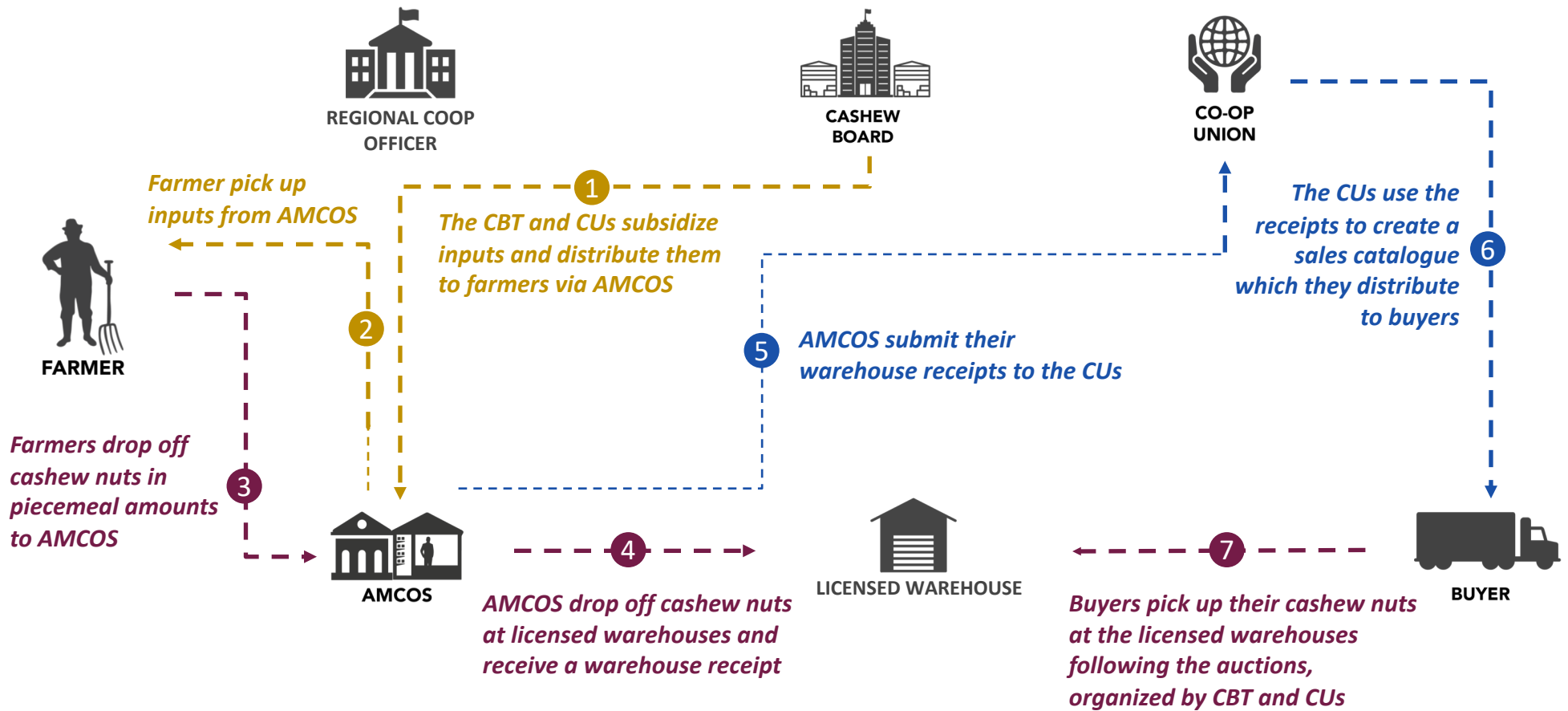
Farmers engaged in production\*

**Tsh. 780 Billion (US 350M)**

Value of cashew nuts purchased in 2017\*\*

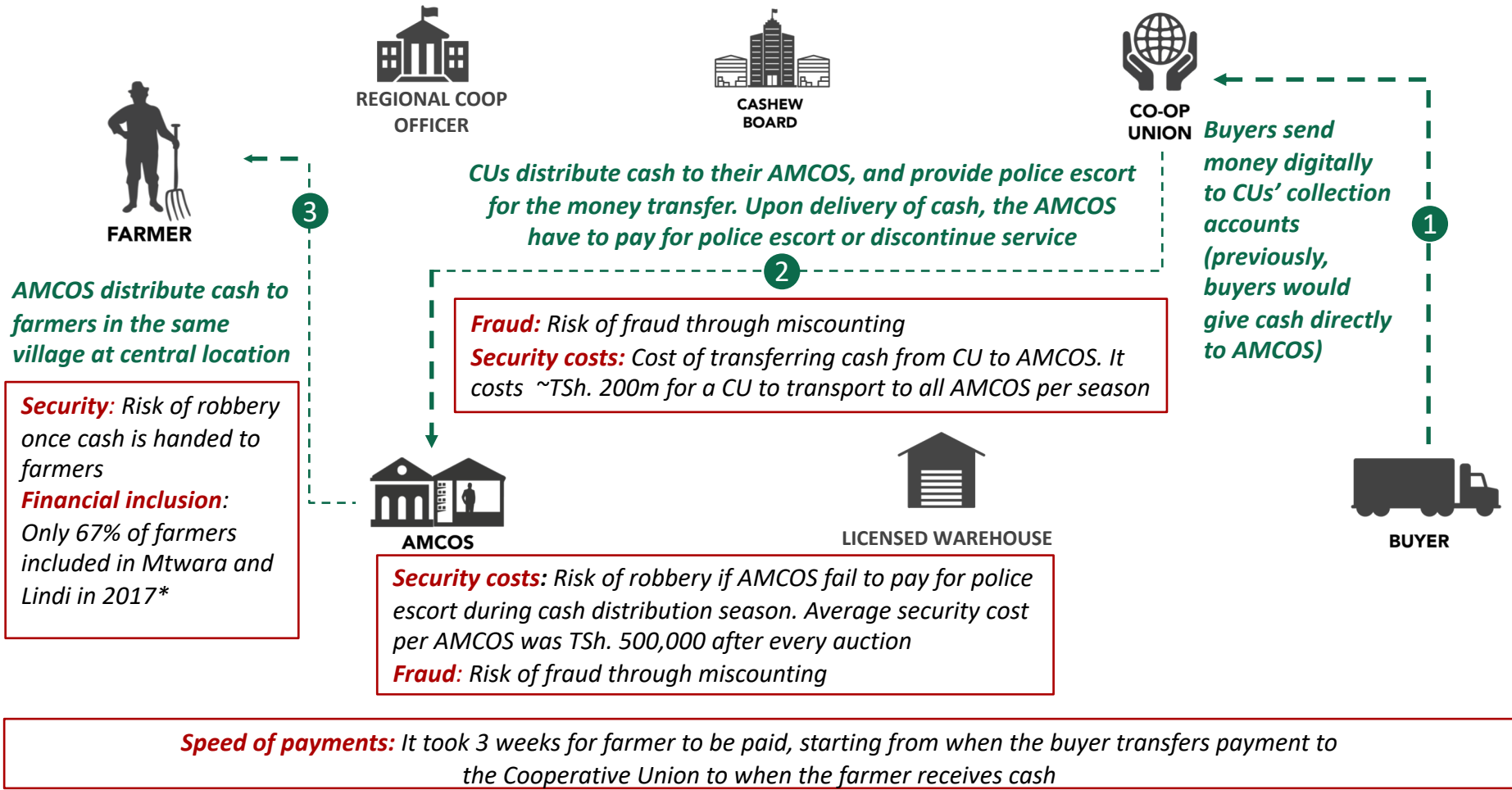


The cashew nut value chain is highly structured with farmers required to aggregate their produce to warehouses through AMCOS and are then sell through an auction process



Key: - - - - - → Flow of cashews - - - - - → Flow of inputs - - - - - → Flow of information

# The Problem: In the previous cash-based system, buyers made payments via bank accounts to Cooperative Unions, which distributed cash to AMCOS to pay individual farmers resulting in Tsh. 5.7 billion in leakages and security risks for AMCOS and farmers



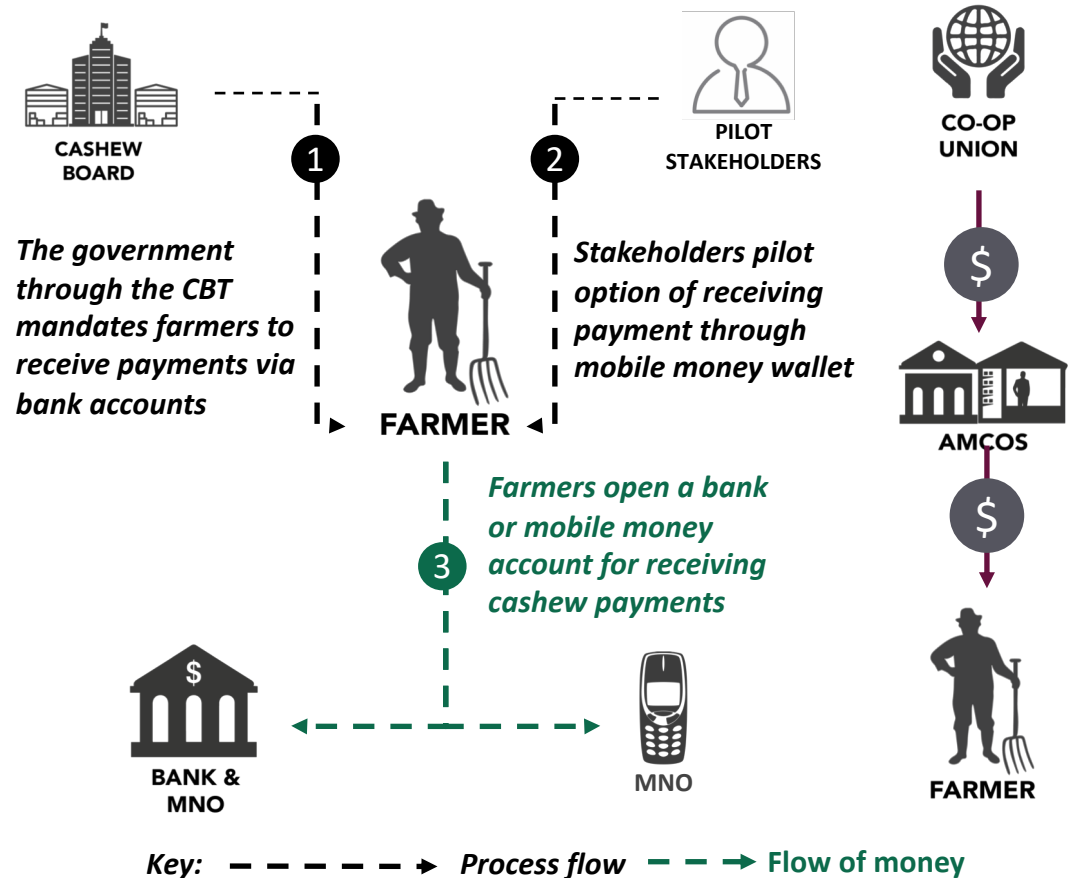
Key: Flow of cash — — — — —>

Challenges

The Response: the Cashewnut Act 2017-18 now requires cashew farmers to receive payment via banks accounts. Mobile money was piloted as an alternative avenue for farmers receiving cashew payments of under Tsh. 3 million

## Policy and Pilot Objectives

- Reduce fraud and leakages resulting from poor documentation
- Reduce security risks to AMCOS leaders and farmers.
- Reduce payment delays
- Improve financial inclusion for farmers



# Assessment of Digital Payment Pilot

Digital payments (bank and mobile) to cashew farmers registered initial success :

- 1** Registration of +200,000 accounts

  - Established pathway to financial inclusion<sup>1</sup>
  - 63% of people in Mtwara and Lindi were formally included with 80% living within 5km of a financial access point.
  - Digital payments facilitated inclusion of SHFs receiving low amounts and provided an entry point for FSPs to other services such as loans, insurance and pension.
- 2** Reduced security risks

  - Farmers risk has shifted to exposure when cashing out at bank or MNO channels
  - CUs and AMCOS save upto Tsh. 400 million per season in cash handling costs
- 3** Reduced fraud and leakages

  - Across the payment process, fraud and leakages estimated to have reduced by 80%<sup>2</sup>. This is due to reduced human errors counting cash and Multiple reconciliations

*"We had to hire armed guards and cars to take the cash to the AMCOS. Robbers would always be waiting along the way"* - Amani Rusaki, Regional Officer, Department of Economic Growth, Mtwara

*"Farmers now know how much they are supposed to receive because they get messages on their phone. Some will even come to you, and claim Tsh. 20 because the message receipt says maybe Tsh. 3820 was the selling price."* - Nnape, Tuaminiane AMCOS chair

# Assessment of Digital Payment Pilot

## Challenges Leading to Delays in Cashew Payments

1

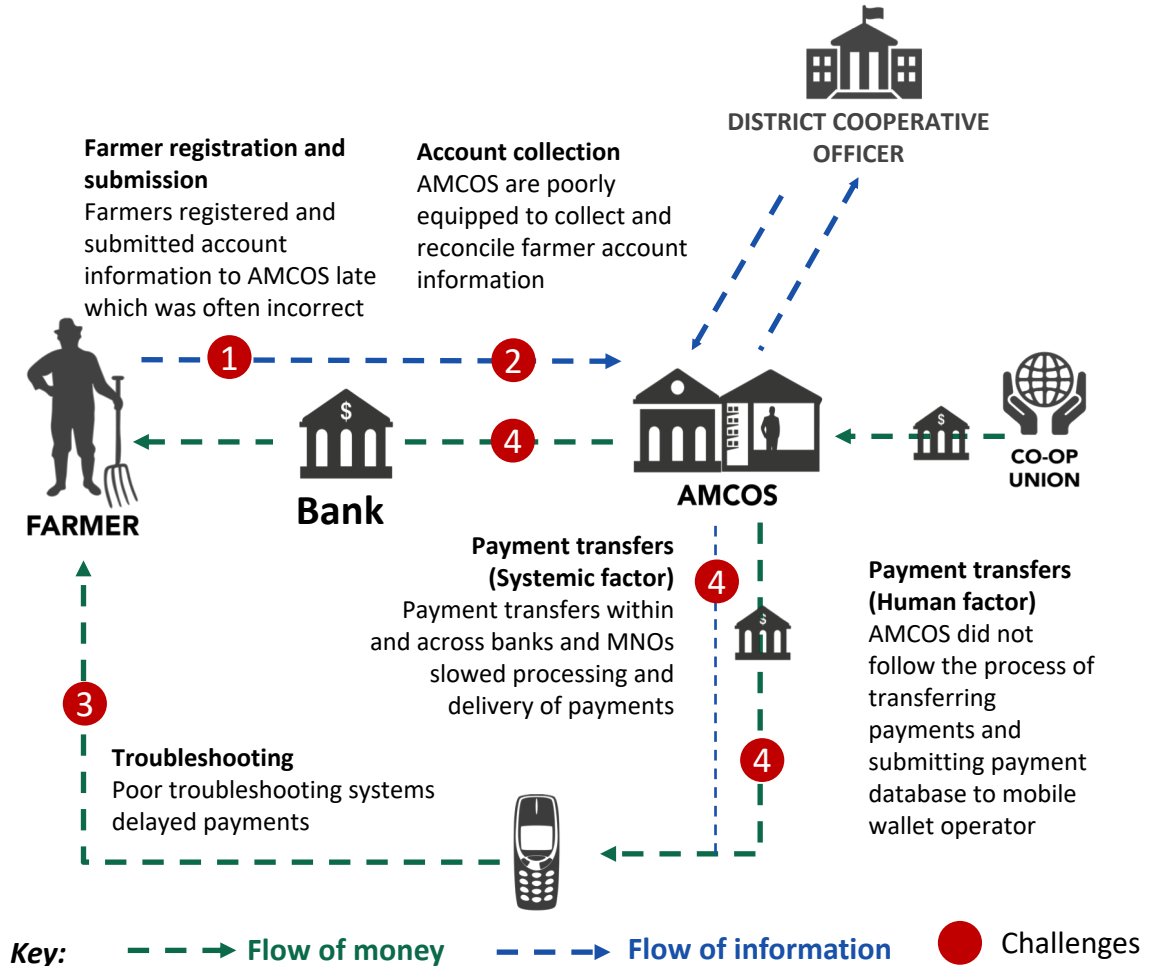
Many farmers experienced payments delays with the introduction of digital payments; up to 9 weeks for mobile

2

Distrust of AMCOS persists and farmers show discomfort with FSPs due to fraud experience and an opaque payment process

3

There is limited perceived value proposition for farmers to use existing products and channels-leading to immediate cashout hence limiting future financing



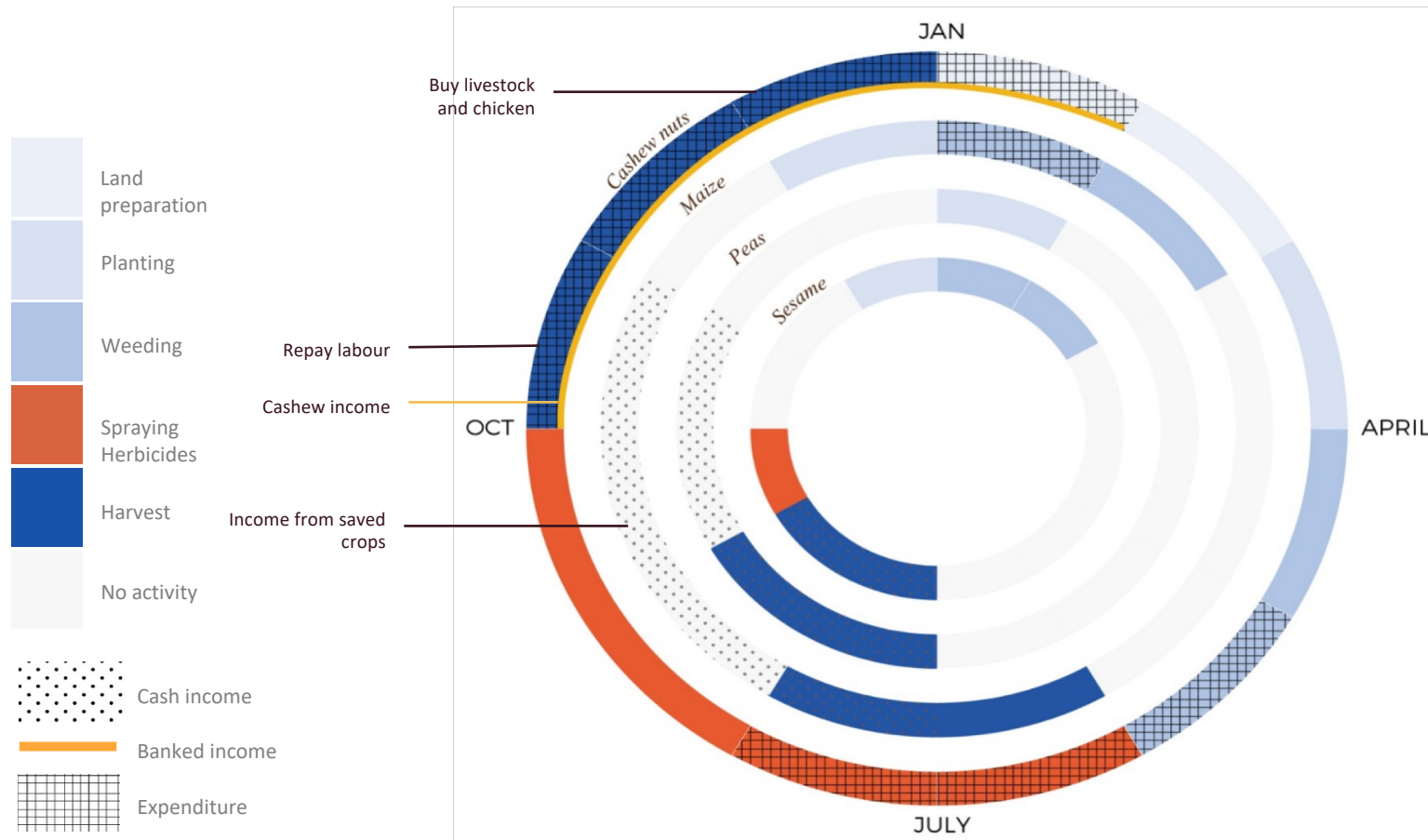
\* Delays are an acute challenge for farmers because farmers value speed when engaging with digital payments



# Building on insights from Pilot- Assessment of Farmer Needs

Developing DFS for cashew farmers requires understanding their livelihoods in terms of income streams and expenditures

## SEASONAL MAP: INCOME & EXPENDITURES



### Income Streams

- Farmers supplement cashew earnings through maize, soy beans, cow peas, and vegetables.
- Other income include livestock and shops.

### Expenditures

- Farmers spend on Inputs, Invest in livestock, home improvements, food, and loan repayments

- Cashew farmers make an average of 4 million TZS per year and spend about 12% of their income on agricultural inputs
- Cashflow varies throughout the year based on the crop calendar, highlighting seasonal financing needs

## Examples of Farmers' Financial Needs

- 1 Input financing for other crops after they harvest the main cash crop e.g. cashew.
- 2 Building materials and working capital
- 3 Strong *wakala* and merchant ecosystem

*"I took my cashews in October, but I got paid in December. I needed to plant maize and rice in November. Where was I meant to go get money for the inputs?"*

- Kanduru, Farmer, Mpowora

## Farmer Borrowing Behaviors






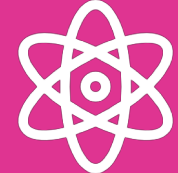
- Savings groups
- Formal loans remain out of reach
  - Cumbersome application process
  - Documentary requirements
- Low perception of loan size received
- High interest (10% per month) alternative loans
- Borrow input loans for planting and harvest



# Recommendations for Improving DFS Offerings

## 3 Strategic Levers

- Keep cashew payments in their bank and mobile accounts
- Utilize FSP products beyond a payment channel (raising financial literacy)

		SHORT TERM	MEDIUM-LONG TERM
1	<b>PRODUCT AND MESSAGING</b> Improving existing and introducing new products	 <p>Savings products Saving for Loan eligibility</p>	 <p>Loan insurance products for farmers</p>
2	<b>AGENT NETWORK</b> Scaling agent networks and managing liquidity	 <p>Surge roving agents Convert farmers</p>	 <p>Loan product through agents</p>
3	<b>MERCHANT PAYMENTS</b> Expanding payment points using card and mobile payments	 <p>Convert merchants Transaction fees Loyalty bonuses</p>	 <p>Convert suppliers to mobile Re-introduce withdrawal fees</p>

Despite the distrust around them, AMCOS can be leveraged as an entry point for providing DFS to farmers, given their integral role in day-to-day activities

### Advantages of using AMCOS as an entry point for digital financial services:

- **Proximity to farmers:** AMCOS are located near farmers' homes to give farmers easy accessibility hence they can be used as service points
- **Trusted source of information:** AMCOS have long existing relationships with farmers which makes them a trusted source of information on products and services
- **Knowledge of farmer needs:** AMCOS are an integral part of farming communities and understand their needs, constraints and opportunities for engagement

### Reasons behind perceived diminishing role of AMCOS in the cashew value chain:

- **Aggregation is not exclusive:** Since any farmer can drop of their cashew at an AMCO regardless of membership, farmers don't see the value of being an AMCO member
- **Payments no longer need to be collected at AMCOS:** Digitization of cashew payments, which has reduced the need for interacting with AMCO leaders
- **Lack of additional services offered by AMCOS:** AMCOS can no longer access group loans on behalf of farmers using warehouse receipts as collateral, leaving farmers with no access to payment advances. School fees advances are also no longer necessary due to the introduction of free primary and secondary education creating a lack of value addition AMCOS can provide to farmers

There is an opportunity to invest in improving current DFS channel services provided by AMCOS

## Current AMCOS services and how to improve them:

### BRANDING BUILDING AND AWARENESS

#### AMCOS advertise different banking options

- Comprehensive understanding of the different options and the ability to provide better digital and financial literacy training to farmers is needed

### ACCOUNT INFORMATION COLLECTION

#### The collection of account information by AMCOS is highly error prone

- Digitization of the process would reduce mistakes and delays - this includes AMCOS using computers to collect account information

### PRODUCT USE & TROUBLE-SHOOTING

#### AMCOS are the first touch points for farmer concerns and are unequipped to assist farmers

- Training and capacity building would improve their ability to handle and escalate queries

### PAYMENT RECONCILIATION

#### AMCOS receive sales information from warehouses, prepare payment list and submit to DCO for approval which prolongs payments

- Digitization of system would reduce delays

## There is an opportunity to invest in improving current DFS channel services provided by AMCOS

### Examples of Other Value Chains



#### COFFEE

- Largest export crop in Tanzania with over 450,000 smallholder farmers engaged in production
- Highly structured value chain with local and international off-takers



#### COTTON

- ~2 million Tanzanians depend on cotton for their livelihood, which also provides ~13% of the country's foreign exchange
- Highly structured value chain with local and international off-takers



#### SESAME

- Tanzania is the 12th largest sesame producer in the world
- Farmers will start using the Warehouse Receipt system in 2018/2019 season



#### SUNFLOWER

- Significant local demand for sunflower
- High level of integration across the value chain through contract farming



Thank You