Food and Agriculture Organization of the United Nations

FISH4ACP
Unlocking the potential of sustainable fisheries and aquaculture in Africa, the Caribbean and the Pacific

Brochure

Access to value chain finance for small-scale fishing and aquaculture in Africa

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DEUTSCHE ZUSAMMENARBEIT

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Content

[1] Cover photo ©FAO/Luis Tato

Executive summary

This brochure summarizes the findings from the pre-feasibility studies that form the basis of the value chain finance strategies in nine African FISH4ACP partner countries.

HIGLIGHTS

Many self-reliance initiatives are driven by women.

National policies and regulations are generally conducive to financing small-scale fishers and aquaculture producers.

Informal financial arrangements prevail in most value chains.

Financial institutions are willing to provide services to the value chains, but their loan terms and conditions often do not suit the needs of the value chain actors.

There is a lack of knowledge about the advantages and availability of insurance services among value chain actors.

The top 3 reasons why small-scale fishers and aquaculture producers do not get credit are:
1) lack of hard collateral
2) a bad reputation at financial institutions
3) a lack of proper business plans

1 Introduction

The Fisheries and aquaculture sub-sectors are gradually growing in most of Africa, the Caribbean and the Pacific (ACP). Fish for ACP (FISH4ACP) “Sustainable development of fisheries and aquaculture value chains in ACP countries” is an initiative of the Organization of African, Caribbean and Pacific States (OACPS) aimed at making fisheries and aquaculture value chains in ACP countries more sustainable. It is a five-year project implemented by FAO and partners with funding from the European Union and the German Federal Ministry for Economic Cooperation and Development (BMZ).

The African Rural and Agricultural Credit Association (AFRACA) was contracted in 2021 to explore opportunities on how to improve access to financial services for value chain actors in the following nine African partner countries:

Cameroon	shrimp fisheries
Côte d'Ivoire	Nile tilapia aquaculture
The Gambia	mangrove oysters harvesting
Nigeria	African catfish aquaculture
Sao Tome and Principe	coastal pelagics fisheries
Senegal	mangrove oysters harvesting
The United Republic of Tanzania	Lake Tanganyika sprat, sardine and lates fisheries
Zambia	Lake Tanganyika sprat and sardine fisheries
Zimbabwe	Nile tilapia aquaculture

This work has led to strategies for improving access to finance for each of the nine FISH4ACP supported value chains in Africa. The strategies are each based on pre-feasibility activities, including: 1) a financial sector stakeholder analysis, 2) a market demand and supply analysis regarding financial and insurance services and, 3) an analysis of financial policies and regulations pertaining to financing the value chain activities. All of these were based on desk reviews of existing literature, interviews and in-country survey work which was done by local consultants in each of the nine countries. Implementation of activities by AFRACA started in August 2021 and value chain finance strategies were completed in May 2023.

LOVE

2 Lessons learned

Informal finance arrangements prevail for most small-scale producers in the nine value chains.

The uptake of credit from formal financial institutions in the small-scale fisheries and aquaculture value chains is limited. This is not due to a general lack of financial institutions that operate in the areas of these small-scale producers. For example, in Cameroon there were 17 commercial banks, 419 licensed microfinance institutions, three investment companies and four leasing companies in 2021. Yet, none of them have specific programmes or products for shrimp operators and exposure to the sector is highly limited.

In the Gambia microfinance institutions exist in all administrative regions in the country with a total of 112 branches; a few are located in close proximity to oyster harvesting sites but there is virtually no provision of financial services to the value chain actors. In Côte d'Ivoire73 percent of interviewed financial institutions expressed that they have the tools to address the credit needs of the aquaculture value chain, including physical outreach in the aquaculture areas. However, almost none of the producers interviewed borrowed from formal financial institutions.
Instead, in all nine value chains studied, a complex set of barriers implies that small-scale producers and even other value chain actors with good business prospects struggle to obtain access to formal financial services and products. These barriers include for instance: financial illiteracy, a lack of bank accounts, insufficient documentation to demonstrate economic viability and cash flow generation, inability to meet collateral requirements for loans by small-scale producers, inadequate loan terms (too short terms with high interest rates), limited understanding by financial institutions of the functioning of the value chain and its profitability, and repayment schedules that do not align with the fishing seasons and/or with income cycles from fishing or aquaculture.

As a consequence, local savings- and loan schemes managed by solidarity groups at community level play a large role and are important actors in facilitating business. For example, Community-Based Financial Organizations (CBFOs), such as Village Community Banks (VICOBA), Village Savings and Loans Associations (VSLAs), Rotating Savings and Credit Association (ROSCAs), or Savings and Credit Cooperative Societies (SACCOs) operate in Zambia and the United Republic of Tanzania. In the Gambia, the so-called Osusu schemes are popular community-

based lending schemes in which members lend to each other from a common pool of funds.
However, most community or solidarity group-based savings and credit schemes are severely limited in terms of loan volumes they can offer to their members. The Osusu scheme in the Gambia provides loans a maximum of USD 38 per season, per person, while in other countries many community or group-based schemes limit their loans to members to a few hundred USD. This is enough for most daily operational finance needs, but insufficient to finance larger investments such as the purchase of new assets (e.g. boats, outboard motors, vehicles, processing and cold storage equipment). Businesses within the value chain with higher growth potential are unlikely to thrive if access to finance is limited to small-scale informal arrangements.

The top 3 reasons why small-scale producers do not get formal credit

The reasons why financial institutions shy away from lending to small-scale fishers, aquaculture producers and other value chain actors vary. However, several patterns emerge in a cross-country comparison.

1) In all the nine countries, a lack of collateral is cited as a major problem for financial institutions. This is after many years of attempting to reduce the financial sector's reliance on tangible collateral in lending. To see why collateral still plays a large role, it helps to remember that financial institutions do not only want collateral as a measure to buffer losses in case of default. It also serves as a protection against moral hazard behavior by ensuring that clients make an effort to repay their loans. Financial institutions also use collateral as a sorting mechanism for new clients regarding only clients with a certain amount of assets to be creditworthy. There are various initiatives to reduce the burden of collateral requirements (e.g. by relying on cash-flow based lending) and also by governments. An example of the latter is the Movable Property Security Interest (MPSI) Act in Zimbabwe, which seeks to simplify the registration of moveable assets (e.g. vehicles) as collateral.

2) Small-scale fishing and aquaculture have a reputational problem with financial institutions. Many financial institutions cite low credit repayment rates in the past as an impediment to lending to small-scale fishers. In Senegal, 70 percent of the financial institutions cited bad repayment

histories as a problem, in Zimbabwe 60 percent, in Sao Tom and Principe this figure still stands at 40 percent. In addition, financial institutions in Cameroon, Senegal and some in the Republic of Tanzania consider lending to the fisheries sector riskier than other types of agricultural lending. Sometimes, uncertainty linked with the state of the resource and its management leads to the belief that lending to VC actors cannot be done sustainably (this is the case for Lake Tanganyika where fish stocks have been declining over the last years).

3) <u>In many countries, a lack of proper business plans and ability to demonstrate cash flows hinders lending to the sector.</u> In Cameroon, 75 percent of the surveyed financial institutions, in Tanzania almost alland in Nigeria and Senegal still 45 percent of financial institutions cite a lack of proper business plans and cash flow information as major barriers for lending to the value chain actors. This barrier to access finance stands out as one that can be addressed by projects and governmental training programmes.

Core digital financial services are available and are being used

Digital financial services are an indispensable way of reaching clients in rural areas, where small-scale fishing and aquaculture value chain actors are often based. The sophistication and use of digital financial services varies across the nine countries studied. However, mobile banking and mobile money (e-wallet) are the core digital services that are already being used by many small-scale fishing and aquaculture businesses.

In the Republic of Tanzania almost all the surveyed financial institutions offer a variety of these core services. In addition, there are six mobile operators providing mobile money services. Through mobile money transfer services, value chain actors have been able to pay and receive payment for fisheries products without necessarily moving between landing sites and markets. In Cameroon and Zimbabwe most, financial institutions also offer core digital finance services. In Senegal, the numbers of financial institutions that provide these mobile digital finance services are lower, while in the Gambia and Sao Tome and Principe only a few institutions offer such services.

The findings are largely in line with the general use of mobile money services in Africa (see for example the map for the use of mobile money accounts in Africa from the World Bank's The Global Findex Database 2021[1]).

However, beyond the core digital finance services, the use of digital tools among FISH4ACP value chain stakeholders are generally limited. For example, small-scale fishers do not usually receive updated market prices on their phones. Sales data are almost never digitized and as such also cannot be used by financial institutions to evaluate a customer's creditworthiness.

If the increase of network coverage and smart phone use continues in the areas where the nine value chains are located, considerable opportunities exist to digitalize the value chains. Eventually, this would assist access to financial services by increasing efficiency in service provision. Financial transactions data can help financial institutions to assess cash flows and creditworthiness. This could be particularly helpful for borrowers that find it hard to enter the formal financial market and to build a history (and thus reputation) with financial institutions otherwise. Not all value chain businesses would welcome this shift towards digitalizing their businesses for fears that formalizing will come with its own disadvantages, such as increased visibility by tax authorities.

Gender aspects in financing small-scale producers

In all nine value chains, there is a separation between traditionally female and male tasks with women predominantly involved in later stages of the value chain, i.e. during processing, marketing and selling. The mangrove oyster value chains in Senegal and the Gambia are particular, as oyster harvesting is mostly (90 percent) practiced by women. These women are therefore involved in all stages of the chain from: harvesting to processing and wholesale and retail sales. As women and men practice different occupations along the value chain, both often have different financial needs.

Many of the financial self-reliance initiatives identified in the studies are driven by women. For instance, in the Gambia women oyster harvesters are organized in the TRY Oyster Women's Association. This organization has a membership of 500 female oyster harvesters from across 15 communities. Such organizations can be an important entry point for training and capacity building but also serve as a tool

[1] https://www.worldbank.org/en/publication/globalfindex/Report

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for social empowerment for women. The strong self-reliance and sense of community among women carries over to the financing aspects. In the Gambia, the Osusu self-help schemes are predominantly operated by women, for women. However, women also face particular challenges. In Zimbabwe, women make up about 30 percent of all Nile Tilapia aquaculture value chain participants but more often lack collateral security to borrow from formal financial institutions as compared to men. This is because less than 25 percent of female value chain actors have secure land tenure compared as to about 50 percent of men. This is a problem that likely extends to value chains in other countries. Institutions that specifically target women or other disadvantaged groups such as the Zimbabwe Women Microfinance Bank (ZWMB) can help to alleviate these inequalities. In other cases, specialized lending vehicles might also be organized and provided by the Government. In the United Republic of Tanzania, the Women, Youth, and People with Disabilities Revolving Fund (WYDF) directs local government authorities to support disadvantaged groups, including: women, youth and people with disabilities, which are otherwise unable to obtain loans from financial institutions due to a lack of collateral.

The use of insurance in the value chains remains low

Small-scale producers in the nine fisheries and aquaculture value chains rarely use insurance services that are specific to their businesses. Some use other general insurance services (e.g. life insurance, health insurance and vehicle insurance), but this largely depends on their socio-economic status. Overall, limited financial resources of potential clients, a lack of documentation of ownership of assets, and inadequate micro-insurance schemes (e.g. campaigns that do not reach rural areas) slow down the development of the market. Many small-scale producers or cooperatives and associations express the general need for insurance. However, the actual demand is limited by the fact that small-scale producers exhibit a high willingness to accept residual risk and rely on informal ways of insuring against unforseen events via family members or networks in their village. Sometimes, small-scale producers are also simply unaware of the benefits an insurance might bring. Altogether, this leads to the uptake of insurance being mostly limited to larger businesses.

This limited uptake is not attributable to the complete absence of insurance companies in the respective countries. For example, there are 16 non-life and 11 life insurance companies operating in Cameroon which also operate in the shrimp fisheries basins. However, the shrimp value chain actors have little or no appetite for insurance services. Insurance is perceived as a wasteful expense because it is complicated to get compensation or coverage in case of disaster. In the oyster value chains in Senegal and the Gambia and among the fishers for sprat and sardine in the United Republic of Tanzania, and Zambia, there are few assets that require insurance and there are not any specific insurance services available for these businesses.

Things are different for more industrialized businesses in Cameroon, where industrial shrimpers are obliged to purchase marine insurance cover as part of yearly license renewal requirements. Mandatory insurance requirements also play a role in other value chains. For example, in Zambia, all materials and equipment supply stores and cold storage and transportation businesses active in the sprat, and sardine fishery value chain have mandatory insurance cover for their motor vehicles.

Across all nine value chains, cooperatives and associations of fishers and aquaculture producers generally expressed a need for insurance, but the actual willingness among the members to pay for insurance services is low. This translates into a perception by insurance companies that the small-scale aquaculture and fishing sector is not interested in their services. In Côte d'Ivoire, insurance providers frequently cite low demand from the sector as the main obstacle to the development of the market. It remains difficult to say if there is a genuine preference by these small-scale actors to carry residual risk themselves (or seek other ways of informally insuring themselves) or whether the offer by insurance companies is simply inadequate. In any case, there is often a lack of knowledge about the advantages, availability and mechanisms of insurance services among value chain actors. The survey teams found inadequate understanding about available financial and insurance services in the fishing communities around Lake Tanganyika. Likewise, in Nigeria and Sao Tome and Principethe surveys found that limited access to insurance services is often due to lack of awareness of insurance offers and their benefits.

Meanwhile, some progress towards increasing access to insurance is visible in Zimbabwe, where two insurance companies have hired employees dedicated to providing insurance services to the fisheries and aquaculture value chain. In terms of reaching out to the value chain players, the insurance companies utilize events, fishery and aquaculture organizations, social media, local agents, and input providers to promote their insurance products.

Knowledge building and awareness raising on the potential benefits of insurance might help to advance the use of services among small-scale fishing and aquaculture businesses to some extent. However, the analyses also reveal that effective demand, i.e. demand that could be met in the short- to medium-term is low among small-scale producers.

Policies and regulations are generally conducive to financing value chain actors

The policy and regulatory environments are generally conducive to financing small-scale fishers and aquaculture producers active in the value chains in the nine African FISH4ACP project countries.

Policies that contribute to the financial services provision to the value chains fall either in the realm of microfinance policies, policies to support small and medium enterprises, or policies for agricultural development. In some cases, fisheries policies also mention the provision of finance, for example the Tanzanian National Fisheries Policy of 2015.

Nonetheless, the existence of policies does not guarantee their implementation. For instance, Zimbabwe has a well detailed and comprehensive National Financial Inclusion Strategy (2016–2020), which provides for financial literacy, innovation, consumer protection and microfinance institutions' development which are all essential topics for the inclusion of marginalized groups like rural farmers, women, youths, and small businesses. Yet, most of these marginalized groups continue to experience challenges of limited access to financial services and products.

The state of implementation of policies in support of microfinance varies considerably between the countries as well. In Sao Tome and Principe, the 2018 Microfinance Law and the National Financial Inclusion Strategy (NFIS) are still nascent and yet to be fully operationalized. In other countries, like the United Republic of Tanzania and Senegal, the microfinance sector is well established and competitive.

Targeted financial policies or regulations for fisheries and aquaculture value chains hardly exist in the nine countries and the small size of the value chains within the national economies hampers developments towards targeted interventions.

However, general improvements in the policy and regulatory environments for the provision of financial and insurance services to SMEs, agriculture or rural areas may also support growth of the value chains. At present the pre-feasibility study did not find any financial policies or regulations presenting major constraining factors to financial services provision to the value chain. This might change in the future. The advent of new digital tools, for example, could mean that new policies, laws, and regulations or adaptation of existing ones are required to ensure a flow of finance to value chain actors.

Examples of value chain financing strategies

Nigeria: Financing scheme for high-quality feed for aquaculture producers. To finance the provision of high-quality feed to the value chain, banks and feed firms work together to provide credit to cooperatives and clusters of farmers, which in turn supply their members. The scheme could be supported through a risk-sharing mechanism for the financial institutions. The plan foresees that the Nigerian Agricultural Insurance Corporation (NAIC) provides insurance for aquaculture production, at a premium of 2.5 percent of the insured amount, while the government covers an equal share of the premium costs.

Zimbabwe: Aggregation and matching grants. The strategy shall support the members of the newly established Zimbabwe Fish Producers Association (ZFPA) to develop sound business plans. Business-to-business (B2B) meetings between ZFPA's members and banks and microfinance institutions will be used to present the business plans. After a base of clients has been built, a tripartite model shall support the prospective businesses with financing from: 1) financial institutions, 2) own contributions, and 3) matching grants provided by FISH4ACP. Throughout, financial literacy skills shall be built through the GIZ aquaculture business schools.

Senegal: Kickstart lending through matching grants. Formal financial service provision to the oyster value chain is almost inexistent. Matching grants in the form of cash contributions will improve value chain actors' access to: knowledge, finance, markets and improved practices, and technologies. By combining capacity building in business planning and increasing their economic power through the matching grants, the value chain actors will become more attractive for financial institutions and their services.

3 Strategic actions and next steps

There are no silver bullets trying to increase access to finance for small-scale producers and other value chain actors in the nine FISH4ACP value chains in Africa. However, coupled with technological advances and better management of the fish and seafood resources, improving financial services provision to the value chain actors is possible. The studies that led to the value chain financing strategies revealed that capacity needs to be built both on the demand (the small-scale fishers and aquaculture producers) and supply side (the financial institutions). The gap between demand and supply of financial and insurance services can only be overcome if small-scale producers become more attractive and reliable clients and at the same time, financial institutions make greater efforts to improve their understanding of the functioning of the value chains. In many cases, a better relationship between both sides will require some kickstarting (e.g. in the form of matching grants or business fairs). Figure 1 shows some typical capacity building needs that have been identified.

FIGURE 1: SUMMARY OF CAPACITY BUILDING NEEDS FOR SMALL SCALE FISHERIES AND FINANCIAL INSTITUTIONS

Demand side capacity building

- Training on financial literacy, digital finance, and business planning
- Support formalization of producer/value chain organizations to facilitate opening bank accounts
- Increase access to knowledge about available financial services

Supply side capacity building

- Appraisal of the functioning and performance of the value chain and its actors (understanding the marka)
- Simplify loan application processes and design of more flexible & suitable products
- Build business cases for the value chain

Other Capacity Building Needs

- Design programmes to de-risk lending to the sector (Zimbabwe)
- Matchmaking between producers and financiers (B2B meetings, fairs)
- Strengthening producers organizations (e.g. Gambia)

Source: Authors own elaboration.

Financial policies and regulations are generally conducive for financing the value chain activities and inclusive finance is a priority in most countries. However, bridging the gap between policy and implementation requires time and effort and even more so to uplift the position of women and other disadvantaged actors in the value chains. In the medium term, digitalization beyond core digital services (mobile banking and mobile money) will bring benefits to those producers that are willing to embrace the new technologies available. Digital tools can improve price information, marketing and sales channels and documentation of cash-flows, which increases transparency, and bankability of VC actors. On top of that, building trust and confidence between the value chain actors and financial institutions should be part of any capacity building measures to follow.

FISH4ACP is an initiative of the Organisation of African, Caribbean and Pacific States (OACPS) aimed at making fisheries and aquaculture value chains in twelve OACPS member countries more sustainable. It contributes to food and nutrition security, economic prosperity and job creation by ensuring the economic, social and environmental sustainability of fisheries and aquaculture in Africa, the Caribbean and the Pacific.

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