

Acting as Financial Intermediaries for Smallholders

HIGHLIGHTS

- Financial intermediaries improve access to finance for farmers by devising innovative credit scoring and risk mitigation tools and promoting financial literacy.
- They develop ICT-based tools and services to decrease transaction costs, track payments, build farmers' credit history.
- Enterprises facilitate agricultural value chain finance, which can be a cost-effective solution to reach a large number of smallholders and an entry point for farmers to access long-term credit.



Development Challenge

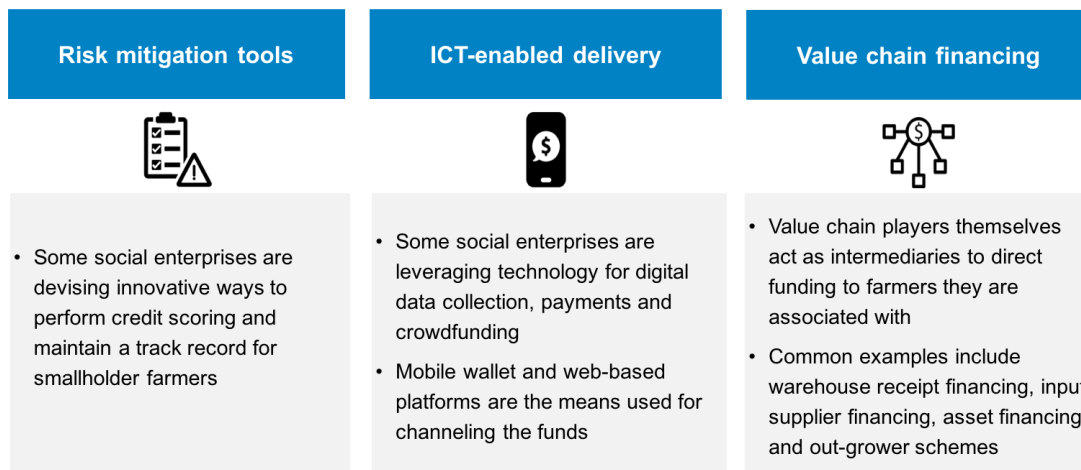
Traditional financing methodologies do not adequately address the need for appropriate financial services to smallholder farmers in developing countries. The gap in agricultural finance is primarily due to perceived high credit risk in agricultural lending and incompatible financial products. Remoteness of rural markets from urban financial centers, isolated and dispersed populations, and poor road and energy infrastructure are other factors that make it difficult and expensive for financial institutions to serve and monitor farmer borrowers. The information gap between the financial institutions and smallholder farmers renders the ecosystem inefficient. Farmers face high performance risk (crop failure) and market risk (no clients, low prices), which can be mitigated through a combination of access to credit and savings products. Financial intermediation is essential to optimize the agricultural and financial cycles. Without such support, farmers remain in the suboptimal loop of low-investment/low-productivity agricultural operations.

Business Model

Many social enterprises act as intermediaries to finance providers to reduce friction in the flow of finance to smallholders and minimize the credit risk traditionally associated with agricultural finance. Financial intermediaries often specialize in particular areas in smallholder financing such as credit risk analytics, e-money platforms, or agro-dealer financing. These enterprises catalyze financial services to smallholder farmer communities in a variety of ways. For instance, SmartMoney, a mobile network operator in Uganda, offers mobile money services to enable banks to serve smallholder farmers and achieve last-mile access in a cost-efficient way. SCOPEInsight, an organization based in the Netherlands, has developed assessment tools and actionable insights that help finance providers assess risk and design financial products.

Smallholder households benefit significantly from access to savings accounts and mobile transactions, in addition to credit services. Formal savings accounts offer the added advantage of security; they can also serve as collateral. Mobile money accounts facilitate seamless money transfers from buyers or government programs to input providers, farmers and farm laborers. Such accounts provide smallholders with a secure place to store money, and make it easier for them to receive remittances from family members. Remittances are a critical source of supplemental income for poor rural households, particularly during the lean season, before harvest.

Features of Financial Intermediaries Business Models



Implementation: Delivering Value to the Poor

Awareness

Financial intermediaries generally work with field agents to build initial critical mass and then tap into networks of existing farmers to reach other farmers. In-person, on-the-ground relationships are important in local communities and field force networks. FarmDrive identifies and works with young farmers to spread awareness and organize trainings. FarmDrive has onboarded 15 farm leaders, each responsible for his/her own locality. Also, with the development and expansion of mobile solutions, coordinating and communicating with these networks is becoming more efficient.

Acceptance

The recent surge of mobile money in Africa is under-leveraged because farmers are wary of using electronic money. Hence, financial intermediaries begin by establishing trust and sensitizing farmers about the benefits of savings and mobile payments. Tigo partnered with non-profit organizations to leverage its relationships with farmers and conduct financial literacy events. Financial intermediaries are also adopting design thinking and innovations to encourage savings and inculcate banking among smallholder farmers. ideas42, a non-profit research firm, is working with a Switzerland-based international development organization to implement a program in Indonesia targeting 98,000 cocoa farmers.

Accessibility

Financial intermediaries improve the accessibility of their products by adopting an omni-channel strategy to serve a wide variety of farmers. For example, FarmDrive's services are available over SMS, USSD, and Android. This ensures that even farmers with the most basic phones are able to access the FarmDrive platform. Accessibility is also important for financial institutions and other value chain players that work with smallholder farmers to expand credit uptake and make better lending decisions. SCOPEInsight enables access to its assessment tools and reports that are priced differently for Pro, Basic and Agent assessments.

Affordability

Financial intermediaries make financial services affordable for smallholder farmers by aligning the quantum and frequency of repayment to the farmers' ability, provide flexibility in amounts saved and paid, and make the repayment more convenient through mobile wallets. In the case of myAgro, the mobile layaway allows the customer to make small payments for the product until the purchase price is paid in full. Farmers also get flexible saving options. Some intermediaries also support farmer households to help them save for non-farm activities too, so that farmers are able to better invest the earnings from agricultural activities and then plough the savings back to productive uses.

The major costs incurred by financial intermediaries are the from training, platform development and human resources.

Generally, financial intermediaries draw their revenues from a combination of one or more of these three sources—the financial institution they partner with, the farmers they serve and any agribusiness or other value chain players who avail of their services. The revenue may be a fixed fee or a percentage of the loan amount that the enterprise facilitates for farmers. For example, FarmDrive earns revenues from financiers for their use of the credit profiles (fixed fee) and from farmers who receive credit (percentage of loan amount as transaction fee). On the other hand, for F3 Life, the revenue is sourced only from commissions paid by financial institutions as a percentage of the loan amount.

Some enterprises also collect fees from value chain intermediaries to subsidize services to farmers. For example, SmartMoney has two revenue streams—payments and deposits. It only charges the off-takers (agribusinesses), and not the farmers. It collects a 5 percent fee from the agribusiness based on transaction volume; about 1 percent of this is distributed to cash agents (as commission) and 4 percent accrues to SmartMoney.

Financial intermediaries work with a variety of partners such as financial institutions, agribusinesses, and value chain players.

Results and Effectiveness

The business model of financial intermediaries allows them to scale exponentially across geographies and reach a substantial number of farmers.

The key outcome that all financial intermediaries work toward is a smoother and assured flow of financial services from formal financial institutions towards smallholder farmers. Although it is too early to attribute accurate impact figures and draw correlation of the financial empowerment of smallholder farmers and the role of financial intermediaries in causing these outcomes, there is an increased acceptance among farmers to approach such intermediaries and willingness among banks to push agri-based financial products through these specialized enterprises.

Mobile wallets can bring about a rapid transformation in the livelihoods of smallholder farmers, especially if adopted by the Government for national subsidy schemes. Cellulant, a digital e-wallet services provider, helped streamline the disbursement of fertilizer subsidies under the Nigerian Government's Growth Enhancement Support (GES) scheme. In the first 20 months of implementation of the e-wallet, 6 million farmers (which include more than 450,000 women) participated in GES and received subsidized fertilizer and improved seeds.