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Financial inclusion or farmers: The untapped market

We all know the statistic: Agriculture contributes to 25% of Kenya’s GDP, 50% of Kenya’s export income derives from agriculture and 75% of the national agricultural output is produced by farmers holding less than 3 acres of land. In other words, farmers are the backbone of the Kenyan economy, not only as producers but more and more as consumers. However, as we sit here today less than 4% of commercial lending goes to agriculture and public spending on agriculture ranges between 3% to 6% of the budget. While smallholder farmers are key in growing the Kenyan economy, financial services hardly reach these farmers. This stands to reason that if we want to get real about supporting the agricultural sector financial inclusion of smallholder farmers should be a top priority as part of Kenya’s Big Four agenda. When it comes to smallholder farmers what do we mean by financial inclusion? Many people, especially those outside the financial sector, would immediately say: agricultural loans are too risky: farmers default on their loans because of drought, pests, low prices or many of the other problems that farmers have to deal with. And it is true, the nature of farming knows many risks, so do we want to add another risk, the risk of default, to the farmer’s life? In other words do farmers need loans? The answer might not be as obvious as you think. For a farmer to produce, she needs seeds, fertilizers, tractor services and crop protection products, plus the advisory services that allows her to make good use of the inputs and get a crop that is marketable. Because when products are sold, farmers get the income that can be re-invested in the next cycle.

So who should be funding agricultural production? My answer is everyone that derives the benefit of that agricultural production: so apart from farmers these are also the seed companies, agro dealers, fertilizer companies, aggregators and processors. Together they should ensure that farmers have what they need to produce: inputs can be sold on credit and processors can give inputs on credit to secure supply; the larger the company the less issues they have to obtaining financing from a financial institution. Farmers will invest their saved income from the last season and might need an agricultural insurance to make sure they can deliver on their commitments to the input companies and off-takers.

For this to work financial inclusion is important. Not for farmers to get credit but rather for farmers to be able to transact in a convenient, affordable and nearby manner. So what does financial inclusion mean for farmers?

Firstly to have an account which is free, with no minimum balance, accessible through their phone and for which cash in and cash out services are within 5 kilometers distance. Secondly, this account should ensure farmers automatically qualify for national health services and optionally for production risks. Thirdly, if farmers are paid in that account, they qualify automatically for some overdraft to iron out their irregular cash flows. This overdraft will have a reasonable interest and can be flexibly in terms of repayment (not the exploitative 100% type of interest witnessed in the markets).

This sounds easy enough with a huge potential market, yet it is not happening. It requires smart partnerships between those benefiting from more agricultural production and patient investments in designing and deploying financial services that make farmers more resilient. These payment, insurance and overdraft services will make farmers known to financial institutions which is key in reducing risk and cost of providing loans to farmers who have the ambition and ability to grow. So first things first: cheap, easy and relevant accounts for farmers, risk sharing in financing agricultural production and financial inclusion of farmers is on track.

A blended finance approach to supporting innovative business models

The year is 2013 and a consortium of consulting firms, the Mastercard Foundation is working on a concept expected to deliver a lasting impact to Sub-Saharan Africa’s rural population. The team is designing a special financing vehicle, a challenge fund, whose sole purpose will be to enable one million people in Africa – mainly smallholder farmers – access financial services.

At the time, Sub-Saharan Africa was showing relative promise with regards to economic growth. However, the pattern of growth witnessed was resulting in increased inequality. Rural people were remaining poor and in some cases getting poorer. Cognizant that Africa’s rural population is roughly 65% of the total population, multiple stakeholders were proposing varied interventions to address this situation.

At around the same time, transformative technological interventions such as mobile money were emerging headlined by M-Pesa in Kenya. While writing the foreword for the FinAccess Report 2013, the then Central Bank of Kenya Governor, Professor Njungu credited the various financial sector player initiatives and innovations for the witnessed development. More critically, he called upon the sector to interrogate the constraints that impeded financial inclusion and design policy reforms, products and delivery channels that could expand financial inclusion primarily in Kenya and beyond.

Fast forward to the year 2019 and that special purpose-financing vehicle, the Mastercard Foundation Fund for Rural Prosperity has a complete portfolio of 38 unique projects implementing across Sub-Saharan Africa. The Fund’s commitment to these projects is USD 42 million to facilitate financial product and service development, scaling, marketing initiatives, financial capability development and more. Positively, the companies in the Fund portfolio have been able to leverage over USD 50 million to date for their projects through equity and debt demonstrating the catalytic nature of the Fund.

What are we seeing from the Portfolio?

- Varying Financial Ecosystem Development across Africa. An analysis of the Fund’s implementation countries – Burkina Faso, Burundi, Côte d’Ivoire, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Malawi, Mali, Mozambique, Uganda, Rwanda, Sierra Leone, Tanzania and Zambia indicate varying levels of ecosystem development. Whereas there are improvements, there are also visible variances.
- Leveraging Partnerships. All the for-profit companies in the Fund portfolio are working in some form of collaboration. This is crucial for last-mile product and service delivery and in building customer trust. Ultimately, partnerships require a shared vision and commitment from all parties involved.
- Increasing Reliance on Technology when Scaling. Concepts such as open banking interfaces are making it possible to scale innovations sustainably. Agency Banking and digital KYC practices are all possible thanks to increasingly open interfaces.
- Alternative Data is Driving Credit. De-risking the agriculture sector is an important step in increasing access to finance. Different innovators are finding new ways of building databases on practitioners and beneficiaries in the sector, making finance possible.

Impact to Date:

- As at end of 2018, the Fund reached at least 1.3 million direct beneficiaries. With three years of project implementation remaining, all indications are that the Fund will substantially surpass the original objective of 1 million beneficiaries.
- In addition, the program has resulted in more than 1,400 direct jobs (and many more indirect jobs), a testament to the fact that innovative business models can have transformational economic impact at household, community and national levels.
- All consumers are rational beings. The ability to determine one’s financial needs, value of alternatives in the market and make informed choices can be attributed to education, information, and awareness levels. With Fund support, ongoing financial literacy efforts through participant projects have reached close to 600,000 people. They focus on ensuring customers make optimal financial decisions in their day-to-day lives.

Constraints to Agricultural Finance in Sub-Saharan Africa. What Do We Fix?

- Infrastructure Readiness. Sub-Saharan Africa like the rest of Africa exhibits deficient infrastructure required to support sustainable economic growth. Agriculture development within the region will improve as the various Governments’ invest in housing, energy, roads, communication networks and technologies, internet access and more.
- Regulatory Obstacles and a Lack of Co-Creation. Innovative businesses leveraging technology have to and continue to face regulatory bumps. This follows the rate of technological innovations and in some cases, a lack of industry standards.
- Product/Service Awareness/Literacy. UNESCO estimates that 27% of the world’s illiterate people live in Sub-Saharan Africa and that 17 countries in Africa still have literacy rates of 50% and below. The illiteracy situation is compounded by expectations to understand complex financial concepts such as insurance leading to low registrations or inadequate active usage.
- Product Pricing. Transparency or a lack of it among service providers’ presents a delicate issue that begs the intervention of multiple stakeholders. Arguments exist for and against the current pricing structures witnessed in the markets.

Going forward, the Fund’s call to action to financial services providers is to invest in:

- Rigorous analysis of existing data to serve new customers, and provide more services to existing services;
- Consumer protection initiatives to ensure smallholder farmers feel dignified and respected as they are served;
- Deliberate efforts to serve youth and women (differentiation of products and services is key); and lastly,
- National financial literacy policies and strategies to boost collaborative financial inclusion efforts.

Kevin Genga and Grace Nyong’o - Project Managers, Mastercard Foundation Fund for Rural Prosperity.
The power of flexibility: How innovative payment models can expand access to energy services

In the past eight years, over 10 million people in emerging economies have acquired modern energy for the first time. This has been made possible in the form of long-lasting solar home systems, with growth driven by an emerging technology and financing innovation known as Pay-As-You-Go (PAYGo). Under a PAYGo model, an off-grid and unbanked household or small business can acquire a high-value asset that provides life-changing energy services. Services are acquired by paying a small deposit, and committing to pay off the balance through mobile-money-based payments — in a frequency that fits the realities of their individual financial lives.

Payment flexibility is central to PAYGo’s appeal. PAYGo models closely match users’ prior energy expenditure patterns, such as purchasing kerosene or batteries in small increments only when needed for the next few days or weeks. This payment flexibility — the combination of user-defined payment amounts, the ability to choose how often to pay, and the freedom to enjoy small periods of non-payment without additional fees or penalties — has unlocked considerable latent demand in the solar sector and shows significant promise to mobilise financial systems to address global energy access and poverty reduction.

As such, for many years to find a set of product offerings that would be affordable to the mass market in emerging economies. This was because most target customers either:
1. Lacked access to formal financial services
2. Were uncomfortable using their limited access to financial services on energy
3. Purchased into a financial contract that required strict regular weekly or monthly payments, and thus types of payments often came with the potential to lose pledges and collateral in the case of default.

Three factors changed this scenario and set the stage for an explosion of flexible asset financing products and business models:
1. The convergence of lower battery costs
2. The rise of mobile money in major African markets
3. The emergence of low-cost metering hardware and software platforms

An unpaid household in rural Ghana can now sign up for a PAYGo solar loan without a bank account or a prior credit history. Nor does the household have to pledge additional collateral, and it can repay at a speed that matches its repayment capability. This single payment unlocks use of the product for a prepaid amount of time and shuts down when that balance is exhausted. The freedom to pay how much and when a customer wants (or is able) is more akin to a flexible-repayment fixed installation plan for most households, and the combination of digital payments and remote lockout gives PAYGo solar providers the confidence to extend financing to millions of people who would otherwise go uninsured.

**PAYGo Solar**

**Through Digital Payments and Remote Lockout Hardware.**

PAYGo Solar is able to apply a similar level of flexibility to the financing of an asset purchase.

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The PAYGo solar model is already pulling people into additional financial services. With years of product and payment data, PAYGo operators are able to leverage unique insights into customer behavior to extend the relationship and maximize customer lifetime value. Good-paying customers of FeniX International in Uganda can access smartphones, cookstoves, and TVs through flexible financing offered as an upgrade when the customer is close to completing the first solar loan. It doesn’t stop with assets - FeniX has also rolled out loans for school fees, and is experimenting with home improvement and agricultural loans. In Ghana, PAG Africa offers short-term health insurance as a repayment incentive, and last year M-KOPA launched cash loans to clients completing the purchase of a PAYGo solar kit. By repaying the initial solar loan, a PAYGo consumer creates a transaction history that could be reported to credit bureaus, gains experience with digital payments, and forms a strong relationship with a provider that is increasing diversifying beyond energy.

In the last two years, following the PAYGo solar market’s use of flexible financing, we have seen significant innovation in regard to products and business model relationships.

For instance, in Kenya, a gas stove and LPG cylinder can be purchased taking a flexible loan from PayGo Energy. Systems Bio offers farmers flexible loans to purchase a home biogas digester for lighting and cooking. Safe Water Network offers access to clean water on a PAYGo basis in rural Ghana, and is experimenting with flexible financing of piped water connections. PayGo’s technology enables flexible financing of smartphones in Mexico, India, and East Africa, and earlier this year Angaza and Endless Solutions deployed the world’s first PAYGo computer.

Payment flexibility is at the center of this wave of innovations, and is a major contributor to the PAYGo solar market’s recent growth. While extremely attractive to end-users, we have seen that executing flexible financing at scale does require significant changes to how agents interact with customers, how a provider analyzes and leverages data, and often requires changes to the overall business model and financing arrangements with funders. In the next post in this series, we will explore PAYGo’s learnings across this spectrum.

Jacob Winiecki is a Director at BFA, a consulting firm that works at the frontiers of finance, data, and technology to craft efficient solutions that enable individuals, organizations, and communities to address vulnerabilities and prosper.

**Financial inclusion for what?**

It is widely accepted that financial inclusion plays an important role in promoting faster, broader-based economic growth, and poverty reduction. Inclusive and effective financial systems help mobile savings for investment, reduce transaction costs and increase efficiency, thereby contributing to employment generation and growth. Financial inclusion also helps improve household welfare, by reducing their costs, enabling them to more efficiently manage risks and shocks, allocating capital for productive use and supporting the accumulation of wealth over time.

As such, financial inclusion has become a key area of focus for governments and donors alike, but what does it really achieve? This year’s Financial Inclusion Week, held recently, explored the very question — asking whether inclusion leads to financial health, sustainable development, equity, and revenue generation. Or does it lead to something else?

Our Askat Nathan recognises that inclusion is not just about access but should also focus on the depth and breadth of inclusion.

Just because an individual or small business has access to useful and affordable financial products and services that have the potential to meet their needs, doesn’t mean that they are actually using them. In many cases there is still some way to go and the use of formal products, in particular, has seen a far greater variability and an unevenness in adoption. Rwanda, for example, has made a huge amount of progress in increasing levels of financial inclusion over the last 10 years. According to FinScope data, around 89% of the adult population (or 5.3 million adults) were financially included in 2016 compared to 48% in 2008. However, it is clear that the benefits of financial inclusion are not being shared equally with many marginalised sections of the community (such as women, youth and the poor) failing to access formal financial products.

Innovation has been heralded as the great disruptor in financial inclusion and technology is playing a key role in developing tailored products and services that are fair, road-based and, importantly, commercially sustainable. Further, this has demonstrated the potential to deepen the level of inclusion by increasing usage, breadth and quality of products available and used. Despite this, many challenges remain and it is clear that financial inclusion needs to go hand-in-hand with other initiatives to ensure broader development goals are met. Defining the objectives of financial inclusion will be critical in evaluating success … which leads us back to the question of ‘Financial Inclusion for What’.

Kerry Hamilton - Principal Consultant, Nathan Associates London Limited.
A shift from static to dynamic views of rural households

The Mastercard Foundation Rural and Agricultural Finance Learning Lab (the Lab) is a seven year initiative of the Mastercard Foundation, jointly implemented by the Global Development Incubator and Dalberg. The Lab aims to elevate smallholder and rural economies by equipping financial service providers and other key stakeholders with the latest research and lessons learned from across the space.

Just five years ago, our ability to segment smallholder farmers primarily relied on agriculturally related variables – what they produced, how they sold it, farm size, etc. These variables could describe smallholders’ activity but could not explain the hows and whys of smallholder household engagement with a market. In recent years, efforts from a number of actors – most notably the World Bank’s Consultative Group to Assist the Poor (CGAP) – have produced more robust, multifaceted data, allowing us to refine our understanding of smallholder households.

Even with these advances in our understanding, to date, segmentation has been largely static — a categorization of smallholder households based on a snapshot of their characteristics at a particular moment in time. But as many of us know, rural households are – like any household – dynamic. As smallholders pursue goals and face challenges over the course of their lives and across generations, their needs evolve.

To capture this fluidity, we have developed, in partnership with ISF Advisors, a new Rural Pathways model that aims to capture a number of predictable development trajectories rural and smallholder households may take as they pursue increased resilience and agency through different livelihood strategies. It is important to note that over the course of a lifetime, there will be both forward and backward movement along these pathways; and that a single household may also change pathways or simultaneously pursue multiple pathways as they adapt to changing priorities. We believe the Rural Pathways Model is a new paradigm of thinking that offers micro and macro level insights into how smallholder needs evolve and how that will shape the rural economy as countries industrialize.

Supporting Financial Innovation to Transform Lives

The Mastercard Foundation Fund for Rural Prosperity is working to support, help to scale up, and learn from innovative ideas that expand financial inclusion to smallholder farmers and other economically disadvantaged people living in rural Sub-Saharan Africa.

So far, the Fund has committed over US$ 42 million to support its strong and diverse portfolio of 38 businesses who have different operating models including direct banking, outgrower schemes and asset finance. Through their work these businesses are already enabling over 1 million people across 15 African countries to have better access to appropriate and affordable savings, credit, insurance, transactions and payment products and services. As a result, over 73 financial products or services have been launched or scaled up for rural communities, with nearly 600,000 rural people having received some level of financial literacy training, and over 1,400 jobs having been directly created.

The Fund welcomes engagement from potential partners, investors, networks and any other players interested to support Fund objectives or its portfolio of businesses on their journey to transform lives.

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Burkina Faso | Benin | Côte d’Ivoire (Democratic Republic of Congo) | Ethiopia | Ghana | Kenya | Malawi | Mali | Mozambique | Uganda | Rwanda | Sierra Leone | Tanzania | Zambia

The Fund Manager for Mastercard Foundation Fund for Rural Prosperity is Nathan International Development Advisory Services.


Anne Mayi - Learning Manager, Mastercard Foundation Rural and Agricultural Finance Learning Lab.
The new investment frontier in the EAC – agricultural insurance

APA has played an important role in the development of a strong agricultural insurance market in Kenya, as a key insurer and a strong partner of other like-minded industry players and the Kenyan government.

Kenya’s future depends on the future of agriculture, which are two of the biggest challenges facing the country and a thriving agriculture sector addresses both. The majority of Kenyans depend on farming for their livelihood. With the right investment and a robust farm economy, farming can become a pathway to prosperity. And ultimately prosperous farmers will produce enough high-quality food to ease the burden of malnutrition.

Yields from Kenyan farmers are a fraction of what is possible. Farmers have been struggling to grow more and healthier food for their families and earn more income from their farms. There are many reasons for this lack of productivity. They plant unproductive seeds in poor soils; they contend with pests and diseases that can destroy their crop and weaken their livestock; and climate change is bringing more floods and droughts that can ruin a growing season.

To combat these challenges, Kenya has become one of Africa’s pioneers in developing an agriculture insurance market to protect smallholders and pastoralists against the risks of the unpredictable and changing climate. The country’s first index-based agriculture insurance pilot took place in 2008. Since then, the Kenyan government, in conjunction with the private sector and development institutions, have been collaborating and experimenting to develop this market.

APA Insurance Limited, one of the largest insurance companies in Kenya, believes that solutions to Kenya’s greatest challenges can come from within. With an innovative approach, the company has developed a strategic focus on Microinsurance, Agriculture and Livestock insurance and created various products to protect vulnerable communities against climate-related risks. It is with this strategic focus that APA is being supported by the Mastercard Foundation under its Fund for Rural Prosperity programme. With this partnership, APA created the Micro-Sure programme, to scale up the uptake of insurance among the largely financially excluded population – that includes smallholder farmers and small and micro traders.

Since 2016, over one million low-income people have accessed and used insurance through APA’s agriculture, livestock and non-agriculture insurance products. The agriculture insurance products are distributed through financial institutions, farmer organizations, cooperatives, individual agents, brokers, agriculture input suppliers, agriculture insurance fintechs, government and international development organizations.

**INNOVATIVE APPROACH**

**THE COMPANY HAS DEVELOPED A STRATEGIC FOCUS ON MICROINSURANCE, AGRICULTURE AND LIVESTOCK INSURANCE AND CREATED VARIOUS PRODUCTS TO PROTECT VULNERABLE COMMUNITIES AGAINST CLIMATE RELATED RISKS.**

**Impact Insurance**

APA has played an important role in the development of a strong agricultural insurance market in Kenya, as a key insurer, a strong partner of other like-minded industry players and the Kenyan government. Microinsurance and agricultural insurance are significant elements of APA’s business. Developing the right kinds of products and partnerships has been a challenge and it requires a lot of patience in both design and experimentation that ultimately impacts people’s lives.

Besides product innovations, APA through its corporate social responsibility supports communities in construction of sand dams for water catchment in Arid and Semi-Arid areas in Kenya, further contributing resilience against climate change.

Kenya Livestock Insurance Programme (KLIP)

Provides Index-based Livestock Insurance (IBLI). Livestock is the principle asset and key source of income in northern parts of Kenya which is mostly Arid and Semi-Arid land. Sale of livestock and livestock products constitutes 48% of household income. APA has been implementing IBLI program since 2015 in Kenya. From 2016 to 2018, under the same consortium of insurers, APA partnered with the government to further implement the program. IBLI insures pastoralists against foreseen and unexpected that can lead to drought, resulting in livestock deaths. Designed to use forage availability as determined by satellite’s - Normalized Difference Vegetation Index (NDVI) to determine whether to pay or not. From 2015 to 2017, over 57,034 pastoralists were insured and claims worth USD 5.8 million paid under this program. Under this program, pastoralists were able to buy forage to keep their livestock alive or transport them to better grazing areas during the drought season. With insurance payouts, pastoralists were also able to reproduce their herds immediately after the drought and carry on with the traditional livelihood practices.

Through these two programs, APA introduced insurance as a risk mitigation mechanism, which had been non-existent among the target group, providing a fall-back position for these communities when the vagaries of weather and other risk events strike. Under these programs, APA has offered rewipe when there has been either droughts or floods destroying crops.

In addition, APA, through its innovative income replacement solution, Hospitalization Cash, has assisted clients during the unfortunate moments of sickness/hospitalization denying potential earning opportunities. These products have been innovatively bundled to provide multiple benefits for very affordable premiums across board. This has helped to create a much needed impetus for scale and insurance penetration.

Ultimately, these programs have created confidence among the communities to begin investing in activities that were previously risky and subsequently helped them to increase scale at the same time without the worry of uncontrolled losses.

Charles Wambua - Head of Micro Insurance and Agribusiness, APA Insurance
The final frontier to smallholder finance
is open for strategic collaboration

Access to credit is one of the major growth barriers affecting Africa’s agricultural sector, especially smallholder farmers. This is exacerbated by lengthy loan approval times resulting from the lack of proper record keeping practices, and uncertainty in market access. Less than 3% of total bank lending in Africa goes to the sector according to the Food and Agriculture Organisation (FAO). The irony here is that smallholder farmers contribute approximately 70% of all employment and over 40% of the continent’s GDP. Financing solutions for smallholder farmers would easily enable them to shatter the glass ceiling and drive the continent towards agricultural industrialisation.

At KCB Group, agriculture is one of the focal points of our business. We are re-imagining and redefining the agricultural sector with a view to transforming agribusiness by accelerating financial services access. For this reason, we have committed to spend at least USD 350 million in 5 years in new lending to the agriculture sector in East Africa to deepen financial inclusion among smallholder farmers. We are making this deliberate decision to play in the agriculture sector as it is an area that seems to have been neglected by most financial institutions for a long time with only 3 to 4% of the loans in the banking sector channelled into agribusiness.

**KCB MOBIGROW**

**TAILOR-MADE FOR SMALLHOLDER FARMERS OFFERING THEM DIGITAL FINANCIAL SERVICES INCLUDING AFFORDABLE LOANS, SAVINGS, AND TRAINING OPPORTUNITIES.**

One way we do this through the initiative dubbed KCB MobiGrow, which is tailor-made for smallholder farmers offering them digital financial services including affordable loans, savings, and training opportunities. Part of the initiative is a partnership programme by KCB Group and Mastercard Foundation looking to offer agricultural support services and impact the lives of over 2 million smallholder farmers in Kenya and Rwanda. The goal of the programme is to enhance financial inclusion initiatives and improve the livelihood of smallholder farmers and pastoralists in the two countries. The programme targets all agricultural value chains with the initial ones being dairy, maize, potato, livestock, sorghum and rice value chains.

In the last 3 years, the initiative has reached over 1 million farmers through various channels, of which over 500,000 of them have opened banking relationships valued at USD 20.3 million in deposits, with over 340,000 of these being purely digital banking relationships. This is an indication of the need for financial inclusion in the sector.

KCB believes in empowering the nation and we will continue to venture into practices that simplify our customer’s lives to enable their progress.

Dickson Naftali - Head of Programme, KCB MobiGrow.

There is no shortage of digital innovations solving smallholder challenges in the agriculture ecosystem, from farm and crop management software, digital marketplaces and aggregators to smart irrigation and precision agriculture.

Improving farm efficiencies and creating smarter smallholder farms in our lifetime is within our reach. Applying technologies such as blockchain and interoperable data hubs could enable secure data sharing and analytics between multiple actors, and ultimately scale financial inclusion for smallholder farmers.

The onus is on stakeholders to build cross-sectoral partnerships models that digitize and streamline farmer-centric services, focusing on understanding smallholder clients’ needs, and collaborating openly and responsibly to encourage active use of services for maximum returns on their investment.

**Mathoni Mago - Program Monitoring, Research, Learning and Evaluation Officer, Mercy Corps AgriFin Accelerator.**

KCB MobiGrow: Pushing financial inclusion for smallholder farmers

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