

SMALLHOLDER FINANCE PRODUCT EXPLORER

Insights Brief #1 | January 2018

Snapshot: Credit products

Provider types

- 66% Microfinance Institution
- 11% Bank
- 11% NGO
- 6% Cooperative
- 3% Government
- 3% Other

Scale

- 61% products with <10,000 clients
- 25% products between 10,000-50,000 clients
- 5% products with >250,000 clients

Portfolio size

- 75% of products have portfolio size under \$10M.

Purpose of loan product

- 24% are designed specifically for use in accessing inputs & 66% list it as one of several ways clients use the loan.

Insurance

- 77% of credit products provide some type of insurance, but prevalence of agriculture-specific insurance is low.

Repayment structure

- 42% of products offer flexibility in loan repayment structure

Product-level sustainability

- Nearly 75% of products are reported to be profitable or cost-neutral.

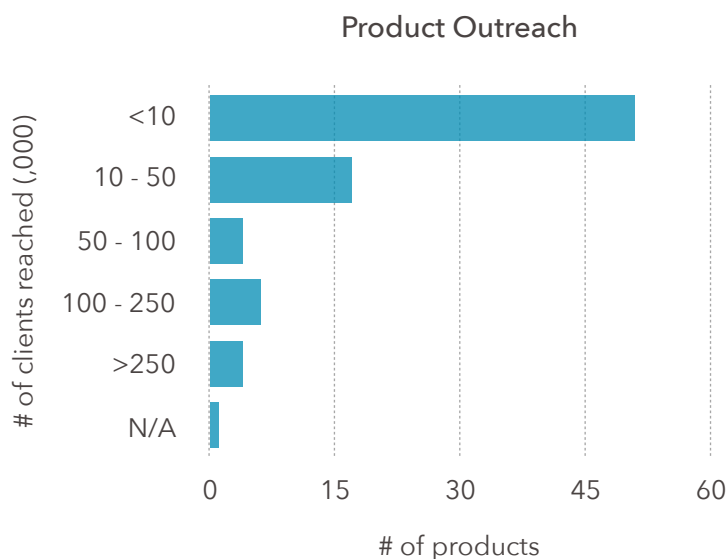


The [Smallholder Finance Product Explorer](#) aims to catalyse growth of the smallholder finance sector by sharing insights with financial service providers (FSPs) and funders that support better product design. This resource highlights how providers are finding innovative ways to reach smallholder farmers. In this brief, we start to explore the unique dataset offered by the Product Explorer.

Agricultural growth is one of the most powerful tools to help end poverty: growth in the agricultural sector is two to four times more effective in raising incomes among the poorest compared to other sectors. In 2014, agriculture accounted for one third of global gross-domestic product. It is estimated that 65% of the world's poor working adults make a living from agriculture.¹

The Smallholder Finance Product Explorer currently features credit products from over 30 FSPs in 12 markets in Sub-Saharan Africa and Asia / Southeast Asia. These FSPs

¹ Townsend, Robert. "Ending poverty and hunger by 2030: an agenda for the global food system." Washington, D.C.: World Bank Group, 2015.



are part of a growing market that channels an estimated >\$50B credit to smallholder farmers each year, as well as additional services such as insurance and mobile payments. However, this represents only a quarter of the estimated total financing needs of smallholder farmers. **FSPs face high resource constraints to develop and deploy financial products** that meet the needs of farmers. Those providers that are already serving this segment are struggling to expand their smallholder finance portfolios, reach more farmers and reduce the financing gap **due to**

limited availability of appropriately structured capital. The Smallholder Finance Product Explorer seeks to address these issues by increasing the availability and quality of operationally useful data on smallholder finance operations.

The Smallholder Finance Product Explorer provides detailed information on how to design farmer-centric products

A 2015 Hystra² study found that development interventions that are built on productivity-enhancing technologies (ie. quality fertilisers, better seeds, improved livestock, and micro-irrigation) yielded 80-140% income gains for smallholder farmers who used them. These productivity-enhancing technologies typically require finance and are precisely the target of many agricultural financing solutions currently available to farmers.³

The majority of the products included in the Smallholder Finance Product Explorer - **66% - are offering financial products to smallholder for the purchase of agricultural inputs.** Nearly 10% offer loans for the purchase of livestock or for the purposes of providing working capital, beyond inputs and trade finance. The Product Explorer allows users to identify those providers that are also **facilitating access to the inputs or assets** their clients need for their farming activity. Within the current data set, **24 products include this service for clients, delivered either directly by the FSP or through partnership** with an external organisation such as an agro dealer or input provider. The Product Explorer offers a number of different examples of add-on services and innovative partnership models that can add value and strengthen relationships with clients.

Insurance

In addition to credit, farmer households benefit from accessing insurance, savings and mobile payments products that help them mitigate risk. The Smallholder Finance Product Explorer's data framework is designed to capture this information, and **77% of products featured provide some**

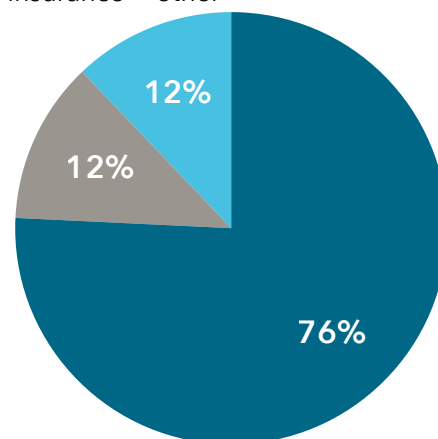
² "Smallholder farmers and business: 15 pioneering collaborations for improved productivity and sustainability," Hystra, 2015.

³ Dalberg Global Development Advisors, "Inflection Point: Unlocking growth in the era of farmer finance." April, 2016.

type of insurance. But the **prevalence of agriculture-specific insurance, such as traditional crop, livestock or weather-related insurance, remains low** among the FSPs currently surveyed.

The Product Explorer also reveals **limited number of credit products that offer a bundled savings product** as well. While just under 40% of products require compulsory savings, this is considered to be part of the credit product structure since the deposit is used to repay the loan. One exception in the current dataset is Buusaa Gonofaa, which bundles a compulsory savings product (10% of loan amount as upfront deposit and an additional USD0.95 monthly) into its Input and Term Loans that cannot be used to repay the loan.

- Life / funeral insurance only
- Ag-specific insurance
- Life / funeral insurance + other



Delivery channels

Delivering financial services to smallholder farmers requires most providers to move away from traditional brick-and-mortar branch-based models, which are costly to set up and run in rural areas with low population density. **Less than 30% of credit products in the current dataset make use of micro-branches as a primary delivery channel.** The Smallholder Finance Product Explorer offers insights into the diversity of delivery channels being used by FSPs to acquire and maintain relationships with clients, deliver products and collect repayments or savings. Field agents remain the most commonly used channel, however the data shows that **many FSPs are providing options to their clients: nearly 30% of products offer more than one channel through which to transact.** The data can be further analysed according to number of customer service points, proportion of client-facing employees who are specialised in serving smallholder farmers, and level of digitisation of the financial product (for eg: if a provider makes use of mobile or digital channels for client registration, disbursement or collections). **For providers looking for a detailed understanding of what it takes to serve the smallholder farmer segment, the Product Explorer offers operationally useful information that can support organisational decision-making.**

Flexible repayment

Customer centricity is about providing solutions based on a deep understanding of customer needs, preferences, and behaviours.⁴ FSPs entering rural areas for the first time will find that the basic, inflexible short-term loans they disburse to micro-entrepreneurs in urban areas are not suited to the seasonality of farmer cash flows. Providing clients with a flexible loan repayment structure can help drive demand for and usage of financial services among farmers. Within the Smallholder Finance Product Explorer data set, **just under half of the products (42%) offer flexibility in the loan repayment structure.** The Product Explorer also allows users to compare products according to other farmer-centric design features such as **whether the loan or product covers the growing season and if a grace period is offered on repayments.**

⁴ Kilara, Tanaya & Elisabeth Rhyne, "Customer-Centricity for Financial Inclusion." CGAP, 16 June 2014.

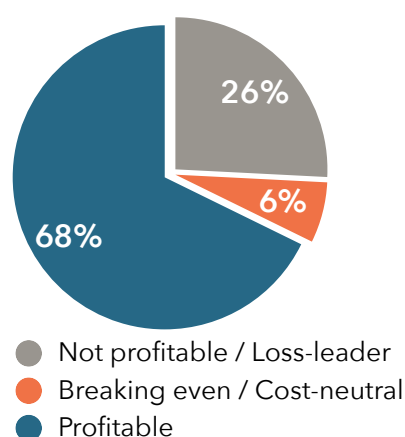
Spotlight: Flexible repayments

Matching loan repayment terms to agricultural cash flows is critical; a 2015 study by Hystra demonstrates that this model can drive much higher repayment rates among clients. AMK MFI Plc, part of the Agora Microfinance Group and one of Cambodia's largest Microfinance institutions, has been offering a flexible repayment option to their clients since 2006 and over many years, this product has shown 99% repayment rates and is cited by clients as one of the main reasons why they stay with AMK even in the face of competition.

Non-financial services: value-chain support and agronomic training

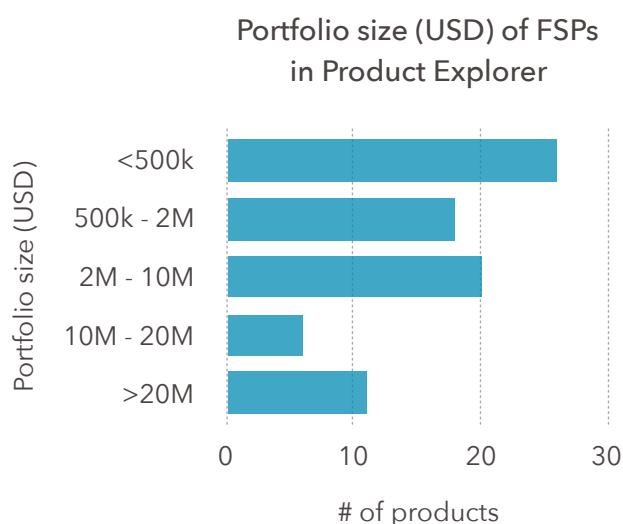
Access to credit alone may not unlock growth for smallholder farmers. Clients often need supporting services that help them maximise productivity from their loan. **The Product Explorer provides data on support services such as pre-harvest access to inputs, agronomic training, post-harvest storage and access to markets, to demonstrate which products are providing more than just credit.** By understanding how to deliver value-adding non-financial services, providers can help their clients achieve better yields and earn increased income from their farming activities.

Some FSPs within the existing data set have opted to partner with other organisations in the delivery of non-financial services, because the alternative - internalising the cost of providing these types of services - can significantly impact their bottom line. The Smallholder Finance Product Explorer data set **features several examples of progressive partnerships between FSPs and value-chain actors.** For its maize loan, Opportunity International in Ghana has MOUs with local aggregators, committing them to visiting client farms in the harvest season with potential to buy. Clients are not obligated to sell to off-takers. HDFC Bank in the Philippines partners with a dairy society, which enables their cattle loan clients to access training on cattle rearing, and a guaranteed place to store and sell their milk.



The Smallholder Finance Product Explorer will catalyse product development and innovation through better and more accessible information.

Of the 30+ FSPs in the current data set who are able to report on the commercial sustainability of the smallholder finance products they offer to clients, over two thirds are demonstrating that serving the smallholder farmer segment can be done in a profitable, or at the very least, cost-neutral way. The majority of the FSPs currently featured in the Product Explorer are Microfinance Institutions, however as our underlying dataset expands, we expect to see products from more non-traditional FSPs such as insurance providers, leasing companies, digital financial service providers or large-scale buyers/off-takers, who are increasingly providing financial and non-financial services to farmers. Providers who would otherwise never



have access to information on organisations outside of their own contexts are now able to share knowledge and learn from each other.

Over time, it will become possible to compare and analyse different types of smallholder finance operations. This growing repository of data will enable funders to discover innovative providers delivering robust financial products to smallholder farmers, and more efficiently allocate capital to the most high-impact services, ultimately reducing the smallholder finance gap.

“With insight and coordinated action, the smallholder finance industry has an unprecedented opportunity to unlock new levels of financial access and empowerment for the 450 million smallholder farmers across the developing world.” – RAF Learning Lab,

To learn more, visit:

<https://www.themix.org/mixmarket/smallholderfinance>



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