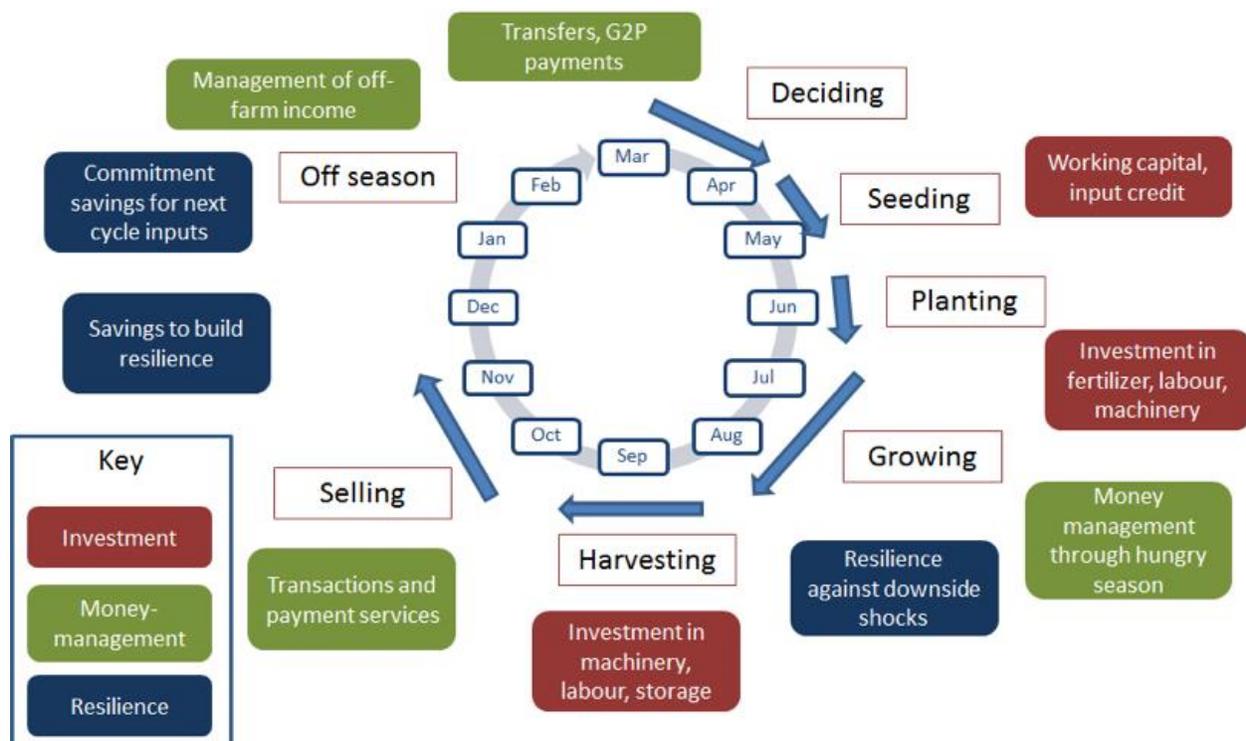


## FISFAP LEARNING BRIEF

### Making Digital Integrated Solutions Attractive to Financial Services Providers (FSPs): Value Propositions, Risks, Challenges, and Opportunities

AGRA’s Financial Inclusion for Smallholder Farmers in Africa Program (FISFAP) in partnership with MasterCard Foundation has been supporting the development and piloting of digitally driven integrated last mile solutions<sup>1</sup> in Ghana, Kenya, and Tanzania targeted at enabling smallholder farmers increasingly get access to quality inputs, enhance their knowledge to improve production and access fair outputs markets while at the same seeking to de-risk financial services provision, especially credit, to farmers by financial services providers (FSPs).

Between November 2nd –3rd 2017, AGRA organized a learning workshop bringing together digital last mile agriculture service providers and financial service provider (FSPs) to facilitate knowledge exchange, learning and understanding among participants on the challenges and opportunities identified by its partners under the FISFAP in deploying to farmers various integrated solutions in their countries of operation through digital platforms<sup>2</sup> as well as to identify the role that FSPs can play in enabling deployment of these integrated solutions.



<sup>1</sup> Provision of more than one of the following through digital platforms: agricultural inputs, knowledge on good agricultural practices, access to output markets and financial services

<sup>2</sup> Mobile Commerce, e-granaries, etc

Digital last mile agriculture service providers play a critical role in enabling access to quality inputs, knowhow on best agricultural practices and access to output markets by smallholder farmers in Africa. However, they are still faced with several organizational capacity and operating environment challenges that impede the deployment of digital integrated solutions to smallholder farmers.

The smallholder farmers market is a dynamic one with their needs varying depending on region, socio-economic, and agricultural activities among others. FISFAP partners involved in provision of integrated solutions through digital platforms are having to tailor their digital solutions to fit the specific target markets, even to the level of the crops the farmers are growing, within the same geographical zones.

Influencing behavioural change among farmers is another key challenge identified by digital last mile agricultural services providers and this has an impact on the level and speed of adoption of initiatives such as saving (lay-away) before the season starts. Other external factors that are influencing adoption are such as low production capacity of farmers, season failure due to poor weather and pests, all impacting the saving and repayment capacity of farmers and eventually adoption of digital solutions.

Additionally, getting farmers onto the platform for example is a time intensive and laborious undertaking raising customer development costs significantly notwithstanding the expected long timelines before investments can be recouped.

Digital last mile agricultural services providers recognize the critical role partners such as FSPs, government etc. can play in enabling their outreach and hence effective deployment of services to farmers but also point out the uphill task in getting partners that are aligned to their mission and have the capacity to support them deliver on their objectives. Some of the key challenges highlighted include: internal capacity limitations within partner financial institutions and insurance companies such as the inability of FSPs to appropriately appraise agricultural loans and risks; challenges in developing fair revenue sharing agreements between participating stakeholders; technology challenges e.g. systems downtime; as well as challenges around data ownership, quality, uniformity, and usability, which affect the attractiveness of the digital integrated solutions.

Lastly, unfavourable and at times unexpected government policy, regulatory changes and political challenges were picked out as potential disruptions for the business operations of digital last mile agricultural services providers. There is also the potential for business models being rendered unattractive in cases where governments intervene with long term policy or structural changes in markets targeted by the service providers for instance fertilizer subsidies, hence elevating policy/regulatory risk as one of the top risks being faced by digital last mile agricultural services providers.

**Key Risks and Mitigation Strategies in Offering Integrated Solutions through Digital Platforms:**

**Political Risks, Government Policies, and Regulations**

e.g. introduction of export bans and subsidies on agricultural products. Partners can mitigate these risks by monitoring and identifying the potential political/regulatory risks and take these into account when developing solutions/programs/ and projects; and should proactively engage with governments on a regular basis to know what the government's agenda

**Climate risk due to natural disasters and/or climate change:**

DSPs should incorporate early warning information for farmers in the integrated digital platforms. FSPs should provide appropriate insure price risk products based on more precise climate data.

**Partnership risks**

including breach of contract and having misaligned expectations in partner engagements can be mitigated through open communication of expectations, having clear terms of engagement, and investing enough time in managing contract deliverables.

**Scale up risk**

including risks associated with enhancing distribution networks and having the required internal capacity to scale can be mitigated by outsourcing (leveraging) existing last mile distribution networks, conducting realistic assessment of internal capacity to determine level of scale up and developing robust business cases for scale up underscoring potential costs, value propositions and opportunities.

**Sustainability risk on partner business models.**

Integrated solutions providers should continuously assess the value proposition, profitability and sustainability of their business models while ensuring that they are adjusted to ensuring continuous delivery of value to smallholder farmers.

Despite the myriad challenges faced by digital last mile agricultural services providers, many are devising new ways of improving their offering and leveraging on partnerships to deliver critical services to smallholder farmers.

Farmers are rational and dynamic in nature and hence cannot just be lumped into one box and so digital solutions providers are realizing that there is no one-size-fits-all solution to farmers. They indicate that there is need to develop appropriate products tailored for the diverse target markets (regions/crops/partners) and market needs being served as critical for success, and so is continuous review and improvement of the solutions to ensure that value is being delivered to each partner involved.

Recruitment of farmers and increasing adoption of digital solutions needs to be well thought out to ensure success. Digital service providers need to identify appropriate marketing and business development strategies that enhance farmer adoption and deliver higher conversion rates. For instance, and depending on the context, working with Farmer Organizations and Local Governments to increase local awareness and adoption. It is however important to note that behavioural change is a gradual process and hence digital integrated service providers need to learn the behaviour of the farmer and allow the farmer to adopt the solution gradually. Partners must also recognize that non-financial services such as education of smallholder farmers are critical for enabling user adoption thus enhancing access to financial services

Partners involved in provision of integrated services through digital platforms need to appreciate the need to develop clear terms of engagement at the onset and this should include aligning the interests and expectations of all partners, defining roles and responsibilities, and defining fair revenue sharing models. Engagement throughout the partnership to address sticky issues and to take stock of lessons learnt is also critical for maintaining healthy partnerships.

**Challenges that FSPs need to overcome to effectively collaborate with digital integrated solutions providers:**

**Decisions on capital allocation/structuring:** Not enough capital being availed by donors, investors, and governments for investment in developing innovations in agriculture finance. Available capital tends to be narrowly focused without enough capital investment for innovation of new products/services and building of buy-in internally and so as to enable further leverage on the balance sheet.

**Existential threat to their business due to long term cycles with low ROI, and low risk appetite to venture into agri makes FSPs reluctant to participate:** Agri transaction costs are high e.g. the cost of smallholder loan administration, MNO costs etc. and there is a perception of risk amongst FSPs who will not put their balance sheets at risk by investing in agri-lending.

**Tight regulations by regulators** especially on KYC hence increasing onboarding costs especially in countries that lack centralized registry systems for persons and/or unique identifiers such as national IDs.

**Lack of sufficient, reliable, and quality data** e.g. lack of critical product data/information e.g. weather patterns results in poor development of financial products/services.

**Internal capacity challenges** including integration limitations of the core banking system, lack capacity in agricultural development units and lack of appropriate resources (staffing, systems, and processes) to engage in agri-finance.

Financial Services Providers<sup>3</sup> (can) play a critical in enabling the success of digital last mile agricultural services providers.

FSPs should be viewed as critical partners by digital last mile agricultural services providers. They have already heavily invested in technology, branches, agent networks, and people, resources that integrated services providers can leverage on to deliver their services to farmers.

Specifically, FSPs bring the following benefits to the partnership:

- **Co-Innovation:** FSPs can support last mile agricultural services providers in co-designing of digital (value-added) products and services while providing their client base for piloting.
- **Commercialization:** FSPs can additionally enable the commercialization of digital solutions by enabling access to their client base and distribution networks.
- **Capital:** FSPs control the largest portion of deposits due to their ability to mobilize the same through their channels and hence can be leveraged to deploy some of these deposits in form of loans to farmers. They can also provide transactional and credit solutions to digital integrated solutions providers and their partners.
- **Full Service Suite:** Farmers have needs beyond agricultural services i.e. credit, knowledge, markets etc. They also need to invest in enhancing their livelihoods including but not limited to education for their families, healthcare among others and FSPs can play a critical role in enabling this through the digital platforms deployed by last mile agricultural services providers.

Potential revenue models that could be leveraged on by players offering integrated digital solutions include the following:

**Interest Income:** Interest income on savings and loans among other solutions offered to farmers through the digital platforms.

**Sale of Data:** Data vending fees charged for use of their data by 3<sup>rd</sup> parties such as FSPs, insurance companies, governments etc.

**Facilitation Fees:** Mark up on sale of input and fees for provision of output services to farmers.

**Subscription Fees:** Subscription fees charged to farmers for accessing services through the platform.

**Services Fees:** Advertising and/or Marketing fees levied on 3<sup>rd</sup> parties that use the platform to reach to farmers.

**Rental Fees:** Rental fees on storage on commodities in warehouses.

**Commissions:** Commissions on transactions and services facilitated with farmers through the platform e.g. insurance premiums.

Value Propositions that Financial Services Providers can explore with Last Mile Agricultural Services Providers to increase deployment of various digital integrated solutions to smallholder farmers.

- **Data-driven Credit Decisioning:** FSPs have an opportunity to acquire robust data through digital service providers e.g. farmers' production history and transactional data that can enhance their credit decision making process on agricultural loans to farmers.
- **De-risking Lending:** Digital integrated solutions can de-risk the process of loan collections through payments by automating collection of repayments from off-takers through tripartite agreements between FSPs, farmer groups, and off-takers hence safeguarding their revenues.
- **Value Added Services:** Partners can co-develop value-added solutions that will help the farmer all year round for example FSPs can provide non-agriculture related products such as funeral expense insurance, school fees payment solutions among others with last mile agricultural services providers facilitating lay-away solutions to encourage savings before the next production season, which further enhances the deposit mobilization capacity of FSPs.
- **Scale:** FSPs can realize opportunities to scale their services through increased access to new markets and customers i.e. new farmer population on boarded by last mile agricultural services providers thus reducing their cost of customer acquisition and hence their cost of operations.

<sup>3</sup> Includes both banks, insurance companies etc

- **Funding:** Partnership between FSPs and last mile agricultural services providers can lead to better propositions for donors and other funding partners willing to de-risk agriculture and/or undertake other financial inclusion development projects hence enabling access to funding to further develop their business within agriculture.