



The MasterCard
Foundation

**THE MASTERCARD
FOUNDATION:
RURAL AND
AGRICULTURAL
FINANCE STRATEGY**

SEPTEMBER 2015

The MasterCard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Sub-Saharan Africa. As one of the world's largest, independent foundations, our work is guided by a mission to advance learning and promote financial inclusion in order to alleviate poverty. Based in Toronto, Canada, our independence was established by MasterCard when the Foundation was created in 2006.

WHY IS RURAL AND AGRICULTURAL FINANCE IMPORTANT IN SUB-SAHARAN AFRICA?

Smallholder Farmers are Financially Excluded

While competition and market development has increased access to financial services for many, rural smallholder families in Sub-Saharan Africa remain among the most financially excluded households in the world. Expanding access to appropriate financial services is a key requirement in helping smallholder families to manage their daily risks and improve their well-being. Most smallholder families could earn more if they could grow more, and they could grow more with a combination of the right skills and better agricultural equipment, seeds and fertilizer as well as a more developed and organized marketplace.

There are many challenges to expanding access to financial and other asset-building services for smallholder families. First, there is the physical distance between many smallholders and financial service providers (FSPs) and markets, making it difficult to reach them in a cost-effective manner. Second, many of these farmers have limited or no interactions with financial institutions; therefore, they can be hesitant or unable to seize opportunities that might be available to them through greater financial inclusion. Farm families have complex financial lives. Analyses of financial diaries have shown that these families are compelled to make decisions about how to appropriately allocate scarce resources to meet competing demands, such as how much of their crop they should sell and how to acquire additional non-agricultural sources of income. Third, many smallholder farmers are not linked to a cooperative or group that could help to facilitate access to financial services.

The Role of Financial Service Providers

For financial service providers in Sub-Saharan Africa, supporting the agricultural sector has also been a challenge. For smallholder farmers in rural Africa, the rates of financial inclusion are just 19 percent, compared to the urban rate of 34 percent. Financial service providers do not always have the necessary know-how to develop specialty financial products that respond to the particular needs of farmers and their families. The seasonal nature of farming income requires specifically tailored financial services and conditions for credit products, for example, longer repayment and grace periods, less frequent repayments, or leasing products. Some financial service providers have not yet fully realized the opportunities within the sector and do not have effective methods for mitigating the risks that come with agriculture and agricultural finance. In addition, many previous attempts to expand financial services, particularly credit to rural areas, have failed, leading to poor repayment behaviour. Agricultural risks that must be considered include price fluctuations for inputs and products or crop failure due to pests and diseases, temperature or variable rainfall.

The Potential for Agriculture and Agricultural Finance

Despite these multiple challenges, we believe that African agriculture holds tremendous promise. Africa, like many other developing regions, is currently undergoing a transformation in its rural areas. Rural households are diversifying their income, secondary towns are growing in importance and developing new non-agricultural firms and livelihoods, and the agricultural sector itself is beginning to transform. This structural transformation process is critical to economic growth and poverty reduction across the continent and requires support.

Africa holds half the world's uncultivated arable land. It has the advantage of being able to benefit from a growing population weighted toward young people seeking employment opportunities. There are new and vibrant markets developing at home and abroad, and increasing levels of private sector investment. If the right models are adopted, there is the real possibility that the majority of farmers in Sub-Saharan

Africa, with the right policies, training, and financial and agricultural products, will achieve their potential to generate increased yields and incomes. As such, they will be able to sell their surplus, helping to address hunger and malnutrition while boosting livelihoods and promoting inclusive growth.



THE MASTERCARD FOUNDATION STRATEGY IN RURAL AND AGRICULTURAL FINANCE

Based on our experience and learning, we at The MasterCard Foundation are expanding our work in financial inclusion to support smallholder farmers. Our partnerships with organizations such as Opportunity International and One Acre Fund have shown us the transformational impact that can come from enabling farmers to access appropriate financial services, skills and markets. We have seen notable improvements in yield and household income, along with an increased ability of smallholder farmers to send their children to school, to improve the health of their families and to break the often perpetual cycle of poverty.

The focus of our work is to support both the professionalization of the agricultural sector and the diversification of rural economies through improved access to a range of appropriate and sustainable financial and technical services. In this way, we expect to make a direct contribution to improving lives and reducing poverty and inequality in a sustainable way.

At The MasterCard Foundation, we are committed to:

- **Working with smallholder farmers.** We strive to understand the needs, aspirations and behaviours of the financially excluded – their households as well as their communities. We also support specialized training for farmers so they can be more productive and take greater advantage of financial services and market linkages.
- **Supporting financial service providers.** To advance a range of financial services, training and inclusive models that help financial service providers to build their capacity, strengthen their analytical approaches, and design products and services that respond best to their clients' needs.
- **Working within countries and regions.** We seek to understand and influence the markets and environments in which the poor live and work in order to foster policies and programs that generate deeper and broader financial inclusion.

We support the development of appropriate products and services for Africa's rural and farming households and small enterprises, such as:

- **Credit products that support the challenges of farming.** The Foundation has experience in helping financial institutions develop successful credit products for smallholder farmers. This model ensures that there is a clear plan for plot size and productivity, provision of training and mechanisms in place for flexible repayment.
- **Models that link credit to the provision of inputs and equipment.** We are supporting the expansion of specialized financing for the seeds, tools and equipment that smallholders need to successfully increase their productivity and mitigate risks.
- **Savings services.** We recognize that smallholder households have a variety of financial service needs beyond credit. For example, rural households require savings services to help manage their cash flow and pay for critical expenses such as school fees.



We are also supporting the expansion and use of informal savings groups and helping them to link with formal financial service providers.

- **Insurance products to help households manage risk.** Smallholder farming is a highly risky activity. A poor harvest is one of the most common reasons for households falling into deep poverty. The development of products to help rural households manage their risk can help strengthen the entire system. The Foundation seeks to play a leading role in scaling up interventions and understanding the systemic constraints to the expansion of insurance services. There is also growing evidence that small-scale farmers and micro-entrepreneurs are willing to take more risk and invest more in their businesses when they know they are protected with insurance.

- **Payment systems.** As noted in the 2014 FINDEX findings, payments of agricultural products offer another opportunity for increasing account ownership amongst the financially excluded. In Sub-Saharan Africa, over 125 million people receive such payments in cash and there is a great opportunity to digitize these payments.

In addition to the specific interventions addressed above, we also work with our partners to ensure that cross-cutting issues of capacity building, the use of technology and responsible finance are addressed through our programming.

- Studies have repeatedly shown that **capacity building** is needed throughout the agricultural value chain. At the farm level, we support capacity building in financial and business services, as well as new planting and harvesting techniques to enhance the income of smallholder farmers.

Financial service providers are in particular need of capacity building to develop and responsibly implement financial products that respond to the financial needs of this group.

- We support the **use of technology** and digital financial services to reduce the cost of serving the financially excluded. We also support the use of technology as a channel for capacity building, both at the individual client level and for institutions working in this sector. As well, we work to address system constraints that prevent the expansion of mobile money to rural areas. This has been a significant focus of our work to scale access.

- We adhere to the principles of **responsible finance** by requiring our partners to follow client protection principles and ensure that financial services are provided responsibly and meet the needs of clients. Through initiatives like the SMART Campaign, we are helping unite the financial inclusion industry around principles to protect and empower clients, such as transparency, data privacy, the prevention of over-indebtedness, and the fair and respectful treatment of customers.

The MasterCard Foundation Fund for Rural Prosperity

To increase access to appropriate financial products and services to rural households and smallholder farmers in Africa, the Foundation has developed the Fund for Rural Prosperity (FRP). This is a new initiative that will support innovation and scaling of projects. It is designed to develop and test new approaches to agricultural finance through a call-for-proposals. In early 2015, a broad range of African innovators and organizations were invited to bring fresh thinking and to propose new solutions to expand access to financial products and services for smallholder farmers, as well as micro, medium and small enterprises working along the agri-industry value chain. Farmer training will also be an integral part of the projects that are selected for implementation. We expect to improve social and economic outcomes for at least half a million client households by helping them to increase their agricultural productivity and incomes. For more information, please visit www.frp.org.



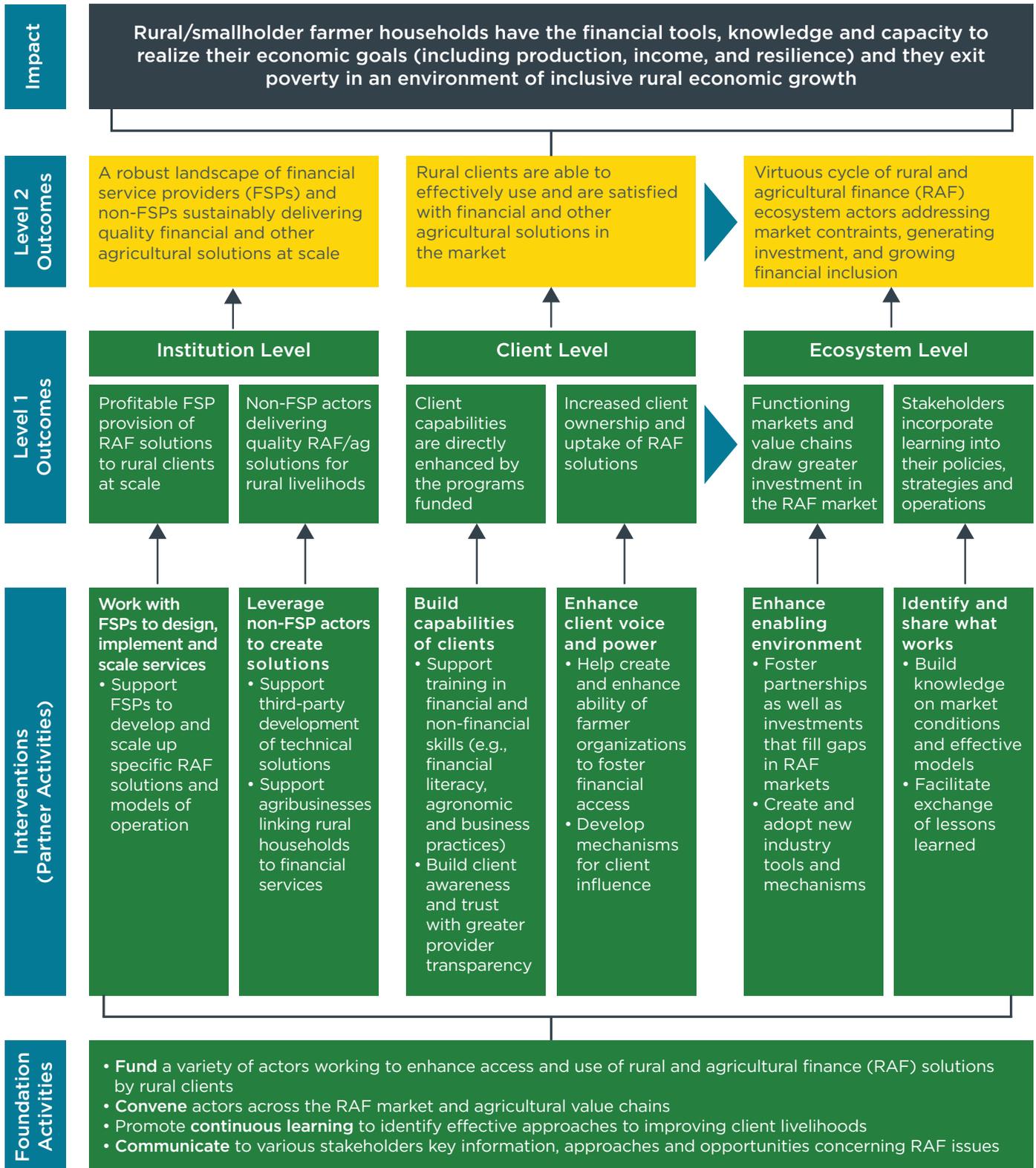




We subscribe to a Theory of Change that outlines how our work can lead to the outcomes we would like to see. We anticipate that, through our interventions, rural smallholder households will have the financial tools and knowledge to realize their economic goals. This will be done by facilitating market improvements and better knowledge sharing at the ecosystem level, by enhancing the financial and farming skills of clients, and by helping financial service providers to develop new models and partnerships.

These interventions will help us move towards a robust landscape of financial service providers who are eager to serve empowered clients with an array of appropriately designed financial products that meet their unique needs.

RURAL AND AGRICULTURAL FINANCE PORTFOLIO THEORY OF CHANGE





In all of our programming we aim to:

Achieve scale through markets. The problems facing disadvantaged rural households are great, much greater than the resources of The MasterCard Foundation. Taking a systemic view of the problems and improving market systems can help to achieve a deeper impact.

Focus on sustainability. We believe that our interventions should support the development of effective institutions and business models that are able to be self-funded in the long-run. The likelihood of sustainability will vary by market, business model and institution, but the longer-term sustainability of proven approaches remains the ultimate goal.

Our Learning Agenda and Learning Partners

We have developed a Foundation Learning Agenda that guides all of our research, evaluation and learning activities and is intended to generate new knowledge and best practices. Our approach

revolves around four overall Learning Questions, each of which has generated some sub-questions. We have structured the learning questions and sub-questions around four specific areas:

Impact: How does rural and agricultural finance contribute to poverty reduction and improved livelihoods for rural households?

- What are the paths by which rural and agricultural finance solutions lead to local poverty reduction and improved livelihoods for different groups?
- What products and services have the greatest contribution to increased production, income and resilience? For which intended beneficiaries and under what conditions do they work or don't work?
- Beyond production, income and resilience, in what other ways does rural and agricultural finance change the lives of clients?

Client: What financial and non-financial products, services and channels do different client segments in rural areas value and use most, and why?

- What are the most effective mechanisms for engaging distinct client groups? What is needed to make them work well under different contexts?
- For which intended client groups does what kind of engagement mechanism affect uptake and usage of financial products/services/channels positively and negatively?
- For different intended client groups, what are the gaps between intended and actual usage of rural and agricultural finance and why?
- What are the most promising models of combining financial with non-financial or non-agricultural solutions to improve outcomes for different client segments? Why?

Institutions: What drives the business case for financial service providers to serve rural households?

- What are the most profitable rural and agricultural finance solutions and business models, and for which financial service providers, product/service and rural client segments?
- What are the advantages of different value chain players and how can they be leveraged to develop and scale working solutions?

- What business models have been ineffective and for which financial service providers? What room is there for improvement?
- What knowledge, skills and tools are financial service providers currently lacking to develop and provide rural and agricultural finance solutions at scale, and for which rural customer group? What type of assistance is most needed?

Ecosystem: What are the key drivers for creating systemic change to grow client inclusion in the rural and agricultural finance market, and why?

- What features of the enabling environment are most critical for rural and agricultural finance to thrive?
- What are the types of partnerships (and complementary investments) that contribute the most to the growth of an inclusive rural and agricultural finance market? How do different groups value different partnerships?
- What are the best ways to incentivize knowledge sharing and help rural and agricultural finance actors put knowledge into action? What works for which different group, why and why not?



Rural and Agricultural Finance Learning Lab

As part of our Learning Agenda, the Foundation is supporting the creation and growth of a Rural and Agricultural Finance Learning Lab. The aim is to generate and strengthen learning about rural and agricultural finance initiatives while creating a space for our partners and other stakeholders to convene and collaborate on their programming efforts. The Rural and Agricultural Finance Learning Lab will identify and share best practices, enabling these practices to be replicated broadly. This will help to catalyze a transformation in rural and agricultural financing that will benefit rural households currently excluded from the market. For more information, please visit www.rafllearning.org.



RECENT PROGRAMS IN RURAL AND AGRICULTURAL FINANCE SUPPORTED BY THE MASTERCARD FOUNDATION

September 2015

| Partner | Budget (in millions of \$) | Start Date | Target Countries | Program Description |
|--|----------------------------|---------------|--|---|
| One Acre Fund | 10 | August 2013 | Burundi, Rwanda, Kenya | Provide bundle of seed and fertilizer, financing, in-depth farm training, crop insurance and post-harvest and market support to farmers. |
| Opportunity International | 9 | December 2013 | Ghana, Kenya, Malawi, Rwanda, Uganda, Tanzania | Expand access to a full range of financial services, including savings, agriculture and education finance for rural customers using cost-effective channels. |
| Alliance for a Green Revolution in Africa (AGRA) | 15.5 | October 2014 | Ghana, Kenya, Tanzania | Strengthen financial and agricultural value chains and delivery mechanisms (including mobile) to improve access to finance for farmers and value chain actors. |
| Global Development Incubator (GDI) | 6.5 | January 2015 | Sub-Saharan Africa | Create and share knowledge in order to support innovation and scale-up of financial services for rural customers and smallholder farmers, with an explicit focus on the client via a "Farmer Voice Centre of Excellence". |
| KPMG as Fund Manager for The MasterCard Foundation Fund for Rural Prosperity | 62 | January 2015 | Sub-Saharan Africa | Develop and scale new models for financial inclusion of smallholder farmers, working with financial service providers, agribusinesses, farmer capability builders and other service providers through a challenge fund. |
| Mercy Corps | 22.9 | January 2015 | Kenya, Tanzania, Zambia | Expand digital financial and value-added services to smallholder farmers by growing ecosystems of diverse service providers. |

For more information on the Foundation,
please visit: www.mastercardfdn.org.
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Growing finance
opportunities
for Africa's
smallholder
farmers



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