SAFIN WEBINAR SERIES

Summary Note

Fintechs and Financial Inclusion with Gayatri Murthy

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In recent years new technology-based companies providing financial services— some of them to an underserved rural clientele - have fascinated the global development community with their innovative approaches, promise, and impact. But what do we actually know about the role that fintechs play in the financial inclusion of smallholder farmers and agri-SMEs?

On 18 September, SAFIN and the Sustainable Food Value Chains-Development and Finance Technical Network at FAO co-hosted a webinar with Gayatri Murthy, Financial Sector Expert at the Consultative Group to Assist the Poor (CGAP), to address this question. The webinar was informed by a CGAP paper on "**Fintechs and Financial Inclusion: Looking past the hype and exploring the potential**," which was recently co-authored by Ms. Murthy with Maria Fernandez-Vidal, Xavier Faz and Ruben Barreto. The paper analysed the work and impact of 18 fintechs operating in Africa and South Asia, which were supported by CGAP between 2016 and 2018 to expand or deepen their impact on their target clientele. Of these, some provided value chain finance services, credit for agricultural inputs and location-based access to finance for farmers.

The webinar noted some common characteristics of these fintechs, including their agility in providing flexible products, a focus on improving customer experience and engagement, and the ability to address at least some of the challenges that typically make low-income customers ineligible as clients for other, more traditional finance providers. Among the various typologies of fintechs, those specialized in payment services have also fared quite well in several instances in terms of achieving scale, providing use cases for commercial banks and mobile money providers and thereby influencing local financial infrastructure overall.

According to the CGAP study, five main innovation areas best encapsulate the potential of fintechs to impact financial inclusion in rural areas, namely: interactive customer engagement; smartphone-based payments; connections-based finance; location-based finance; and de-risked non-productive finance. Of these, the webinar focused on three innovation areas illustrated by three case studies— Arifu, Apollo, and Tulaa, all three operating in Kenya.

Can financial services for the poor be more interactive and stimulate constant engagement, use and uptake? The case of Arifu.

To address the high cost associated with interactive and contact engagement with rural customers, Arifu- a mobile advice and information provider- partnered with Equity Bank in Kenya to offer query resolution and topic-based learning messages to 223,396 customers in rural areas. The CGAP study showed that customer needs for financial information were driven not so much by demographics but by their earning patterns and entrepreneurial profiles (such as aspiring businesses, full-time businesses and agricultural businesses). One conclusion was that high level of engagement by smallholders with a financial service provider using mobile-based delivery channels requires highly

contextualized content based on knowledge about their crops, their planting and harvesting seasons and corresponding financial needs and frequencies, as well as their entrepreneurial profiles.

Can understanding a farmer's location unlock cheaper credit and insurance? The case of Apollo Agriculture.

Apollo Agriculture bundles yield insurance with input credits for smallholder farmers in Kenya, using satellite imagery to assess credit risk, verify weather events and predict crop yields in a particular territory, and using automated SMS messages and calls to nudge farmers to repay their loans. CGAP findings about the experience of Apollo show that voice calls were more effective that text messages in influencing the repayment behaviour of the smallholder farmers. Moreover, although satellite data proved to effectively predict crop yields, there were limitations to how this could be linked to analytics underpinning the design of insurance products due to lack of multi-year weather data. One important conclusion offered by the presenter was that fintechs such as Apollo may require significant time and patient capital as well as complementary investments in enabling data systems and infrastructure, in order to develop viable business model in a context where some of the fundamentals are not in place.

Can we finance big, unexpected expenses with lowered risk? The case of Tulaa.

Tulaa provides inputs on credit to smallholder farmers in Kenya and brokers the sale of crops after harvest. The company aims to reduce perceived and actual risks associated with financing smallholder farmers by innovating around the big or unexpected expenses that can divert loan repayment flows - such as expenditures for healthcare, education or farm inputs. The study showed that this approach, which aims to tackle various challenges at different stages of the value chain, is heavily dependent on other actors—e.g. microfinance institutions providing capital and input suppliers providing inputs- failing which the business model of the fintech per se cannot stand.

In drawing some general conclusions, Ms. Murthy noted some limitations in the impact of fintechs on financial inclusion, including unfavourable or poorly-enabling regulations and limited access to the kind of capital that many of them need to grow viable business models. She particularly emphasized, in this context, the role that development finance can play in providing patient capital to fintechs that are working to address some of the most "sticky" problems that make such a large part of the rural (and urban) population financially underserved.

Participants raised questions around what innovation areas have most potential to affect financial inclusion in the rural space, how donors and development finance institutions can better support the development of the right fintechs and what role that commercial banks and other traditional financial actors can play to complement the development of fintech in the smallholder agriculture market. The overall message was that fintechs do have significant potential—and some actual evidence of impact—on financial inclusion, but that scale and viability of existing business models requires complementary investments, patient capital, and progress on the overall enabling environment, rather than purely fintech-enabled solutions.

Read full paper and case studies at cgap.org/fintech. For any follow up questions, please write to e.kitongo@ifad.org.