

Savings at the Frontier (SatF)

A Mastercard Foundation partnership with Oxford Policy Management

Project Briefing: Maxcom – Enhancing Agriculture for Smallholder Farmers through Financial Inclusion

Introduction

Maxcom, in partnership with BizyTech, has been awarded SatF funding of up to \$800,000 to develop a platform for farmer group savings that will digitise the value chain in the Tanzanian agricultural sector. The project will enable farmers to save towards agricultural input purchases (such as fertilisers) and, in the longer-term, enhance their productivity and lower input costs by aggregating demand and leveraging agri-extension work and product market linkages. The project's target is to improve access to financial services and quality inputs for more than 70,000 farmers (in more than 2,000 groups) along the rice value chain in three rural communities in Iringa, Mbeya and Morogoro.



What difference will SatF's support make?

The proposed platform will allow farmers to have individual mobile wallets to give their group business a digital footprint. The group savings solutions will be built initially around pre-purchasing high quality agri-inputs but will be extended later to other goal-based saving. Starting with rice farmers covered by irrigation schemes (where there is lower risk and higher impact potential), Maxcom intends to gradually extend their financial services offering (individual bank accounts, insurance) to out-growers, animal husbandry, horticulture, and agricultural co-operative societies in different value chains. BizyTech (a Tanzanian software development company) will profile and create a Big Data Warehouse of profiled Irrigation Scheme rice and maize value chain farmers on its Kilimo Data Hub (KDH) which will be linked with Maxcom's Payment Gateway and Bank-Grade Switches in order to create a single point of interaction and intermediation between agriculture value-chain actors. The database will also accumulate verifiable information from farmers to support accurate planning methods and agricultural practices in Tanzania. Maxcom, and possibly other financial services providers (FSPs) in Tanzania, will be able to use the resulting big data to develop more customer-centric products and services.

How exactly will this project benefit ISM users?

This project will bring a number of benefits to smallholder farmers in Tanzania. It will enable individual farmers who currently use informal savings mechanisms (ISMs) to save on a regular basis and to start using formal financial services in ways that they have been unable to do in the past. By digitising savings, farmers will have access to more accurate and up to date information about the funds they have available. The project will also give farmers access to more affordable agricultural inputs which in turn should enhance their productivity, and enable them to aggregate demand and negotiate better prices with a wider range of market actors.

The model is based on groups of farmers with common needs being able to use savings to signal to agro-input providers that money will be in place to pay for inputs at the start of the season but also to signal the volume, certified quality and timing of that need. This gives a real chance of better delivery (the right inputs going to the right farms at the right times) and at a better price than individual farmers can negotiate/obtain on their own. A range of linked services can then be added onto this offering, such as crop/input transportation, individual bank accounts, micro-insurance, push-SMS etc.

Once the basic product is established, longer-term savings mechanisms will be developed for other (non-rice) agri-investments and taken to scale. In the later stages of the project, Maxcom also hopes to facilitate social services (like Insurance, hospitals and schools) accepting digital payments from farmers.

How can this be profitable for Maxcom?

This project will enable Maxcom to reach smallholders – a new, and significant, customer segment for the company. Once the project reaches operating break-even point (estimated around the third year of implementation), this new customer base can start generating a profit for Maxcom. The project is seeking to test whether a digital solution can make cash collection less costly such that the savings aspect can become viable without cross-subsidy from any loan offering by the FSP. If successful, Maxcom's tool should become commercially viable for all the players in the linkage chain. Maxcom also hopes to monetise the data collected and stored from the farming activities. Under the KDH database, continuous usage of the application by farmers will provide data that can be sold on to industry stakeholders and used for planning and product development purposes.

Why the project was approved

The SatF team is particularly excited about this project as it is the only project in our portfolio that explicitly targets farmers and will therefore have a strong rural and sectoral focus. It is also interesting because the platform can accommodate different ISM types, i.e. both accumulating and rotating savings mechanisms. The project will also provide a useful test for Maxcom, and for SatF more widely, on how relevant they can make their agent network for the profiled farmers and how they manage the trade-offs between the mobile network operator (MNO) fees and the platform charges Maxcom have to charge savers (and how low those can be negotiated). It will also be an opportunity to demonstrate the value proposition for farmers (input costs savings, productivity enhancement, predictability, ease of savings mobilisation and access) by integrating/ digitising agriculture value chain(s). In addition, it will allow SatF to separate out the agricultural extension component and ascertain the strain that it puts on generating a commercially viable business case for an institution like Maxcom. If Maxcom can show that the additional costs (e.g. of agricultural extension and financial education) can be covered through the revenue generated from the services on offer, the demonstration effect would be very powerful indeed.

The SatF team recognise that this is a high risk project which will have to deal with risks in agriculture, efficiently aggregate dispersed agri-input and financial services demand, connect poorly functioning value chains, and meet skills deficits (agriculture, financial literacy) while managing transaction costs and building trust in the digital platform. However, the GIC feel that this is a risk worth taking as the rewards, in terms of the potential triple-win (for the FSP, ISM users and groups) and demonstration effect, can outweigh the costs. In the process, the project will provide useful learning for the consortium, for SatF as programme and for other stakeholders interesting in improving the service offering to farmers in Tanzania.

Maxcom Africa Plc is a Tanzanian ICT integration firm with headquarters in Dar es Salaam and operations in Burundi, Rwanda, Uganda and Tanzania.