Could mobile money be the game changer for smallholder finance in Africa?

With the help of mobile phones, financial institutions are able to develop huge databases of rural customers

A decade ago, when Kenya's Equity Bank used vans to provide banking services, it really seemed novel. Equity Bank's genius at the time lay in demystifying the bank to the common '*mwananchi*', making banking services more accessible to Kenya's rural communities.

Similarly the mobile phone has brought financial services literally into our hands, facilitating the entry of millions of previously unbanked people into the formal financial sector. Services such as M-PESA, which allows users to transfer small amounts of money, are credited with Kenya's huge leap in financial inclusion.

The mobile phone is now catalysing the way financial services are delivered to the agricultural sector, enabling access to financial services, for the first time, for African smallholder farmers. Make no mistake, financing smallholders remains a big challenge. Smallholders in Africa are trapped in a vicious cycle of poverty marked by old farming methods, inadequate resources, poor yields and low income. Poor infrastructure in the rural areas makes it expensive for financial institutions to serve rural communities and for farmers to connect to markets. Global warming calls for the adoption of new, climate-smart farming practices and technologies that will preserve the Earth. If they don't adapt, African farmers will remain perpetually vulnerable.

While not a panacea for all these challenges, the versatile mobile phone has an important role to play in transforming the lives of the smallholder farmer. This we believe is the final frontier and could be a potential game changer for Sub-Saharan Africa, where, according to the World Bank's Global Financial Inclusion Database, 125 million people or 36 per cent of the adult population still receive payments in cash for the sale of agricultural produce.

For example, the mobile phone has evolved from being a simple tool for dissemination of information, such as: price and weather data, to being a platform for the delivery of a suite of products. The mobile phone underpins technology that is used to perform complex algorithms that enable financial institutions to underwrite smallholders who have no credit history or no existing relationship with a financial institution. It has spawned a new generation of non-bank financial service providers and given birth to innovative partnerships, for example: between financial institutions and/or agribusinesses and value-adding service providers or telecommunication companies.

With the help of the mobile phone, financial institutions are now establishing giant databases of rural customers, which provide a wealth of information on smallholders that previously was not available, providing insights into their production, spending habits, consumption, repayment records and income profiles. With this information, financial institutions are better equipped to develop products that better meet the needs of the customer – the smallholder farmer.

Nigeria is a case in point where, using the mobile phone, it created a database of its smallholder farmers, registered 14.5 million farmers and equipped them with a mobile wallet that enabled them to access inputs directly. As a result, yields have more than doubled, losses through corruption have been reduced significantly and additional opportunities for financing farmers through financial institutions have also been created.

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