

Pay2Pay

Mobile-Enabled Solution for Working Capital Pre-Financing for Smallholder Farmers



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Background

While the agricultural sector is the backbone of the Ghanaian economy, access to finance represents a significant challenge for smallholder farmers (SHFs). Among the central factors for banks' reluctance to invest in local agribusinesses are:

- High external risks factors such a crop disease, extreme weather events (floods and dry spells) and volatile prices for farm inputs (seeds and fertilizers);
- Lack of understanding of the nature of local agricultural enterprises, such as cyclical cash-flows while no adequate risk assessment tools are in place and a comparatively high monitoring and delivery costs; and
- High degree of informality of local small and growing agricultural enterprises, including credit history and low levels of literacy and financial literacy.

The few farmers who achieve to mobilize loans face a variety of issues: high interest rates (usually around 25%), short repayment periods and high collateral requirements. These unfavorable credit conditions in combination with the high external risk and cyclical cash flows make it often impossible to smallholder farmers to deliver on a regular repayment policy and mobilize sufficient working capital to maintain and eventually grow their business. This shows the need for an innovative finance tool tailored to the needs of smallholder farmers.

Solution Overview

Pay2Pay offers a new way of obtaining financing and access to markets to smallholder farmers and small and growing agribusinesses. It is a platform payment system that serves as an intermediary, bringing together financial institutions, smallholder farmers and business development services such as climate-technology service providers. The payment system is set up as a platform with the use of a mobile phone application reaching out to rural areas. Earmarking of pay-outs is used to ensure the proper utilization of money.

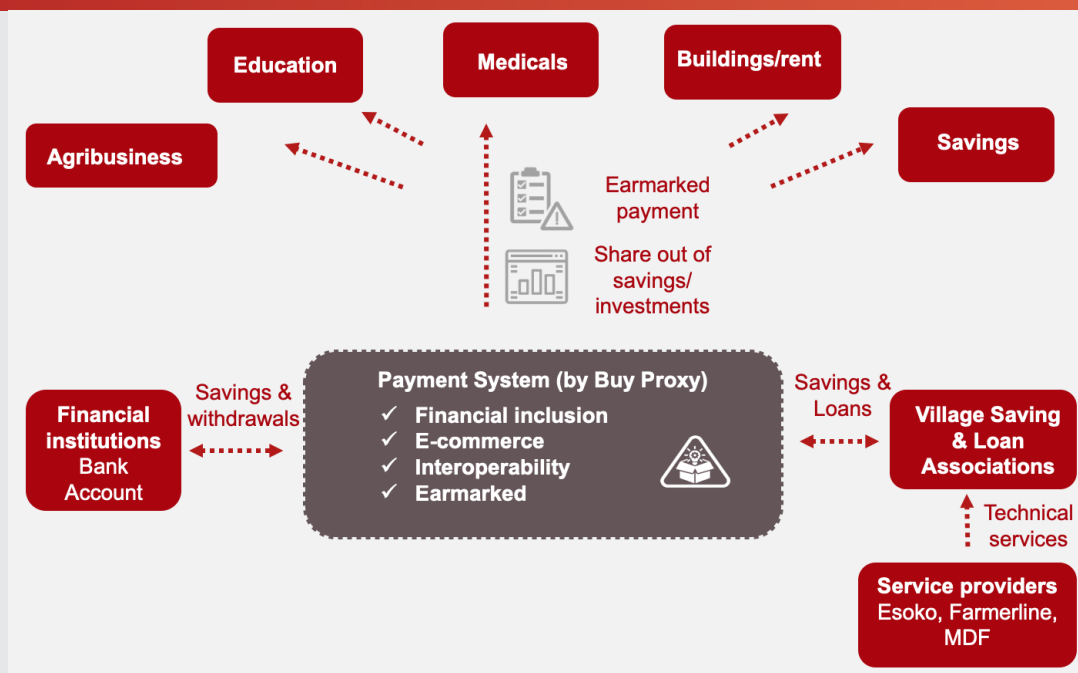
Focus:	Climate Change Adaptation
Ecosystem Impact:	Access to Finance; Infrastructure & Technology
Lab Cycle:	Climate Finance, Ghana 2019
Challenge Hosted by:	MDF Training & Consultancy

Key Features

Pay2Pay is a digital platform that offers an innovative financing mechanism to farmers and small and growing agribusinesses. The platform-based payment system coupled with mobile money transactions connects farmers to financial institutions. The digitized Village Savings and Loan Association model offers secure and easily accessible loans to farmers who are otherwise largely excluded from financial services. Savings are linked to formal financial institutions and mobile money operators. Mobile money transactions make the product user-friendly for farmers, as it is accessible from remote areas and who are familiar with the technology. The product addresses illiteracy through voice interfaces in local languages.

Climate-technology services provide information on best agromomic practices such as planting intervals, weather information including rainfall patterns, fertilizer and chemicals application, mechanization centers, access to market and certified seeds and seedlings through voice in local languages.

Earmarking of members savings is used at share-out to ensure the purposes and judicious utilization of the accumulated savings. Clients will indicate specific areas to spend their share-out money such as agribusiness, education, medicals, building/rent, savings. Clients will be educated on how to use the platform to perform this function.



Innovative Characteristics

- Transforming traditional model of village savings and loan association which are common in rural Ghana into a safer digitized platform version
- Uses earmarking of pay-outs to ensure proper utilization
- Platform connects key players to provide range of services

Solution Developer



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Target Market

The platform addresses and connects smallholder farmers with existent Village Savings and Loan Associations with financial institutions and climate technology providers.

During the pilot phase, Pay2Pay will support 10,000 smallholder farmers during a period of two year working with multiple value chains. A pilot of the platform is already programmed.

Impact Potential

- Financial inclusion of SHFs, while decreasing farmers' financial vulnerability, strengthening livelihoods through a stronger productivity and ensuring proper utilization of savings through earmarking
- Smallholder farmers who were formerly excluded from financial services will have new financing opportunities, for working capital and investments into climate-smart technologies such as drip-irrigation systems
- Mitigation of and adaption to climate change will be enhanced through the dissemination of climate-smart agriculture

SEED Practitioner Labs Climate Finance empower participants during the hands-on and collaborative Labs process to turn major financing challenges into robust prototypes. SEED Practitioner Labs Climate Finance are part of the implementation of "Financing and capacity building for micro and small climate-smart enterprises: Filling the gap of the missing middle", a project supported by the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety.