Catalyzing Underserved Microbusinesses

September 2019

In Sub-Saharan Africa, agriculture is vital to reducing poverty and increasing food security. Most farmers in Africa are smallholder farmers, which means that they cultivate one to two acres of land. These small plots of land are often the main source of income for these farmers and their families and help them pay for food, school fees, housing, and other expenses.

For these smallholder farmers, end buyer visibility is limited and the marketplace is fragmented. It is full of middlemen who take a substantial, and arguably disproportional percentage, of the wholesale price of these goods. When the farmer does manage to sell at the right time and price, payment is often delayed and made in cash.

These cash payments create roadblocks to farmers growing their businesses. Without a digital footprint of transactions, lenders often do not have the data on small and medium sized enterprises required to assess their creditworthiness. This leaves these businesses unable to gain access to the capital needed to expand.

For small shop owners, access to affordable credit is the biggest barrier to growth. There are somewhere between 365 million and 445 million micro, small and medium enterprises (MSMEs) in emerging economies.[1] They are the backbones of their local economies and a key driver of the United Nations' Sustainable Development Goals.

Women represent a large segment of these struggling microbusinesses. They also represent the majority of the world's unbanked population.[2] About 980 million women do not have an account—56 percent of all unbanked adults globally.[2] Not only does lack of access limit these women's economic potential, but it also hampers that of their communities.

As of 2017, 70 percent of women-owned MSMEs in the developing world lack access to adequate financing, representing a $300 billion credit gap each year.[3]

1. "Small and Medium Enterprises (SMES) Finance." *The World Bank Group,* https://www.worldbank.org/en/topic/smefinance.

2. "The Global Findex Database 2017." *The World Bank Group,* https://globalfindex.worldbank.org.

3. "The Global Findex Database 2017." *The World Bank Group,* https://globalfindex.worldbank.org.

Creating pathways to financial security

We see digital technology as a means to achieving economic growth and financial security. For the millions of people working cash-in-hand, the ability to build a better life is severely limited. But when everyone has the tools they need to support their businesses and their families, they're able to cover their day-to-day needs and plan for a better future.

At Mastercard, we are reimagining what it means to take part in today's digital economy and what growth means for all segments of society. We are working to understand the needs of the most vulnerable and are customizing solutions to bring them towards financial security. Our first step was our commitment to bring financial inclusion to 500 million people. But that's just the start.

By providing business owners the digital tools and services that will ultimately help them grow and thrive, we are looking beyond just bringing people into the formal economy. We are putting them on pathways towards prosperity.

Over the past few years, we've piloted programs to test the impact of our solutions. This paper highlights just three of the more than 750 global programs Mastercard has embarked on in partnership with governments, private sector companies, and international development organizations to help underbanked, unbanked, unempowered, and vulnerable populations achieve financial security.

"We're seeing a lot of technological innovation geared toward agriculture, a sector that is typically slower to adopt technology... To make a deeper and more lasting impact, these applications of technology need be combined with business model innovations that move smallholder farmers toward profitability."

Salah Goss, Vice President, Innovation Management, Products and Innovation at Mastercard

Mastercard Farmer Network

According to the World Bank, about 69 percent of all Sub-Saharan Africans work in agriculture.[4] Despite their importance and large numbers, smallholder farmers remain marginalized, face barriers to improving their livelihoods and managing risk, and lack access to technology-enabled solutions.

With more than 235 million unbanked adults worldwide receiving cash payments for the sale of agricultural products and 59 percent of them having a mobile phone,[5] development experts see an enormous opportunity to create and scale solutions that address multiple pain points faced by smallholder farmers and other actors in the supply chain, including:

Market access

Timely payments

Access to credit and insurance

The Solution

In early 2017, Mastercard launched the Mastercard Farmer Network (MFN, formerly, 2KUZE) a mobile platform to digitally connect small farmers in Kenya, Uganda, and Tanzania. Developed by Mastercard's Lab for Financial Inclusion in Nairobi, it is a mobile platform that improves farmers' access to markets, increases price transparency, and digitizes payments.

It has already gone live in Uganda, Tanzania, and India, with more than 250,000 farmers on the platform as of August 2019.

Working with the International Center for Tropical Agriculture and the United States African Development Foundation, MFN will expand to provide participating farmers with a host of value-added services, including logistics and transportation, best agronomic practices, and access to warehousing facilities. Together, MFN will extend its reach to millions of smallholder farmers in Africa.

The Impact[6]

250K

Registered Farmers

1 Million

Target Registered Farmers, 2020

4. "Financial Inclusion on the Rise, But Gaps Remain, Global Findex Database Shows." *The World Bank Group,* April 19, 2018, https://www.worldbank.org/en/news/press-release/2018/04/19/financial-inclusion-on-the-rise-but-gaps-remain-global-findex-database-shows.

5. "The Global Findex Database 2017: Overview." *The World Bank Group,* https://globalfindex.worldbank.org/basic-page-overview.

6. "Mastercard Partners with USADF and CIAT to Open Up New Opportunities for Smallholder Farmers Across Africa." *Mastercard,* July 10, 2019, https://newsroom.mastercard.com/mea/press-releases/mastercard-partners-with-usadf-and-ciat-to-open-up-new-opportunities-for-smallholder-farmers-across-africa.

"My income from the shop helps me to pay school fees, [and] rent and I have even expanded my business. Do you see the small hotel there? Yes, that is mine too. I sell tea and potato chips. The other small shop next [to] here is also mine, I even sell cooking gas."

Mutua Muasia Kivathi, Jaza Duka program participant

Jaza Duka

Mutua Muasia Kivathi has been a retailer for 15 years. He and his wife, two sons, and two daughters live in Kangemi.

Kangemi is on the outskirts of Nairobi city, a place once infamous for hosting many slums. It has countless small shops and kiosks line the roadside. Most of them are built from iron sheets.

These small shops and kiosks are deeply rooted in the family lives of many Kenyans. Local families have run their small shops for over 10 years. They have made careers and livelihoods from being shopkeepers. This simple job stability breeds potential for new generations—financially supported and educated children can pursue careers in computer engineering and business.

A major hurdle to this potential is the growth of the family's business. For Mutua, he is limited to making stock purchases with the cash he has on hand. Often, he has no goods to sell in the store due to cash limitations.

The cash nature and lack of records of Mutua's business reduces his ability to obtain a credit line, which is necessary to break this cycle and purchase additional goods to grow his business.

The Solution

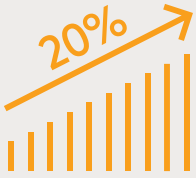
The "Jaza Duka" program ("fill up your store") was developed in partnership among Mastercard, Unilever, and Kenya Commercial Bank (KCB) to offer new lending models for micromerchants in Kenya. The program offers a safe digital platform for enabling KCB to provide an interest-free credit line based on the micro-merchant's purchasing history.

The credit line is provided through a secure Mastercard digital payment solution, accessible via mobile phones. Participation in Jaza Duka means Mutua and other micro-merchants can buy more products, giving them access to formal credit services and increasing customer traffic.

Mutua has been able to grow his business, pay rent, and cover school fees for his children, opening up not only Mutua's economic potential, but also that of his children.

The Impact[7]

18,000
Kiosk Owners



Average Percentage Increase in Sales of Unilever Products

7. "Kenya: 18,000 Shops Sign up for Credit Facility by Unilever, KCB and Mastercard." *Syminvest,* January 23, 2019, https://www.syminvest.com/news/kenya-18000-shops-sign-up-for-credit-facility-by-unilever-kcb-and-mastercard/2019/1/23/7929.

Neumann Kaffee Gruppe

In the highlands of Mexico's Sierra Madre de Chiapas mountain range, smallholder coffee farmer Elia Velázquez Domínguez would lose up to 10 percent of her crop value to a network of "cash only" middlemen. Elia and her neighbor smallholders now have access to a streamlined, safe, secure, and digitized supply chain payments system developed by Mastercard and Germany-based partner Neumann Kaffee Gruppe (NKG).

Together with Mastercard, NKG and its coffee export company in Mexico, Exportadora de Café California (ECC), developed a solution to replace cash with electronic payments. The systems were developed to link farmers, merchants, and banks into a modern, digital-enabled supply chain.

As of August 2019, there are currently more than 8,000 farmers directly participating in ECC's supply chain, as well as a larger number of indirect participants that work through middlemen.[8]

The Solution

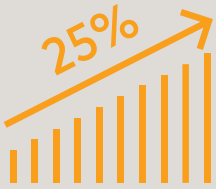
Our pilot began in December of 2018 with 150 participants and has since grown. By the end of 2019, it is expected to reach 2,000 farmers. The solution developed by Mastercard, NKG and ECC provides a scalable, speedy, cost-efficient way to pay farmers. Reduced process costs will enable NKG to reach more farmers directly.

We are replicating these efforts in Colombia and, through our Global MOU with NKG, will expand our efforts to other markets. Beyond coffee, Mastercard is building on these efforts to expand into other agricultural supply chains, including cocoa and other cash crops.

The Impact

2,000

Expected Number of Smallholder Farmers Participating by Year-End 2019



Percentage of Crop Value Expected to be Saved Through Modern Controls and Electronic Payments

Percentage of NKG's Direct Small Farmer Suppliers in Mexico to be Digitized in 2019

8. Program level tracking by Neumann Kaffee Gruppe.

The road ahead

Around the world, people stuck in the cash economy rely on what's in their pocket after a day of work or stashed under a mattress for emergencies. They have little access to tools to manage their daily expenses, grow their businesses, and plan for the future—and being invisible to the formal financial sector can make them vulnerable to financial setbacks, such as those from predatory lenders or theft.

As a business, our philosophy is to do well by doing good and to turn commercially sustainable social impact into business as usual. Inclusive growth over the long term is our goal. This is why we are customizing digital tools to ensure that small businesses, their employees, and their customers can benefit from the security and opportunities that formal financial services provide.

We want other companies and private sector leaders to join us in this collaborative approach to inclusive economic growth—and create a true network effect that will bring about change. This is not about philanthropy. Doing well and doing good are not mutually exclusive. There is a strong business case for working together to put people on a path to prosperity. Through our resources and know-how, we can make the digital economy work for everyone, everywhere, and help human lives reach their full potential.

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