



### **4.13 Invest in the Future - Making Food Systems Finance Accessible for Rural People**

#### **1. What, in brief, is the solution?**

The solution is a Global platform for digital rural finance, with 3 pillars: 1) an Innovation Fund with catalytic capital to support the development of new digital finance products, services, and business models designed for inclusive access among rural people; 2) a Technical Assistance Hub providing capital and expert support to build the capacity of rural financial service providers shifting to digital solutions and to technology providers with new business models to test for inclusion and sustainability; and 3) a Global Knowledge Hub offering a repository of good practices and convening learning events around enabling policy and regulations, digital financial literacy, consumer protection, and partnerships.

#### **2. What was/were the source(s) from which this solution emerged?**

Google Form database.

#### **3. What problem is it trying to address within food systems?**

Poor or no access to financial services results in economic disempowerment, marginalization, vulnerability to shocks, and limited investment capacity among hundreds of millions of people living in rural areas in emerging countries – notably women and youth and people living in poverty. Given that agriculture represents a core pillar of food systems, and that rural smallholder farmers are both the most numerous among agricultural producers and a large share of people living in poverty, inclusive rural finance is an important precondition for transformative agricultural investments as well as for access to decent incomes and to healthy diets. The HLPE Report on Multi-stakeholder partnerships to finance and improve food systems (2018) provides valuable guidance on partnerships to catalyse finance in agriculture and food systems.

Digital products and services, along with digital delivery systems for finance, have become increasingly widespread across sectors in the past several years. This experience shows that digital finance can solve a number of factors that make traditional financial products and services too costly to manage for many financial service providers, and the process of accessing finance also less costly and burdensome for rural women and men. However, digital technology per se is not a panacea nor a predictor of inclusive impacts. In rural areas, in particular, poor digital and financial literacy, incomplete or unreliable coverage of mobile connectivity, and lack of cash-out points all limit the potential impact of digital products or delivery channels.

The solution aims to accelerate the design of effective and inclusive services and products through dedicated funding and by aggregating learning and knowledge resources, as well as to build the capacity of different actors (notably financial institutions, technology innovators, and mobile companies) to work together to develop and adopt digital solutions on a large scale.

#### **4. Why is addressing that problem important for achieving the goal of your working group?**

Access to finance as a key component of economic empowerment, which is the goal of the working group.

#### **5. How can this solution address that problem (theory of change)?**

The theory of change behind this initiative can be summarized as follows.

Assumptions/rationale



- large un-met demand for financial services among rural people, and particularly so among women, young people and people living in poverty;
- traditional financial services typically find it too costly and/or risky to “bank” rural people, especially in the lower market segments;
- fintech and digital financial services are currently dynamic and expanding sectors, and have demonstrated potential to reach rural people in various contexts;
- however, there remains a large gap in knowledge base, financial sources, and capacity to design and deploy digital finance that has held back its adoption and limited its potential impact on rural women and men.

### Inputs

- A coalition of digital, financial and agricultural actors spanning the public and private sector. This includes Public Development Banks (leveraging the agriculture cluster facilitated by IFAD at the FiC Summit), fintech companies, impact-oriented private investors and commercial banks at the forefront of developing green and inclusive investment products, agri-business companies such as aggregators, processors and value adding companies and digital services companies (telecom);
- Grants and catalytic finance (e.g. matching grants, pay-for-success mechanisms, other) for the innovation fund;
- Matching grants or other cost-sharing finance for the technical assistance facility;
- A pool of technical experts supporting the knowledge hub and facilitating capacity building and/or training of trainers for capacity building to FSPs, regulators, or tech companies.

### Outputs

- Innovation funding for the design or testing of new business models and new financial products and services, with a specific learning agenda and metrics for “inclusion” and “impact”, to be allocated on a continuous or periodic manner through a competitive process (e.g. calls for proposals via regional or global windows, challenges and award mechanisms);
- Technical assistance support (training, advisory support, facilitated access to peer-to-peer or on-job learning) and partnership facilitation support to be provided on a cost-sharing basis upon demand;
- Industry convenings, thematic conferences, ad-hoc workstreams on themes of relevance to the ecosystem (e.g. periodic reviews and analyses of data on the state of digital rural finance, digital rural finance maps, regulatory “best practices”, etc.).

### Outcomes

- More (soft) finance available to innovators and to financial institutions to develop and roll out innovative models.
- Financial institutions and financial tech innovators have a common reference point for good practices and technical know-how.
- The international community has a clear reference point to drive forward the agenda of digital rural finance.

### Impact

- Economic empowerment of rural people living in poverty
- Economic empowerment of rural women



- Economic empowerment of rural people with disabilities
- Economic resilience of rural households

## **6. Why does this solution align to the definition and criteria for a ‘game changing solution’ developed by the Summit?**

The initiative is intended to have global scale of impact (first criterion), to build on large unmet demand for finance in rural areas as well as continuing trends towards digitalization of market transaction and of a range of services that are important for both urban and rural people (key for both feasibility and sustainability). It is also intended to build on existing initiatives and capabilities among different actors, as mentioned above (important for both feasibility and sustainability).

## **7. Existing evidence supporting the argument that this solution will work, or at least achieve the initial outcomes described above?**

Evidence about the impact of digital finance in terms of rural financial inclusion can be found in the studies conducted by CGAP, the MIX, and others in recent years. The evidence for the combination of innovation fund, technical assistance, and knowledge hub as three interconnected components builds but also expands on the experience of initiatives like convergence – the pre-eminent global network, repository of knowledge, and source of design funding and match-making advisory support for blended finance – or the GAVI – which includes innovative finance mechanisms and support to country level healthcare and immunization systems as well as a repository of data and analytical sources. Such examples show the importance of mutually reinforcing dynamics connecting knowledge and best practices to innovation funding and capacity building, in a continuous loop, without which the effectiveness of the solution would be more limited.

## **8. What is the current and/or likely political support for this idea?**

There are no political opponents to the idea, nor (to the author’s knowledge) vocal political supporters. There are a number of initiatives and platforms that work on digital finance, some of them with a focus on agriculture, which could be involved in fine-tuning its design and eventually getting it off the ground. These include the Global Partnership for Financial Inclusion, the SME Finance Forum (which has a strong component focused on Fintech and a newly established Community of Practice on agriculture), IFAD ICT4D initiatives, the GSMA AgriTech programme, CGAP, and the MIX Inclusive Fintech 50 initiative, inter alia.

## **9. Are there certain contexts for which this solution is particularly well suited, or, not well-suited.**

The solution is currently more easily implementable in contexts where there is sufficient on-grid or off-grid electricity infrastructure and mobile telephone coverage. Over time, however, one of the effects of having a robust Global Platform working towards digital rural finance penetration is likely to be accelerating the identification of cost-effective solutions also in these areas, driven by likely increases in demand for digital services across geographical areas.