



Facilitating systemic responses to drive increased farmer access to productive finance through the Fundo Agricola

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Introduction

The Swiss Agency for Development and Cooperation (SDC) has been investing in sustainable agricultural market systems development (MSD) in northern Mozambique for 15 years. The SDC's InovAgro project (2011-21) was the first MSD program in Mozambique and made significant progress in developing the input supply (especially certified seeds), output marketing, and access to finance market systems with an eye towards reaching the smallholder farmers at the last mile.

SDC's Promoting Sustainable Agricultural Market Systems (PROMAS – 2023 - 2034) in northern Mozambique will build on the experiences and successes while innovating the delivery of new services to reach more smallholder farmers (SHF). To accelerate the uptake and expansion of these services, PROMAS will be applying the “Adopt, Adapt, Expand, and Respond” (AAER) framework to guide its work to stimulate the broader market system to expand more inclusively. This article takes the case of the Fundo Agricola, an innovative savings system to promote access by SHF to inputs, to show how facilitating greater systemic response will accelerate inclusive change.

Finding innovative solutions to SHF access to finance - the Fundo Agricola

InovAgro sought to address a major constraint facing SHF - access to finance for agricultural development. This is a perpetual problem. With little finance, seed and input companies won't reach out to sell or promote their products in a geographic region, creating a vicious cycle - farmers won't save if there are no inputs available and input companies won't market if there is no finance to purchase inputs. InovAgro recognized that financial institutions are wary of lending to SHF to purchase improved inputs and pay for essential services at planting. In 2015, InovAgro introduced a new product to promote farmers to save for inputs and services.



InovAgro leveraged the widespread village savings and loan association (VSLA)

First Fundo Agricola distribution in November 2015

networks in the project region to introduce a new window for the groups to save money for purchase of inputs and services at the start of the planting season – the Fundo Agricola (FA).

Figure 1 highlights that by 2020 more than 19,000 farmers had saved through the FA promoted by InovAgro in 8 targeted districts. The number of active savers dropped in 2020 due to the pandemic, but those he did saved more than \$258,000 in 2020 to purchase inputs and services during the planting season. Seed sales during 2020 decreased from previous

levels because of some access issues due to the travel bans placed on seed companies, but the farmers still used the funds saved for planting.

The FA had stimulated the expansion of seed companies' sales deeper into rural regions. This created a virtuous cycle: as savings grew, seed companies increased their presence around those groups, promoting their products to the farmers, organizing

demonstrations and teaching farmers good agricultural practices. This stimulated farmers with access to inputs to save more leading to annual per capita savings increasing each year to \$25 by 2020 (table 1).

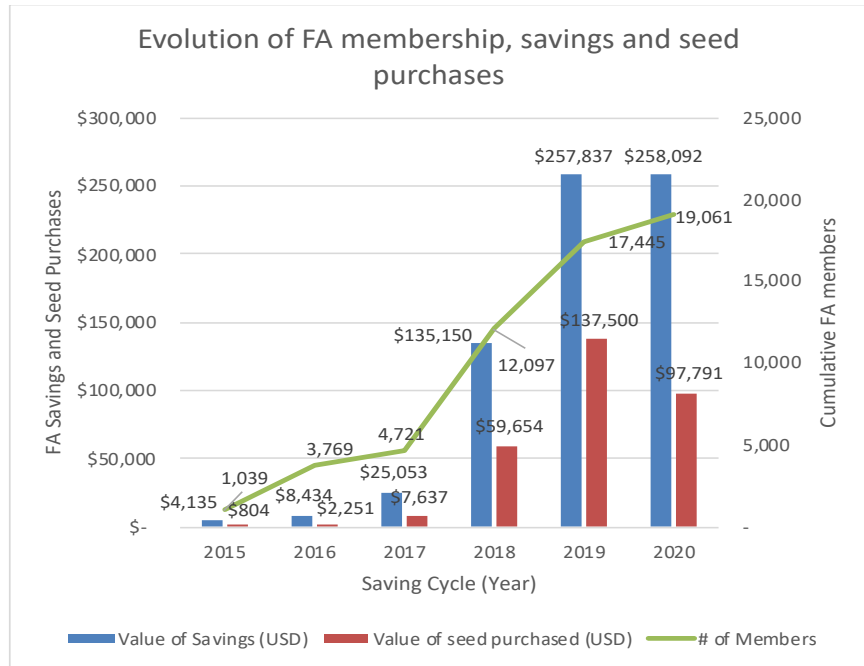


Figure 1: Evolution of the Fundo Agricola 2015-2020



Certified seeds on display at a seed fair.

One of the key lessons learned was that farmers need finance for a wide range of services beyond simply purchasing seeds at planting. They typically used half the funds to hire labor for opening fields and planting, as well as to purchase equipment and chemicals. Those who saved, continued to increase their savings every year. A second lesson was that in areas where there was no supply of inputs, the interest in the savings decreased. So, there is a symbiotic relationship between availability of inputs and the farmers desire to save for them.

Table 1: Progression of Average Savings in the Fundo Agricola

	2015	2016	2017	2018	2019	2020
Average Value of Saving per person (USD)	\$ 3.98	\$ 2.24	\$ 5.31	\$11.17	\$18.92	\$25.08
Average Metical savings per person	167.16	170.24	320.72	672.99	1,153.91	1,590.23

Source: *InovAgro's Voyage of Learning and Adaptation for Market Systems Development in Northern Mozambique, 2021*

One critique to the VSLA approach raised by many MSD purists is that it requires outside funding to train up the new members. But as with any service in a new market system, once it has been adopted and has been properly adapted to the local environment, expansion will be driven by the response from the broader system, changing the nature of support needed to accelerate expansion. InovAgro provided facilitation for farmers to embrace the FA model. From the beginning, InovAgro insisted that group members pay for the group material needs as well as pay an incentive to facilitators. This led to increase in groups and savings. What was missing was a commercial mechanism to channel the savings into inputs and services. This is where PROMAS takes off.

Leveraging systemic response to expand the Fundo Agricola

As PROMAS gets underway, it plans on greatly expanding the use of VSLAs and the FA as a source of finance for agricultural production and points of leverage to introduce many other new productivity enhancing techniques. To help design its interventions, PROMAS revisited the status of the FA in some of its project zones early in 2023 during its inception phase, two years after InovAgro ended. Visits to the districts to prepare some pilot activities highlighted that up to 95% of the VSLA groups in Chiure had continued their use of the FA during the two years since the end of InovAgro, demonstrating the sustainability of the product.

As PROMAS moves into full implementation it will be using two commercially driven sets of actors to drive the expansion of the Fundo Agricola model and to promote the increased use of savings as a point of leverage to finance agricultural production. The first is working through the input suppliers to develop stronger direct relations with the FA groups and promote new ones. The second will be to leverage a new FinTech to digitize the FA records and the savings process (reducing risks of theft for the members) and address information asymmetries to encourage more input supply companies to proactively reach out to the FA groups.

Leveraging commercial input suppliers

PROMAS implemented a pilot activity in two districts during its inception phase (2023) which produced surprisingly strong results. Using agrodealers to actively market their inputs before the season started, FA members became more motivated to save.

In Chiure district, PROMAS facilitated linkages between a large agrodealer working through three agro retailers to the four pilot groups. The 118 members in the groups saved \$14,500 in their FA, or nearly \$123 per person (substantially more than the average savings of \$25 in 2020). They used the money to purchase 4,865 kilograms of various

certified seeds, 425 bottles of herbicides, 138 machetes and 222 hoes. The agrodealer organized four demonstration plots to show the performance of the improved seeds and application of good agricultural practices to the FA members (which should stimulate even more uptake of seeds and demand for more FA groups).

	Group name	Mem No.			Values saved during the 2023 cycle in MZN									
		M	F	Tot	Feb	Mar	April	May	June	Jul	Aug	Sept	Oct	Total
1	Mahala	14	15	29	24,750	17,850	22,500	23,250	33,800	20,200	25,800	25,800	23,550	217,500
3	Maririne Star	12	13	25	16,450	28,850	2,850	33,300	31,550	30,350	35,900	31,050	35,050	245,350
3	Pray	14	20	34	25,100	29,700	33,150	37,700	34,550	38,300	35,300	34,450	38,150	306,400
4	Anona	14	16	30	12,550	14,000	14,600	16,450	16,250	19,700	18,250	18,750	16,950	147,500
	total	54	64	118	78,850	90,400	73,100	110,700	116,150	108,550	115,250	110,050	113,700	916,750
USD 1=	MZN 63.2				\$1,248	\$1,430	\$1,157	\$1,752	\$ 1,838	\$ 1,718	\$ 1,824	\$ 1,741	\$ 1,799	\$14,506
	Per capita				\$ 11	\$ 12	\$ 10	\$15	\$16	\$15	\$15	\$15	\$15	\$122.93

In Erati district, PROMAS encountered a very different situation. The previous year, in 2022, the groups had saved very little (only \$900 in the FA) because of disruptions caused by forced evacuations from their villages due to attacks from the rebel group Al Shabbab. But the FA proved resilient, with members starting right back up on their own at the beginning of 2023. During the year, the members saved over \$40,000 (nearly \$70 per capita) in the FA. PROMAS facilitated a large seed company, one major distributor and two smaller agrodealers to engage with 21 pilot groups with 584 members (70% of whom are women) to actively promote inputs.

InovAgro used Co-Facilitators to drive the growth of the FA, number and geographic scope of groups and savings. The Co-Facilitators used InovAgro grants to facilitate the capacity building and facilitating linkages. PROMAS on the other hand, wants to gradually phase out the role of Co-Facilitators, and instead, get the input companies / agrodealers and financial institutions to take an interest and drive the growth of the FA, upon realization of the value proposition to their business.

Leveraging FinTech to drive innovation and expansion

In an exciting new partnership, PROMAS is negotiating with ROSCAS Ltda, a VSLA focused FinTech currently servicing VSLA accounting records for 130,000 participants in southern Mozambique. ROSCAS has recently received a banking license from the Central Bank of Mozambique and is particularly interested to engage with PROMAS to stimulate the Fundo Agricola component. ROSCAS offers a range of services to ultimately secure the FA savings digitization of the savings, opening savings accounts for groups, rather than the risky current practice of keeping money in boxes. ROSCAS will pay interest on those savings to provide

additional income to the members and to offset any management costs, and to link agro-input suppliers directly to the FA groups.

Systemic response to create a virtuous cycle

InovAgro's ground-breaking work with the Fundo Agrícola will pay higher dividends under PROMAS. It is clear that the approach has been adopted by existing groups, adapted to fit their needs and is here to stay. PROMAS is conscious of how the system actors (input suppliers and financial institutions) around the VSLAs have **responded** to the model seeing the synergies of engaging with the FA groups to expand their core businesses. In addition, several donor projects have also started promoting the FA. Therefore, PROMAS will adapt its focus and interventions to facilitate increased engagement by the market system actors surrounding the FA to promote greater expansion of the model and uptake across Northern Mozambique. By facilitating increased delivery of services by these commercial actors to the FA members, it will stimulate an accelerating virtuous "response" from the system which should speed the expansion of the FA networks leading to increased farmer access to finance for inputs.

PROMAS will work in up to 15 districts across the three north-most provinces of Mozambique, which rank among the poorest. The FA, for now is the only window that will allow farmers to invest in and adapt improved technology in their farming enterprises. This will allow them to participate in supplying domestic and export markets in Mozambique. This will change poverty levels for participating households and their communities. PROMAS will build on InovAgro, innovate to formalize FA and scale it. Target will be to reach 30,000 farmers engaging annually with agricultural input companies or financial institutions within four years.